

FRONTIER COMMUNICATIONS CORP
Form 8-K
September 17, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): September 17, 2009

Frontier Communications Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-11001
(Commission File Number)

06-0619596
(IRS Employer Identification No.)

3 High Ridge Park, Stamford, Connecticut
(Address of principal executive offices)

06905
(Zip Code)

(203) 614-5600

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(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

On May 13, 2009 Verizon Communications Inc. (Verizon) and Frontier Communications Corporation (the Company, Frontier or we) announced that they had entered into a transaction providing for the spin-off by Verizon to its stockholders of Verizon 's local exchange business in certain territories (the Spinco business) and the subsequent merger of the spun-off entity with and into Frontier.

This current report on Form 8-K sets forth certain additional information relating to such transaction.

VERIZON TRANSACTION

SUMMARY

Overview

The board of directors of Frontier has unanimously approved a merger that will combine Frontier with New Communications Holdings Inc., referred to as Spinco, a newly formed subsidiary of Verizon Communications Inc., referred to as Verizon. Immediately prior to the merger, Spinco (1) will hold defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, and in portions of California bordering Arizona, Nevada and Oregon, collectively referred to as the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory, collectively referred to as the Spinco business, and (2) will be spun off to Verizon stockholders. The merger will result in Frontier acquiring approximately 4.8 million access lines (assuming the transactions were consummated on December 31, 2008) and certain related business assets from Verizon. Pursuant to the Agreement and Plan of Merger, dated as of May 13, 2009, as amended, by and among Verizon, Spinco and Frontier, referred to as the merger agreement, Spinco will merge with and into Frontier, and Frontier will survive as the combined company conducting the combined business operations of Frontier and Spinco. The merger will take place immediately after Verizon contributes the Spinco business to Spinco and distributes the common stock of Spinco to a third-party distribution agent for the benefit of Verizon stockholders. Following the merger, the separate existence of Spinco will cease and the combined company will continue to operate under the Frontier name.

The Verizon Transaction is subject to certain conditions including receipt of necessary regulatory approvals and approval by the Company's stockholders.

Spinco

The Spinco business had approximately 4,800,000 access lines as of December 31, 2008, and approximately 4,500,000 access lines as of June 30, 2009. The Spinco business generated revenues of approximately \$4.4 billion for the year ended December 31, 2008, and approximately \$2.1 billion for the six months ended June 30, 2009.

Pursuant to a distribution agreement entered into as of May 13, 2009, as amended, referred to as the distribution agreement, Verizon will contribute to Spinco defined assets and liabilities of its local exchange business and related landline activities in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. This current report on Form 8-K describes Spinco as if it had the assets, liabilities and customers that will be transferred to it prior to completion of the spin-off and the merger for all periods and dates presented. The Spinco business consists of local exchange service, designated intrastate and interstate long distance service, network access service, Internet access service, enhanced voice and data services, digital subscriber line services, referred to as DSL, fiber-to-the-premises voice, broadband and video services, wholesale services, operator services, directory assistance services, customer service to end users, and, in connection with the foregoing, repairs, billing and collections, as well as other specified activities of Verizon in the Spinco territory. The conveyed assets will specifically include designated fiber-to-the-premises network elements and customer premises equipment at fiber-to-the-premises subscriber locations in the states of Indiana, Oregon and Washington and specified related transmission facilities.

The Combined Company

The combined company is expected to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest incumbent local exchange carrier, with more than 7,000,000 access lines, 8,600,000 voice and broadband connections and 16,000 employees in 27 states on a pro forma basis as of December 31, 2008. The combined company will offer voice, data and video services to customers in its expanded geographic footprint. Assuming the merger had occurred on January 1, 2008, the combined company's revenues on a pro forma basis would have been approximately \$6.5 billion for the year ended December 31, 2008, and approximately \$3.1 billion for the six months ended June 30, 2009.

The Transactions

The following transactions are sometimes collectively referred to as the Verizon Transactions.

The Spin-Off

As part of the spin-off, Verizon will, pursuant to a series of restructuring transactions prior to the spin-off, contribute to Spincor and its subsidiaries defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spincor territory, including Internet access and long distance services and broadband video provided to designated customers in the Spincor territory. In exchange for these contributions, and immediately prior to the effective time of the merger, Spincor will deliver to Verizon:

a special cash payment in an amount not to exceed the lesser of (i)(x) \$3.333 billion minus (y) the aggregate amount of pre-existing long term indebtedness to third parties (which may include current maturities) of Verizon subsidiaries that conduct the Spincor business, referred to as distribution date indebtedness and (ii) Verizon's estimate of the tax basis in the assets transferred to Spincor (which Verizon currently anticipates will be greater than or equal to \$3.333 billion); and

if the total amount of the special cash payment is less than (i) \$3.333 billion minus (ii) the aggregate amount of distribution date indebtedness, Spincor debt securities having a principal amount equal to (x) \$3.333 billion minus (y) the sum of (A) the total amount of the special cash payment and (B) the aggregate amount of distribution date indebtedness.

Also in connection with these contributions, Spincor will issue additional shares of Spincor common stock to Verizon, which will be distributed in the spin-off as described below.

As a result of the foregoing transactions, all of which are referred to collectively as the contribution, Verizon will receive from Spincor \$3.333 billion in aggregate value in the form of the special cash payment; a reduction in Verizon's consolidated indebtedness as a result of the distribution date indebtedness becoming the consolidated indebtedness of Spincor as a result of the spin-off (and, as a result of the merger, becoming part of the consolidated indebtedness of the combined company), referred to as the Verizon debt reduction; and, in the circumstances described above, Spincor debt securities. Frontier and Verizon do not expect that any Spincor debt securities will be issued.

After the contribution and immediately prior to the merger, Verizon will spin off Spincor by distributing all of the shares of Spincor common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders, which transactions are referred to collectively as the distribution. Spincor will then merge with and into Frontier, and the shares of Spincor common stock will be immediately converted into the number of shares of Frontier common stock that Verizon stockholders will be entitled to receive in the merger. The third-party distribution agent will then distribute these shares of Frontier common stock and cash in lieu of fractional shares to Verizon stockholders on a pro rata basis in accordance with the terms of the merger agreement.

The Merger

In the merger, Spincor will merge with and into Frontier in accordance with the terms of the merger agreement and, following completion of the merger, the separate existence of Spincor will cease. Frontier will survive the merger as the combined company and will hold and conduct the combined business operations of Frontier and Spincor.

Verizon stockholders will be entitled to receive a number of shares of common stock of Frontier, as the combined company, to be determined based on the calculation set forth in the merger agreement.

The Special Meeting

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A special meeting of stockholders of Frontier will be held at Frontier's offices in Stamford, Connecticut, on Tuesday, October 27, 2009, at 9:00 a.m., local time. At the special meeting, Frontier stockholders will be asked to consider and vote on proposals:

to adopt the merger agreement;

to amend Frontier's restated certificate of incorporation to increase the number of authorized shares of Frontier common stock from 600,000,000 to 1,750,000,000; and

to approve the issuance of Frontier common stock pursuant to the merger agreement.

No vote by Verizon stockholders is required or is being sought in connection with the spin-off or the merger. Verizon, as the sole stockholder of Spinco, has already approved the merger.

Conditions

Consummation of the merger is subject to the satisfaction of certain conditions, including the availability of financing on terms that satisfy certain requirements (including with respect to pricing and maturity) and the receipt of the proceeds thereof that, taken together with any Spinco debt securities and the aggregate amount of the distribution date indebtedness, equal \$3.333 billion. Other conditions to the merger include (i) the absence of a governmental order that would constitute a materially adverse regulatory condition, (ii) the receipt of applicable regulatory consents and the expiration or termination of the requisite waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, referred to as the Hart-Scott-Rodino Act, (iii) the receipt of certain rulings from the Internal Revenue Service, referred to as the IRS, and certain tax opinions, (iv) the approval of the stockholders of Frontier and (v) the absence of a material adverse effect on Frontier or on Spinco or the Spinco business.

On September 1, 2009, the Federal Trade Commission granted the parties' request for early termination of the waiting period under the Hart-Scott-Rodino Act. Frontier cannot be certain when, or if, the other conditions to the merger will be satisfied or waived, or that the merger will be completed.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This current report on Form 8-K contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believe, anticipate, expect and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, and our future results may be materially affected by, among others, risks and uncertainties relating to:

our ability to complete the Verizon Transaction;

the failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals for the Verizon Transaction;

the failure to receive the IRS ruling approving the tax-free status of the Verizon Transaction;

the failure of our stockholders to adopt the merger agreement related to the Verizon Transaction, amend our restated certificate of incorporation to increase the number of authorized shares of our common stock and approve the issuance of shares of our common stock pursuant to the merger agreement;

the ability to successfully integrate the operations of the Spinco business (as defined herein) into our existing operations;

the effects of increased expenses due to activities related to the Verizon Transaction;

the ability to migrate the West Virginia operations of the Spinco business from Verizon owned and operated systems and processes to our own owned and operated systems and processes successfully;

the risk that the growth opportunities and cost synergies from the Verizon Transaction may not be fully realized or may take longer to realize than expected;

the sufficiency of the assets contributed by Verizon to enable the combined company to operate the Spinco business;

disruption from the Verizon Transaction making it more difficult to maintain relationships with customers, employees or suppliers;

the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that Frontier or, if the Verizon Transaction is completed, the combined company will not respond on a timely or profitable basis;

reductions in the number of our access lines and high-speed Internet (HSI) subscribers or, if the Verizon Transaction is completed, the combined company s access lines and HSI subscribers;

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the ability to sell enhanced and data services in order to offset ongoing declines in revenues from local services, switched access services and subsidies;

the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation;

the effects of competition from cable, wireless and other wireline carriers (through VoIP or otherwise);

the ability to adjust successfully to changes in the communications industry and to implement strategies for improving growth;

adverse changes in the credit markets or in the ratings given to our debt securities or, if the Verizon Transaction is completed, the combined company's debt securities, by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;

reductions in switched access revenues as a result of regulation, competition or technology substitutions;

the effects of changes in both general and local economic conditions on the markets that we serve or that, if the Verizon Transaction is completed, the combined company will serve, which can affect demand for our or its products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures related to new construction of residences and businesses;

changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations;

the ability to effectively manage our or, if the Verizon Transaction is completed, the combined company's operations, operating expenses and capital expenditures, to pay dividends and to repay, reduce or refinance our or the combined company's debt;

the effects of bankruptcies and home foreclosures, which could result in increased bad debts;

the effects of technological changes and competition on our capital expenditures and product and service offerings or, if the Verizon Transaction is completed, the capital expenditures and product and service offerings of the combined company, including the lack of assurance that our or its network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;

the effects of increased medical, retiree and pension expenses and related funding requirements;

changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments;

the effects of state regulatory cash management policies on our ability or, if the Verizon Transaction is completed, the combined company's ability to transfer cash among our or the combined company's subsidiaries and to the parent company;

the ability to successfully renegotiate union contracts expiring in 2009 and thereafter;

declines in the value of our pension plan assets or, if the Verizon Transaction is completed, the combined company's pension plan assets, which could require us or the combined company to make contributions to the pension plan beginning no earlier than 2010;

the effects of any unfavorable outcome with respect to any current or future legal, governmental or regulatory proceedings, audits or disputes with respect to us or, if the Verizon Transaction is completed, the combined company;

the possible impact of adverse changes in political or other external factors over which we or, if the Verizon Transaction is completed, the combined company, would have no control; and

the effects of hurricanes, ice storms or other severe weather.

Any of the foregoing events, or other events, could cause financial information to vary from management's forward-looking statements included in this current report on Form 8-K. You should consider these important factors, as well as the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in our preliminary prospectus supplement dated September 17, 2009 filed with the SEC pursuant to Rule 424(b) on September 17, 2009 in evaluating any statement made in this current report on Form 8-K. For the foregoing reasons, we caution you against unduly relying on any forward-looking statements. We undertake no obligation to update or revise these forward-looking statements, except as required by law.

THE TRANSACTIONS

General

On May 13, 2009, Verizon and Frontier announced that they had entered into a transaction providing for the spin-off of Verizon's local exchange business in the Spinco territory and the subsequent merger of Spinco with and into Frontier. In order to effect the spin-off and merger, Verizon, Spinco and Frontier entered into a number of agreements, including the merger agreement and the distribution agreement. These agreements provide for the contribution to Spinco of defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. More specifically, Verizon's local exchange business in the Spinco territory is currently conducted by a number of Verizon entities. Certain of these entities conduct business only in the Spinco territory, while others conduct business both within and outside the Spinco territory. The entities that conduct business only in the Spinco territory will be contributed to Spinco without realignment of their assets and liabilities. The other entities either (i) will be contributed to Spinco after transferring their non-Spinco assets and liabilities to another subsidiary of Verizon or (ii) will transfer their Spinco assets and liabilities to newly created entities which will then be contributed to Spinco. In connection with its contribution to Spinco, Verizon will receive \$3.333 billion in aggregate value in the form of the special cash payment, the Verizon debt reduction and, in certain circumstances, the Spinco debt securities. In connection with these transactions, Spinco also will issue additional shares of Spinco common stock to Verizon, which will be distributed in the spin-off as described below. These agreements also provide for Verizon's distribution of all of the shares of Spinco common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders, the merger of Spinco with and into Frontier, with Frontier continuing as the combined company, and the conversion of shares of Spinco common stock into shares of Frontier common stock and the payment of cash in lieu of fractional shares.

Transaction Timeline

Below is a step-by-step list illustrating the sequence of material events relating to the spin-off of Spinco and merger of Spinco with and into Frontier. Verizon and Frontier anticipate that the steps will occur in the following order:

Step 1 Verizon will engage in a series of restructuring transactions to effect the transfer of (i) defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spinco territory to certain entities that will become Spinco subsidiaries to the extent such assets and liabilities are not currently located within an entity that will become a Spinco subsidiary and (ii) defined assets and liabilities not related to the local exchange business and related landline activities of Verizon in the Spinco territory and currently located within an entity that will become a Spinco subsidiary to Verizon or another subsidiary of Verizon that will not become a Spinco subsidiary.

Step 2 Spinco will incur indebtedness to make a special cash payment to Verizon in an amount not to exceed the lesser of (i)(x) \$3.333 billion minus (y) the consolidated indebtedness of Verizon as a result of pre-existing long-term indebtedness to third parties (which may include current maturities) of Verizon subsidiaries that currently conduct the Spinco business, referred to as distribution date indebtedness, and (ii) Verizon's estimate of its tax basis in the assets transferred to Spinco. Verizon currently anticipates that its tax basis in the assets to be transferred to Spinco will be greater than or equal to \$3.333 billion.

Step 3 Verizon will contribute to Spinco all of the equity interests in the entities that will become Spinco subsidiaries and related customer relationships for Internet access, long distance services and broadband video currently provided to designated customers in the Spinco territory to a subsidiary of Spinco in exchange for (i) the special cash payment to Verizon described in Step 2 above and (ii) if required, the issuance to Verizon of the Spinco debt securities having a principal amount equal to (A) \$3.333 billion less (B) the sum of (1) the special cash payment and (2) the distribution date indebtedness.

Step 4 Verizon will be permitted to exchange the Spinco debt securities for debt obligations of Verizon or otherwise transfer those Spinco debt securities to stockholders or creditors of Verizon. However, if Verizon elects to make this exchange concurrently with the distribution and prior to the closing of the merger, the distribution and the merger will be conditioned upon, among other things, Verizon having exchanged a principal amount of Spinco debt securities sufficient to retire indebtedness of Verizon in the aggregate principal amount equal to \$3.333 billion less the sum of the special cash payment and the distribution date indebtedness.

Step 5 Verizon will then spin off Spinco by distributing all of the shares of Spinco common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders.

Step 6 Spinco will merge with and into Frontier, with Frontier surviving as the combined company, and the shares of Spinco common stock held by the distribution agent will be converted into the number of shares of Frontier common stock that Verizon stockholders will be entitled to receive in the merger.

Step 7 The distribution agent will distribute shares of Frontier common stock and cash in lieu of fractional shares to Verizon stockholders on a pro rata basis in accordance with the terms of the merger agreement.

The Spin-Off

As part of the spin-off, Verizon will engage in a series of preliminary restructuring transactions to effect the transfer to entities that will become Spinco subsidiaries of defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. In addition, entities that have been designated as Spinco subsidiaries but which hold non-Spinco assets and liabilities will transfer those assets and liabilities to Verizon or another subsidiary of Verizon that will not become a Spinco subsidiary. In connection with these preliminary restructuring transactions, and immediately prior to the distribution and closing of the merger, Verizon will contribute all of the equity interests of the Spinco subsidiaries to Spinco, and in connection with such contribution receive:

the special cash payment;

the Verizon debt reduction; and

if required, the Spinco debt securities.

Also in connection with these contributions, Spinco will issue additional shares of Spinco common stock to Verizon, which will be distributed in the spin-off as described below.

As a result of the transactions, Verizon will receive \$3.333 billion in aggregate value in the form of the special cash payment, the Verizon debt reduction and, in certain circumstances, the Spinco debt securities. The \$3.333 billion in aggregate value to be received by Verizon in the transactions was determined in the negotiations between Verizon and Frontier regarding the overall valuation of the transactions.

Prior to the distribution, Spinco will consummate certain financing transactions to (1) finance the special cash payment to Verizon referred to above and (2) if required, issue the Spinco debt securities to Verizon.

After the contribution and immediately prior to the merger, Verizon will spin off Spinco by distributing all of the shares of Spinco common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders. Spinco will then merge with and into Frontier, and the shares of Spinco common stock will be immediately converted into the number of shares of Frontier common stock Verizon stockholders will be entitled to receive in the merger. The third-party distribution agent will then distribute these shares of Frontier common stock and cash in lieu of fractional shares to Verizon stockholders on a pro rata basis in accordance with the terms of the merger agreement.

The Merger

In the merger, Spinco will merge with and into Frontier in accordance with the terms of the merger agreement. The separate existence of Spinco will cease and Frontier will survive the merger as a stand-alone company and will hold and conduct the combined business operations of Frontier and Spinco.

Verizon stockholders will be entitled to receive a number of shares of Frontier common stock to be determined based on the calculation set forth in the merger agreement. Holders of Verizon common stock will not be required to pay for the shares of Frontier common stock they receive and will also retain all of their shares of Verizon common stock. Existing shares of Frontier common stock will remain outstanding.

By virtue of the merger, in addition to remaining the obligor on all then-existing Frontier debt, the combined company will have additional indebtedness of approximately \$3.4 billion representing debt incurred by Spingo in connection with the special cash payment financing, the distribution date indebtedness and, if required, any Spingo debt securities. Based upon Frontier's outstanding indebtedness as of June 30, 2009 of approximately \$4.9 billion, Frontier currently anticipates that the combined company will have approximately \$8.3 billion in total debt immediately following the closing of the merger.

Board of Directors and Management of the Combined Company

There are currently twelve directors serving on the Frontier board. The merger agreement provides that immediately prior to the effective time of the merger, the Frontier board (which will become the board of directors of the combined company) will consist of twelve directors, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director designees may not be employees of Verizon, its affiliates or Cellco or any of its subsidiaries, and must satisfy director independence requirements of the SEC and the NYSE. One of Frontier's designees will serve as the chairman of the board of directors of the combined company. Frontier expects that Mary Agnes Wilderotter, Frontier's current Chairman of the Board of Directors, President and Chief Executive Officer, will continue to serve in such roles with the combined company.

The merger agreement also provides that the officers of Frontier at the effective time of the merger will become the initial officers of the combined company following the merger. In addition, Frontier expects to supplement its current senior management team with members of Verizon's current regional management team who currently manage the Spingo business.

Ownership of Frontier Following the Merger

Frontier anticipates that depending on the trading prices of Frontier common stock prior to closing of the merger and before accounting for the elimination of fractional shares and any adjustment in the number of shares to be issued by Frontier that may be required for any amount related to governmental approvals paid, payable or forgone by Verizon (as described in the merger agreement), Verizon stockholders will collectively own between approximately 66% and 71% of the combined company's outstanding equity immediately following the closing of the merger, and Frontier stockholders will collectively own between approximately 29% and 34% of the combined company's outstanding equity immediately following the closing of the merger. Based on existing ownership levels, Frontier does not expect that there will be any holders of more than 5% of the outstanding common stock of the combined company immediately following the closing of the merger.

Interests of Certain Persons in the Merger

In considering the Frontier board's determination to approve the merger agreement and to recommend that Frontier stockholders vote for the merger proposals, Frontier stockholders should be aware of potential conflicts of interest of, and the benefits available to, certain Frontier officers. These officers may have interests in the merger that may be different from, or in addition to, the interests of Frontier stockholders as a result of, among other things, certain severance protection that applies to them following the merger.

Employment and Change in Control Agreements

Each of Mary Agnes Wilderotter, Donald R. Shassian, Daniel J. McCarthy, Peter B. Hayes, Cecilia K. McKenney, Hilary E. Glassman and Melinda White is subject to an agreement with Frontier under which she or he is entitled to certain severance payments and benefits in the event of termination without cause by Frontier or resignation by the executive on account of certain material changes in his or her employment relationship. Certain of these executives are entitled to severance payments and benefits only if any such termination or resignation occurs following a change in control (as defined in the agreements). Other executives are entitled to such severance payments and benefits if any such termination or resignation occurs whether or not a change in control has occurred but may resign for additional reasons and receive such severance payments and benefits following a change in control.

Frontier entered into a letter agreement with Hilary E. Glassman, dated July 8, 2005, and amended in December 2008. If Ms. Glassman's employment is terminated by Frontier without cause or by Ms. Glassman for good reason or within one year following a change in control as a result of certain material changes in her employment relationship (all as defined in the letter agreement), Ms. Glassman will be entitled to the sum of one times base salary and a prorated target bonus, an amount equal to one year's COBRA premiums for medical, dental and other health benefits coverage, life insurance coverage for one year and full vesting of her restricted shares.

Pursuant to a September 2007 arrangement, all of Melinda White's restricted shares will become fully vested if, within one year following a change in control, Ms. White's employment is terminated by Frontier without cause or she terminates her employment as a result of certain material changes in her employment relationship (all as defined in the arrangement).

The consummation of the merger will constitute a change in control for purposes of these agreements. If a change in control occurred as of September 1, 2009, and these executives were terminated or resigned as of that date under the circumstances covered by the agreements, the executives would have been entitled to base salary payment, bonus payments, accelerated vesting of restricted shares and benefits as follows:

Name	Base Salary	Bonus	Value of Accelerated Restricted Stock ⁽¹⁾	Benefits	Total
Mrs. Wilderotter	\$ 2,775,000	\$ 2,775,000	\$ 5,569,634	\$ 51,108 ⁽²⁾⁽³⁾	\$ 11,170,742
Mr. Shassian	\$ 900,000	\$ 900,000	\$ 1,410,021	0	\$ 3,210,021
Mr. McCarthy	0	0	\$ 811,307	0	\$ 811,307
Mr. Hayes	\$ 300,000	\$ 199,800	\$ 749,500	\$ 14,972 ⁽⁴⁾	\$ 1,264,272
Ms. McKenney	\$ 290,000	\$ 217,500	\$ 734,927	0	\$ 1,242,427
Ms. Glassman	\$ 308,700	\$ 154,196	\$ 634,592	\$ 6,187 ⁽²⁾	\$ 1,103,675
Ms. White	0	0	\$ 408,153	0	\$ 408,153

- (1) Consists of the number of shares multiplied by the \$7.05 closing price per share on September 1, 2009.
- (2) Consists of the applicable monthly COBRA premium for the type of medical, dental and vision coverage in effect for the executive on September 1, 2009 and the applicable monthly insurance premium for the life insurance coverage in effect for the executive on September 1, 2009, each multiplied by the applicable number of months (for Mrs. Wilderotter, 36; for Ms. Glassman, 12).
- (3) Although Mrs. Wilderotter is entitled to a tax gross-up payment in certain circumstances, no gross-up payment is estimated to be payable based on a termination on September 1, 2009 and the payments and benefits described above.
- (4) Consists of the applicable monthly COBRA premium for the type of medical coverage in effect for Mr. Hayes on September 1, 2009, multiplied by 12.

Executive Deferred Savings Plan

Under the Executive Deferred Savings Plan, upon a change in control (as defined in the plan) all matching contributions become fully vested and all vested account balances must be distributed to participating executives. The consummation of the merger will constitute a change in control under the plan, resulting in accelerated vesting of matching contributions and distribution of the vested account balance of one officer.

Regulatory Approvals

Telecommunications Regulatory Approvals

Frontier and Verizon currently expect that the transactions contemplated by the merger agreement will require approval of the state regulatory agencies of the following states in their capacities as regulators of incumbent local exchange and intrastate toll carrier operations of Verizon or Frontier: Arizona, California, Illinois, Nevada, Ohio, Oregon, South Carolina, Washington and West Virginia. State regulatory agencies in other states, however, may require that Frontier, Verizon or both obtain approval or authorization for the transactions in those states as well. At the request of third parties, certain state regulatory agencies are considering whether approval of the transactions is required. Also, the regulatory agency in Pennsylvania must approve the transfer of Verizon's incumbent local exchange operations in that state, which Verizon will retain, to a newly created Verizon operating company. Although the scope of matters that must be approved varies by state, the foregoing approvals are generally required for the transfer of Verizon's local exchange and intrastate toll businesses in the Spinco territory to companies to be controlled by Frontier (including the Spinco subsidiaries after the merger), which will be deemed to occur upon completion of the merger and the other transactions described elsewhere in this current report on Form 8-K.

On May 29, 2009, Frontier and Verizon completed the filing of regulatory applications in Arizona, Ohio, Oregon, Pennsylvania, South Carolina, Washington and West Virginia.

On or prior to June 4, 2009, Frontier and Verizon completed the filing of regulatory applications in California, Illinois and Nevada.

On June 1, 2009, Frontier and Verizon applied to 41 local franchising authorities in Oregon and Washington for consent and approval to transfer control of the Verizon franchises to provide video services in those states to Frontier. There can be no assurance that these consents and approvals will be obtained. Ten authorities have already granted approval to transfer control of Verizon's franchise to Frontier. In addition, prior to closing, Verizon will provide notice to Indiana of the transfer of control of its statewide franchise to Frontier.

Frontier and Verizon believe that the transactions will produce benefits for the states in which the combined company will conduct its operations, the residents of those states, and the customers of the communications businesses of the combined company. While the parties believe that the transactions satisfy the applicable regulatory standards for the foregoing approvals, there can be no assurance that the state regulatory agencies will grant the approvals or will not attempt to impose conditions on the approvals.

In addition, under the Communications Act of 1934, as amended, referred to as the Communications Act, the FCC must approve the transfer or assignment of FCC licenses and authorizations. Verizon and Frontier filed applications for consent to transfer the affected licenses and authorizations, and related amendments, on May 28 and May 29, 2009, June 8, 2009 and July 30, 2009.

Each party's obligations to complete the merger are subject to receipt of the consents of, or receipt of an exemption from, the state regulatory agencies referred to above and the FCC, in each case, without the imposition of conditions that would reasonably be expected to be materially adverse to Frontier, to Spinco or to Verizon (assuming for this purpose that the business, assets, properties and liabilities of each of (1) Verizon and all Verizon subsidiaries and (2) Frontier and all Frontier subsidiaries are comparable in size to those of Spinco and all Spinco subsidiaries). The merger agreement provides that each party to the merger agreement, subject to customary limitations, will use all commercially reasonable efforts to promptly take all actions and to assist and cooperate with the other parties in doing all things necessary, proper or advisable under applicable laws and regulations to consummate the merger and the transactions contemplated by the merger agreement. Frontier and Verizon have also agreed to use all commercially reasonable efforts to resolve any objections or challenges from a regulatory authority, except that the parties are not obligated to appeal any final order by the FCC or any state regulatory agency.

Antitrust Approvals

Under the Hart-Scott-Rodino Act and the rules promulgated under that act by the Federal Trade Commission, the merger may not be completed until notifications have been given and information furnished to the Federal Trade Commission and to the Antitrust Division of the Department of Justice and the specified waiting period has been terminated or has expired. The parties filed their Hart-Scott-Rodino Act application on August 21, 2009. On September 1, 2009, the Federal Trade Commission granted the parties' request for early termination of the waiting period under the Hart-Scott-Rodino Act. At any time before or after completion of the merger, the Federal Trade Commission or the Antitrust Division of the Department of Justice could take any action under the antitrust laws that it deems necessary or desirable in the public interest, including seeking to enjoin completion of the spin-off and the merger or seeking divestiture of substantial assets of Frontier or Spinco. The spin-off and the merger are also subject to review under state antitrust laws and could be the subject of challenges by private parties under the antitrust laws.

Accounting Treatment

The merger will be accounted for by applying the acquisition method, which requires the determination of the acquirer, the acquisition date, the fair value of assets and liabilities of the acquiree and the measurement of goodwill. Statement of Financial Accounting Standards No. 141(R) (revised 2007), *Business Combinations*, referred to as SFAS 141(R), provides that in identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances must be considered, including: the constituent company issuing its equity interest in the business combination, the relative voting rights of the stockholders of the constituent companies in the combined entity, the composition of the board of directors and senior management of the combined company, the relative size of each company and the terms of the exchange of equity securities in the business combination, including payment of any premium.

Based on Frontier being the entity issuing its equity interests in the merger, the Frontier-designated directors representing nine out of twelve directors on the board of the combined company and the Frontier senior management team being the senior management team of the combined company, Frontier has concluded that it is appropriate to treat Frontier as the acquirer of Spinco for accounting purposes. This means that Frontier will allocate the transaction consideration to the fair value of Spinco's assets and liabilities at the acquisition date, with any excess of the transaction consideration over fair value being recorded as goodwill.

Dividend Policy of Frontier and the Combined Company

The amount and timing of dividends payable on Frontier common stock are within the sole discretion of the Frontier board. Frontier currently pays an annual cash dividend of \$1.00 per share of Frontier common stock. After the closing of the merger, Frontier intends to pay an annual cash dividend of \$0.75 per share of common stock of the combined company, subject to applicable law and agreements governing the combined company's indebtedness and at the discretion of the Frontier board. Frontier expects that the dividend policy after the closing of the merger will allow Frontier to invest in the existing Frontier and Spinco markets, offer new products and services and extend and increase broadband capability to the existing Frontier and Spinco markets.

THE TRANSACTION AGREEMENTS

The Merger Agreement

The following is a summary of selected material provisions of the merger agreement which Frontier has previously filed with the SEC. This summary is qualified in its entirety by reference to the Agreement and Plan of Merger, dated as of May 13, 2009, and Amendment No. 1 thereto, dated as of July 24, 2009.

The Merger

Under the merger agreement and in accordance with Delaware law, Spinco will merge with and into Frontier. As a result of the merger, the separate corporate existence of Spinco will terminate and Frontier will continue as the combined company. Frontier's restated certificate of incorporation and by-laws as in effect immediately prior to the merger will be the certificate of incorporation and by-laws of the combined company.

Effective Time

The merger will become effective at the time of filing of a certificate of merger with the Secretary of State of the State of Delaware or at such later time as Verizon, Spinco and Frontier may agree. The closing of the merger will take place no later than 2:00 p.m., prevailing Eastern time, on the last business day of the month in which, on such last business day, the conditions precedent to the merger are satisfied or waived, but in any event not earlier than the last business day of April 2010, unless otherwise agreed upon by the parties.

Merger Consideration

The merger agreement provides that all of the issued and outstanding shares of common stock of Spinco will be automatically converted into an aggregate number of shares of common stock of Frontier equal to (i) \$5,247,000,000 divided by (ii) the Frontier average price. However, the merger agreement provides that if the Frontier average price exceeds \$8.50, then the Frontier average price for purposes of the merger agreement will be \$8.50, and if the Frontier average price is less than \$7.00, then the Frontier average price for purposes of the merger agreement will be \$7.00. Additionally, the amount referred to in clause (i) is subject to increase by any amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off, which increase will result in a corresponding increase in the number of shares of Frontier common stock being issued pursuant to the merger agreement.

Distribution of Per Share Merger Consideration

Prior to or at the effective time of the merger, Frontier will deposit with a third-party distribution agent certificates or book-entry authorizations representing the shares of Frontier common stock for the benefit of the Verizon stockholders entitled to receive shares of Spinco common stock in the distribution. Each Verizon stockholder will be entitled to receive the number of whole shares of Frontier common stock (in lieu of the shares of Spinco common stock otherwise distributable to that stockholder) that the stockholder has the right to receive pursuant to the merger agreement. Shortly following the merger, the distribution agent will distribute these shares of Frontier common stock to those persons.

Treatment of Fractional Shares

The distribution agent will not deliver any fractional shares of Frontier common stock to Verizon stockholders pursuant to the merger agreement. Instead, promptly following the merger, the distribution agent will aggregate all fractional shares of Frontier common stock and sell them on behalf of those Verizon stockholders who otherwise would be entitled to receive a fractional share. It is anticipated that these sales will occur as soon as practicable following the merger. Those Verizon stockholders will then receive a cash payment in an amount equal to their pro rata share of the total net proceeds of those sales. If a Verizon stockholder physically holds Verizon stock certificates or holds its stock in book-entry form, that stockholder's check for any cash that it may be entitled to receive instead of fractional shares of Frontier common stock will be mailed to the stockholder separately.

Under the merger agreement, all shares held by a holder of record will be aggregated for purposes of determining fractional shares. Any Spinco shares held in street name will be aggregated with all other shares held by the holder of record for purposes of determining fractional shares. It is anticipated that some shares of Frontier common stock held in street name will be sold post-merger by brokers or other nominees according to their standard procedures to avoid allocating fractional shares to customer accounts, and that brokers or other nominees may request the distribution agent to sell these shares of Frontier common stock on their behalf. Any such sale would not occur pursuant to the merger agreement. Verizon stockholders should contact their brokers or other nominees for additional details.

None of Verizon, Spinco or Frontier or the distribution agent will guarantee any minimum sale price for the fractional shares of Frontier common stock. None of Frontier, Spinco or Verizon will pay any interest on the proceeds from the sale of fractional shares of Frontier common stock. The distribution of the cash proceeds from the sale of aggregated fractional shares of Frontier common stock is expected to be made net of commissions and other fees required to be paid by the distribution agent in connection with the sale of those shares. The receipt of cash in lieu of fractional shares of Frontier common stock will generally be taxable to the recipient stockholders.

Officers and Directors of the Combined Frontier

The parties to the merger agreement have agreed that the officers and directors of Frontier at the effective time of the merger will continue to be the officers and directors of the combined company following the merger. The merger agreement also provides that the parties will take all action necessary to cause the Frontier board immediately prior to the effective time of the merger to consist of twelve members, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director nominees may not be employees of Verizon, its affiliates or Cellco or any of its subsidiaries, and all such nominees will satisfy the requirements for director independence under the rules and regulations of the SEC and the NYSE. The officers of Frontier immediately prior to the merger will continue as the officers of the combined company immediately following the merger.

Shareholders Meeting

Under the terms of the merger agreement, Frontier has agreed to call a special meeting of its stockholders for the purpose of voting upon the adoption of the merger agreement, the amendment of Frontier's certificate of incorporation to increase the number of authorized shares of Frontier common stock and the issuance of Frontier common stock pursuant to the merger agreement. Frontier will satisfy this merger agreement requirement by asking its stockholders to vote on these matters at the special meeting. Frontier has also agreed to deliver a proxy statement/prospectus to its stockholders in accordance with applicable law and its organizational documents.

In addition, subject to certain exceptions, the Frontier board is obligated to recommend that Frontier's stockholders vote for the merger proposals. Even if the Frontier board changes its recommendation, Frontier is required to submit the merger proposals to a stockholder vote. See No Solicitation.

Representations and Warranties

The merger agreement contains representations and warranties between Verizon and Spinco, on the one hand, and Frontier, on the other. These representations and warranties, which are substantially reciprocal, relate to, among other things:

due organization, good standing and qualification;

capital structure;

authority to enter into the merger agreement (and the other agreements executed in connection therewith) and no conflicts with or violations of governance documents, other obligations or laws;

financial statements and absence of undisclosed liabilities;

absence of certain changes or events;

absence of material investigations or litigation;

compliance with applicable laws;

accuracy of information supplied for use in the proxy statement/prospectus (as described below), the registration statements/information statements to be filed in connection with the transactions and other governmental filings;

environmental matters;

tax matters;

employee benefit matters and compliance with ERISA;

labor matters;

intellectual property matters;

communications regulatory matters;

material contracts;

approval by the board of directors;

interests in real properties;

possession of required licenses and regulatory approvals;

payment of fees to finders or brokers in connection with the merger (representation given by Verizon and Frontier, not Spinco); and

affiliate transactions.

Frontier has also made representations and warranties to Verizon and Spinco relating to filings with the SEC, the opinions of Frontier's financial advisors, the inapplicability to the merger of state anti-takeover laws and Frontier's rights plan and the required vote of Frontier stockholders to approve the merger proposals.

Verizon and Spinco also made representations and warranties to Frontier relating to the sufficiency of assets to be contributed to Spinco and the absence of ownership by Verizon or Spinco of any shares of Frontier capital stock.

Many of the representations and warranties contained in the merger agreement are subject to materiality qualifications, knowledge qualifications, or both, and none of the representations and warranties survive the effective time of the merger. The merger agreement does not contain any post-closing indemnification obligations with respect to these matters.

Conduct of Business Pending Closing

Each of the parties has undertaken to perform certain covenants in the merger agreement and agreed to restrictions on its activities until the effective time of the merger. In general, each of Spinco, each of the subsidiaries of Verizon contributing assets to Spinco and Frontier is required to conduct its business in the ordinary course (other than as required to consummate the transactions), to use all reasonable efforts to preserve its present business organization, to keep available the services of its current officers and other key employees and preserve its relationships with customers and vendors with the intention that its goodwill and ongoing businesses will not be materially impaired. In addition, each of Verizon (with respect to the Spinco business only), Spinco and Frontier has agreed to specific restrictions applicable prior to the effective time of the merger relating to the following:

issuing, delivering, or selling any shares of its capital stock or any securities convertible into or exercisable for, or any right to acquire, capital stock, other than (a) the issuance of shares by Frontier in connection with the exercise of certain stock options or the vesting of certain restricted stock units or restricted stock, (b) issuances of capital stock by any wholly owned subsidiary of Spinco, on the one hand, or Frontier, on the other hand, to their respective parents or to another of their respective wholly owned subsidiaries, (c) grants by Frontier of certain options, restricted stock units or restricted stock in the ordinary course of business, consistent with past practice, (d) issuances by Frontier pursuant to its rights plan and (e) issuances by Spinco or its subsidiaries pursuant to the merger agreement, the distribution agreement or the contribution;

amending certificates of incorporations or by-laws, subject to certain exceptions;

making acquisitions of a substantial equity interest or assets of another entity;

selling, leasing, licensing, disposing of or otherwise encumbering assets (including the capital stock of certain subsidiaries, but excluding surplus real estate, inventory or obsolete equipment in the ordinary course of business consistent with past practice) other than, with respect to Frontier, any liens to be created in connection with certain of its financing arrangements;

except in the ordinary course, consistent with past practice, making capital expenditures that are not included in such party's capital expenditures budget and that are in excess of \$10 million in the aggregate, subject to certain exceptions;

incurring debt, other than (a) in connection with customer contracts or equipment leasing in the ordinary course of business consistent with past practice, (b) with respect to Spinco, as contemplated by the special cash payment financing and the Spinco debt securities, (c) with respect to Frontier, refinancings of indebtedness completed prior to March 1, 2010 that are unsecured and do not conflict with the terms of the special cash payment financing or the Spinco debt securities or (d) with respect to Frontier, incurrence of indebtedness under its revolving credit facility;

effecting the complete or partial liquidation or dissolution of Spinco or Frontier or any of their respective subsidiaries;

compensation and benefit matters with respect to directors, officers and employees;

in the case of Spinco, subject to certain exceptions, establishing, adopting, entering into, terminating or amending any collective bargaining agreement or other arrangement for the benefit of directors, officers or employees, except as contemplated by the employee matters agreement (see Additional Agreements Between Frontier, Verizon and Their Affiliates The Employee Matters Agreement);

	%	
John E. Demyan	195,350	9.57%
F. W. Kuethe, III	109,312 ⁽⁵⁾	5.36%
Mary Lou Wilcox	1,493	0.07%
Michael G. Livingston	1,520 ⁽⁶⁾	0.07%
Alan E. Hahn	14,441 ⁽⁷⁾	0.71%
Shirley E. Boyer	15,110 ⁽⁸⁾	0.74%
Charles Lynch, Jr.	15,386 ⁽⁹⁾	0.75%
All directors, nominees and executive officers as a group (12 persons)	424,050	20.78%

(1) Rounded to nearest whole share. For the definition of “beneficial ownership,” see footnote (1) to the table in the section entitled “Voting Securities and Principal Holders Thereof.” Unless otherwise noted, ownership is direct and the named individual has sole voting and investment power.

(2) Includes 20,135 shares held jointly with others and 18,000 shares held by The Kuethe Family Trust, of which he and his spouse are trustees.

(3) Includes 6,405 shares as to which he shares voting and investment power.

(4) Includes 10,376 shares as to which he shares voting and investment power.

(5) See footnote (2) to the table in the section entitled “Voting Securities and Principal Holders Thereof”.

(6) Includes 1,420 shares to which he shares voting and investment power.

(7) Includes 6,656 shares to which he shares voting and investment power and 7,323 shares held in his IRA.

(8) Includes 13,684 shares as to which she shares voting and investment power.

(9) Includes 5,313 shares held for the benefit of two minor children and 1,179 shares held by Mrs. Lynch. Each disclaims beneficial ownership to the shares owned individually by the other.

REPORT OF THE COMPENSATION COMMITTEE

The Bank's Employee Compensation and Benefits Committee acts as the compensation committee for the Company and determines the appropriateness of compensation levels pertaining to the officers of the Bank, other than the Chief Executive Officer and the other executive officers of the Bank (which are determined by the full Board of Directors based upon data provided by, and recommendations of, the Committee, and must be approved by a majority of the independent directors). The overall goal of the Committee is the establishment of compensation policies designed to attract, motivate, reward and retain qualified employees who will execute the Company's strategic goals and thereby increase the value created for shareholders.

The Committee and Board review annually the compensation of the executive officers to insure that the Bank's compensation programs are related to the Bank's financial performance and consistent generally with banks of comparable size in the area. The Committee and the Board of Directors establish the compensation paid to executive officers based upon the individual performance of the executive officer and the overall performance of the Bank. In assessing the performance of an individual executive officer, the Committee considers the executive officer's historical performance, degree of responsibility, level of experience, length of service, contribution to the performance of the Company and commitment to meeting strategic goals. With respect to the salary of the Company's Chief Executive Officer, Mr. Kuethe has voluntarily limited his base salary to its current level.

Bonuses are discretionary and are generally granted to executive officers based on the extent to which the Company achieves annual performance objectives, as established by the Board of Directors. Such performance objectives include dividend growth, asset growth and performance and earnings performance.

In addition, executive officers are entitled to participate in the employee benefits offered to all employees of the Bank.

**EMPLOYEE COMPENSATION AND BENEFITS
COMMITTEE**

Shirley E. Boyer	Alan E. Hahn
Thomas Clocker	F. William Kuethe, Jr.
John E. Demyan	William N. Scherer, Sr.
F. W. Kuethe, III	Karen B. Thorwarth

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding the cash and noncash compensation awarded to or earned during the past three fiscal years by the Company's Chief Executive Officer and by each executive officer whose salary and bonus earned in fiscal year 2004 exceeded \$100,000 for services rendered in all capacities to the Company and its subsidiaries.

Name and	Annual Compensation	
	Other Annual	All Other

Principal Position	Year	Salary	Bonus	Compensation	Compensation
F. William Kuethe, Jr. President and Chief Executive Officer	2004	\$83,846	\$20,000	\$ —	\$32,100 ⁽¹⁾
	2003	80,000	20,000	\$ —	\$23,389 ⁽¹⁾
	2002	31,923	17,000	\$ —	\$19,613 ⁽¹⁾
Michael Livingston Executive Vice President, Chief Operating Officer and Deputy Chief Executive Officer	2004	\$114,616	\$17,500	\$ —	\$17,944 ⁽²⁾
	2003	\$94,643	\$13,500	\$ —	\$15,382 ⁽²⁾
	2002	\$85,033	\$ 7,183	\$ —	\$12,862 ⁽²⁾

- (1) Mr. Kuethe's "Other Compensation" for 2004 consisted of \$12,000 in directors' fees, \$5,105 as a 5% employer contribution and \$8,745 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$6,250 representing the dollar value to Mr. Kuethe of the premiums on a term life insurance policy for his benefit; for 2003 consisted of \$9,600 in directors' fees, \$4,533 as a 5% employer contribution and \$8,193 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$1,063 representing the dollar value to Mr. Kuethe of the premiums on a term life insurance policy for his benefit; and for 2002 consisted of \$10,400 in directors' fees, \$3,012 as a 5% employer contribution and \$5,276 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$925 representing the dollar value to Mr. Kuethe of the premiums on a term life insurance policy for his benefit.
- (2) Mr. Livingston became Executive Vice President and Deputy Chief Executive Officer in August 2004 and became a Director on January 1, 2005. Mr. Livingston's "Other Compensation" for 2004 consisted of \$6,428 as a 5% employer contribution and \$11,013 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$503 representing the dollar value to Mr. Livingston of the premiums on a term life insurance policy for his benefit; for 2003 consisted of \$5,416 as a 5% employer contribution and \$9,789 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$177 representing the dollar value to Mr. Livingston of the premiums on a term life insurance policy for his benefit; for 2002 consisted of \$4,619 as a 5% employer contribution and \$8,089 as a Company profit sharing contribution to The Bank of Glen Burnie 401(K) Profit Sharing Plan, and \$154 representing the dollar value to Mr. Livingston of the premiums on a term life insurance policy for his benefit.

Change in Control Severance Plan

In August 2001, the Board of Directors of the Company and the Bank approved amendments to the Company's and the Bank's Change-in-Control Severance Plan, to include the named executive officers in the Plan's coverage. Under the terms of the Plan, in the event the executive voluntarily terminates his employment within two years following a change in control, or in the event the Executive's employment is terminated by the Bank (or its successor) for any reason, other than cause, within two years following a change in control, the executive is entitled to receive an amount equal to the aggregate present value of 2.99 times the executive's average annual taxable compensation from the Bank and the Company for the prior five complete years (or the number of years during which the executive was employed by the Bank, if less). The payment will be made either in a lump sum or in installments, at the option of the executive.

Transactions with Management

All currently outstanding loans to directors and executive officers were made in the ordinary course of business of the Bank and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

Compensation Committee Interlocks and Insider Participation

As stated above (See "Corporate Governance - Employee Compensation and Benefits Committee"), the Compensation Committee determines the compensation levels for the officers of the Bank, other than the executive officers of the Bank which are determined by the full Board of Directors and must be approved by a majority of the independent directors. F. William Kuethe, Jr., President and Chief Executive Officer of the Company and the Bank, serves on the Board and on the Compensation Committee, and Michael Livingston, Executive Vice President and Chief Operating Officer of the Company and the Bank was elected to the Board effective January 1, 2005. No executive officer of the Company or the Bank serves or has served as a member of the compensation committee of another entity, one of whose executive officers serves on the Compensation Committee of the Bank. No executive officer of the Company or the Bank serves or has served as a director of another entity, one of whose executive officers serves on the Compensation Committee of the Company or the Bank.

PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Common Stock during the five years ended December 31, 2004 with that of a broad market index (Nasdaq Composite), and a peer group consisting of publicly traded Maryland, Virginia and District of Columbia commercial banks with total assets between \$200 million and \$500 million (“Peer Group”). The Peer Group is comprised of Alliance Bankshares Corporation, Benchmark Bankshares, BOE Financial Services of Virginia, Inc., Central Virginia Bankshares, Inc., Fauquier Bankshares, Inc., First National Corporation, James Monroe Bancorp, Inc., Millennium Bankshares Corporation, Monarch Bank, Shore Financial Corporation, Abigail Adams National Bancorp, Inc., and Carrollton Bancorp. The graph assumes \$100 was invested on December 31, 1999 in the Common Stock and in each of the indices and assumes reinvestment of dividends.

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Total Return Analysis

	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Glen Burnie Bancorp	\$ 100.00	\$ 81.54	\$ 139.34	\$ 182.39	\$ 316.61	\$ 307.19
Peer Group	\$ 100.00	\$ 91.19	\$ 131.60	\$ 163.35	\$ 264.29	\$ 293.59
Nasdaq Composite	\$ 100.00	\$ 60.82	\$ 48.18	\$ 33.13	\$ 49.95	\$ 54.53

Source: Zacks Investment Research.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with management the annual audited financial statements of the Company and its subsidiaries.

The Audit Committee has discussed with Trice Geary & Myers LLC, the independent auditors for the Company for 2004, the matters required to be discussed by Statement on Auditing Standards 61. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independent Standards Board Standard No. 1 and has discussed with the independent auditors the independent auditors' independence.

Based on the foregoing review and discussions, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year 2004 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

William N. Scherer, Sr., Alan E. Hahn
Chairman

Shirley E. Boyer
Thomas Clocker

Karen B. Thorwarth

PROPOSAL II — AUTHORIZATION FOR APPOINTMENT OF AUDITORS

Selection of Auditors

Trice Geary & Myers LLC, which was the Company's independent auditing firm for the 2004 fiscal year, is expected to be retained by the Audit Committee of the Board of Directors to be the Company's independent auditors for the 2005 fiscal year. A representative of Trice Geary & Myers LLC is expected to be present at the Annual Meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement if he or she so desires. **The Board of Directors recommends a vote FOR the proposal to authorize the Board of Directors to accept the selection of the Audit Committee of an outside auditing firm for the ensuing year.**

Disclosure of Independent Auditor Fees

The following is a description of the fees billed to the Company by Trice Geary & Myers LLC (“TGM”) during the years ended December 31, 2003 and 2004:

Audit Fees. Audit fees include fees paid by the Company to TGM in connection with the annual audit of the Company’s consolidated financial statements, and review of the Company’s interim financial statements. Audit fees also include fees for services performed by TGM that are closely related to the audit and in many cases could only be provided by our independent auditors. Such services include consents related to SEC and other regulatory filings. The aggregate fees billed to the Company by TGM for audit services rendered to the Company for the years ended December 31, 2003 and December 31, 2004 totaled \$81,320 and \$80,598, respectively.

Audit Related Fees. Audit related services include due diligence services related to mergers and acquisitions, accounting consultations, and employee benefit plan audits. The aggregate fees billed to the Company by TGM for audit related services rendered to the Company for the years ended December 31, 2003 and December 31, 2004 totaled \$24,546 and \$7,285, respectively.

Tax Fees. Tax fees include corporate tax compliance, counsel and advisory services. The aggregate fees billed to the Company by TGM for the tax related services rendered to the Company for the years ended December 31, 2003 and December 31, 2004 totaled \$4,815 and \$8,752, respectively.

All Other Fees. The aggregate fees billed to the Company by TGM for all other services rendered to the Company for matters such as general consulting services and services in connection with annual and special meetings of stockholders for the years ended December 31, 2003 and December 31, 2004 totaled \$11,964 and \$ 5,044, respectively.

Approval of Independent Auditor Services and Fees

The Company’s Audit Committee reviews all fees charged by the Company’s independent auditors, and actively monitors the relationship between audit and non-audit services provided. The Audit Committee must pre-approve all audit and non-audit services provided by the Company’s independent auditors and fees charged.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than those matters described above in this proxy statement and matters incident to the conduct of the Annual Meeting. However, if any other matters should properly come before the Annual Meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the determination of a majority of the named proxies.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to regulations promulgated under the Exchange Act, the Company’s officers, directors and persons who own more than ten percent of the outstanding Common Stock (“Reporting Person”) are required to file reports detailing their ownership and changes of ownership in such Common Stock, and to furnish the Company with copies of all such reports. Based on the Company’s review of such reports which the Company received during the last fiscal year, or written representations from Reporting Persons that no annual report of change in beneficial ownership was required,

the Company believes that, with respect to the last fiscal year, all persons subject to such reporting requirements have complied with the reporting requirements.

MISCELLANEOUS

The cost of soliciting proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock. In addition to solicitations by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telegraph or telephone without additional compensation therefor.

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The Company's 2004 Annual Report to Stockholders, including financial statements, has been mailed to all stockholders of record as of the close of business on the Record Date with this Proxy Statement. Any stockholder who has not received a copy of such Annual Report may obtain a copy by writing to the Secretary of the Company. Such Annual Report is not to be treated as a part of the proxy solicitation material or as having been incorporated herein by reference. **A copy of the Company's Form 10-K for the fiscal year ended December 31, 2004 as filed with the Securities and Exchange Commission will be furnished without charge to stockholders as of the Record Date upon written request to Chief Financial Officer, Glen Burnie Bancorp, 101 Crain Highway, S.E., Glen Burnie, Maryland 21061.**

STOCKHOLDER PROPOSALS

Any stockholder desiring to present a proposal at the 2006 Annual Meeting of Stockholders and wishing to have that proposal included in the proxy statement for that meeting must submit the same in writing to the Secretary of the Company at 101 Crain Highway, S.E., Glen Burnie, Maryland 21061, in time to be received by December 5, 2005. The persons designated by the Company to vote proxies given by stockholders in connection with the Company's 2005 Annual Meeting of Stockholders will not exercise any discretionary voting authority granted in such proxies on any matter not disclosed in the Company's 2006 proxy statement with respect to which the Company has received written notice no later than February 18, 2006 that a stockholder (i) intends to present such matter at the 2006 Annual Meeting, and (ii) intends to and does distribute a proxy statement and proxy card to holders of such percentage of the shares of Common Stock required to approve the matter. If a stockholder fails to provide evidence that the necessary steps have been taken to complete a proxy solicitation on such matter, the Company may exercise its discretionary voting authority if it discloses in its 2006 proxy statement the nature of the proposal and how it intends to exercise its discretionary voting authority.

BY ORDER OF THE BOARD OF
DIRECTORS

Dorothy A. Abel
SECRETARY

Glen Burnie, Maryland
April 12, 2005

GLEN BURNIE BANCORP
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER

PURPOSE

The Audit Committee (the “**Committee**”) assists the Board of Directors (the “**Board**”) of Glen Burnie Bancorp (the “**Company**”) in their responsibilities to oversee the independence of the independent auditor and evaluate the Company’s financial reporting practices, accounting policies and internal control structure. The Audit Committee fulfills these responsibilities by carrying out the activities enumerated in this Charter.

COMPOSITION

The Committee will be comprised of three or more directors as determined by the Board. The members of the Committee will meet the independence and experience requirements specified by applicable regulations of the Securities and Exchange Commission (“**SEC**”) and relevant self-regulatory organizations. The members of the Committee will be appointed annually at the organizational meeting of the full Board held in May. The Board will select one Committee member to the Committee Chair, and may appoint one or more staff members and engage consultants to assist the Committee.

RESPONSIBILITY

The Committee is a part of the Board. Its primary function is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the annual financial information to be provided to shareholders and the SEC; (ii) the review of quarterly financial statements; (iii) the system of internal controls that management has established; and (iv) the internal audit, external audit and loan review processes. In addition, the Committee provides an avenue for communication between the internal auditor, the independent auditor, financial management and the Board.

The Committee should have a clear understanding with the independent auditor that the independent auditor must maintain an open relationship with the Committee, and that the ultimate accountability of the independent auditor is to the Board and the Committee. The Committee will make regular reports to the Board concerning its activities.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Company’s business conduct guidelines.

AUTHORITY

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (including resolution of disagreements between management and the auditor regarding financial reporting), and such independent auditor must report directly to the Committee.

The Committee is granted authority to investigate any matter or activity involving financial accounting and financial reporting, as well as the internal controls of the Company, or any other any matter within the Committee’s scope of responsibilities. In that regard, the Committee will have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties. All employees will be directed to cooperate with respect

thereto as requested by members of the Committee.

In furtherance of its duties, the Company will provide for appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for the payment of: (i) compensation to such independent auditor; (ii) compensation to any advisers employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

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MEETINGS

The Committee will meet monthly, or more frequently as circumstances dictate. The Committee may, at its discretion, meet in separate executive sessions with the chief financial officer, independent auditor and internal auditor.

ATTENDANCE

Committee members will strive to be present at all meetings. As necessary or desirable, the Committee Chair may request that members of management and representatives of the independent auditor and internal auditor be present at Committee meetings.

SPECIFIC DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

(i) Review the scope and general extent of the independent auditor's annual audit. The Committee's review should include an explanation from the independent auditor of the factors considered by the auditor in determining the audit scope, including the major risk factors. The independent auditor should confirm to the Committee that no limitations have been placed on the scope or nature of their audit procedures. The Committee will review annually with management the fee arrangement with the independent auditor.

(ii) Establish procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

(iii) Review with management, the internal auditor and independent auditor, the Company's accounting and financial reporting controls.

(iv) Review with management, the internal auditor and the independent auditor significant accounting and reporting principles, practices and procedures applied by the Company in preparing its financial statements.

(v) Discuss with the independent auditor its judgments about the quality, not just the acceptability of the Company's accounting principles used in financial reporting.

(vi) Review legal and regulatory matters that may significantly impact the financial affairs or operations of the Company.

(vii) Inquire as to the independence of the independent auditor and obtain from the independent auditor, at least annually, a formal written statement delineating all relationships between the independent auditor and the Company as contemplated by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

(viii) Review with financial management and the independent auditor the quarterly financial statements prior to the filing of the Company's Form 10-Q. The review will focus on the impact of significant events, transactions and changes in accounting estimates considered by the independent auditor in performing their review of the Company's interim financial statements. The Chair of the Committee may represent the entire committee for purpose of this review. At the completion of the annual audit, review with management, the Company's internal auditor and the independent auditor the following:

§ The Company's annual financial statements and related footnotes and financial information to be included in the Company's annual report to shareholders and on annual report on Form 10- K.

- § Results of the audit of the financial statements and the related report thereon and, if applicable, a report on changes during the year in accounting principles and their application.
- § Any significant changes to the audit plan, any serious disputes or difficulties with management encountered during the audit, and the level of cooperation received by the independent auditor from Company personnel during the audit, including access to all requested records, data and information.

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§ Any disagreements between the independent auditor and management, which, if not satisfactorily resolved, would have caused the independent auditor to issue a nonstandard report on the Company's financial statements.

§ Other communications as required to be communicated by the independent auditor by Statement of Auditing Standards (SAS) 61 as amended by SAS 90 relating to the conduct of the audit. Such communication should include a discussion of the independent auditor's judgment about the quality of the Company's accounting principles.

If deemed appropriate after such review and discussion, recommend to the Board that the financial statements be included in the Company's annual report on Form 10-K.

(ix) Meet with management, the internal auditor and the independent auditor to discuss any relevant significant recommendations that the independent auditor may have, particularly those characterized as "reportable conditions". The Committee should review responses of management to the reportable conditions from the independent auditor and receive follow-up reports on action taken concerning the aforementioned recommendations.

(x) Review the scope of the annual internal audit and loan review plans.

(xi) Evaluate the internal auditor's risk assessment of the Company's activities used in developing the annual audit plan.

(xii) Receive reports of major findings from the internal auditor and evaluate management's response in addressing the reported conditions.

(xiii) Evaluate the performance of and, where appropriate, replace the internal auditor.

(xiv) Review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval. This should be done in compliance with applicable regulatory Audit Committee requirements. The charter is to be published as an appendix to the Company's proxy statement every three years.

x

**PLEASE MARK VOTES
AS IN THIS EXAMPLE
REVOCABLE PROXY
GLEN BURNIE BANCORP
2005 ANNUAL MEETING OF STOCKHOLDERS**

The undersigned hereby constitutes and appoints F. William Kuethe, John E. Demyan, and William N. Scherer, Sr., or a majority of them, with full powers of substitution, as attorneys-in-fact and agents for the undersigned, to vote all shares of Common Stock of Glen Burnie Bancorp which the undersigned is entitled to vote at the Annual Meeting of Stockholders, to be held at La Fontaine Bleu, 7514 Ritchie Highway, Glen Burnie, Maryland on Thursday, May 12, 2005 at 2:00 p.m., Eastern Time (the "Annual Meeting"), and at any and all adjournments thereof, as indicated below and as determined by a majority of the named proxies with respect to any other matters presented at the Annual Meeting.

	<u>FOR</u>	<u>VOTE WITHHELD</u>	<u>FOR EXCEPT</u>
1. To elect as directors all nominees listed below: <input type="radio"/>		<input type="radio"/>	<input type="radio"/>
John E. Demyan			
Charles Lynch, Jr.			
F. W. Kuethe, III			
Mary Lou Wilcox			

INSTRUCTION: TO WITHHOLD YOUR VOTE FOR ANY LISTED NOMINEE, MARK THE FOR EXCEPT BOX AND INSERT THAT NOMINEE'S NAME ON THE LINE PROVIDED BELOW.

	<u>FOR</u>	<u>AGAINST</u>	<u>ABSTAIN</u>
2. To authorize the Board of Directors to accepto the auditors selected by the Audit Committee for the 2005 fiscal year <input type="radio"/>		<input type="radio"/>	<input type="radio"/>

The Board of Directors recommends a vote "FOR" the above listed propositions.

IF YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CHECK THIS BOX

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR EACH OF THE ABOVE NOMINEES AND FOR PROPOSAL II. IF ANY OTHER BUSINESS IS PROPERLY PRESENTED AT THE ANNUAL MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY IN ACCORDANCE WITH THE DETERMINATION OF A MAJORITY OF THE NAMED PROXIES. THIS PROXY CONFERS DISCRETIONARY AUTHORITY ON THE HOLDERS THEREOF TO VOTE WITH RESPECT TO THE ELECTION OF ANY PERSON AS DIRECTOR WHERE THE NOMINEE IS UNABLE TO SERVE OR FOR GOOD CAUSE WILL NOT SERVE AND MATTERS INCIDENT TO THE CONDUCT OF THE ANNUAL MEETING.

Please be sure to sign and date this Proxy here.

Date _____

Stockholder sign above

Co-holder (if any) sign above

Detach above card, sign, date and mail in postage paid envelope provided.

GLEN BURNIE BANCORP

Should the above signed be present and elect to vote at the Annual Meeting or at any adjournment thereof and after notification to the Secretary of the Company at the Annual Meeting of the stockholder's decision to terminate this proxy, then the power of said attorneys and proxies shall be deemed terminated and of no further force and effect. The above signed hereby revokes any and all proxies heretofore given with respect to the shares of Common Stock held of record by the above signed. The above signed acknowledges receipt from the Company prior to the execution of this proxy of notice and a proxy statement and a 2004 Annual Report to stockholders for the annual meeting.

Please sign exactly as your name appears on the envelope in which this proxy was mailed. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

**PLEASE ACT PROMPTLY
SIGN, DATE & MAIL YOUR PROXY CARD TODAY**

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED
