

Ira S. Dizengoff
Philip C. Dublin
Naomi Moss
AKIN GUMP STRAUSS
HAUER & FELD LLP
One Bryant Park
New York, New York 10036
Tel: (212) 872-1000
Fax: (212) 872-1002

Dennis F. Dunne
Samuel A. Khalil
Michael W. Price
MILBANK LLP
55 Hudson Yards
New York, New York 10001
Tel: (212) 530-5000
Fax: (212) 660-5219

Counsel to the Noteholder Groups

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re)	Chapter 11
)	
FRONTIER COMMUNICATIONS CORPORATION, et al., ¹)	Case No. 20-22476 (RDD)
)	
Debtors.)	(Jointly Administered)
)	

**JOINT LIMITED OBJECTION OF THE NOTEHOLDER
GROUPS TO DEBTORS' MOTION FOR ENTRY OF AN ORDER
APPROVING THE DEBTORS' KEY EMPLOYEE RETENTION PLAN**

Certain unaffiliated beneficial holders, or investment advisors or managers of beneficial holders (the "Noteholder Groups")² of unsecured senior notes (the "Senior Notes" and, the holders thereof, the "Senior Noteholders") issued by Frontier Communications Corporation ("Frontier" and, together with its affiliated debtors and debtors in possession, the "Debtors"), by and through

¹ The last four digits of Debtor Frontier Communications Corporation's tax identification number are 9596. Due to the large number of debtor entities in these chapter 11 cases, a complete list of the debtor entities and the last four digits of their federal tax identification numbers are not provided herein. The location of the Debtors' service address for purposes of these chapter 11 cases is 50 Main Street, Suite 1000, White Plains, New York 10606.

² The members of the Noteholder Groups hold in excess of 75% of the aggregate principal amount of the Senior Notes and are party to that certain Restructuring Support Agreement entered into by the Debtors and the parties thereto on April 14, 2020 (the "RSA"). A copy of the RSA is attached as Exhibit B to the *Declaration of Carlin Adrianopoli, Executive Vice President of Strategic Planning, in Support of Chapter 11 Petitions and First Day Motions* [ECF No. 3].

their undersigned counsels, hereby submit this limited objection (the “Limited Objection”) to the *Debtors’ Motion for Entry of an Order Approving the Debtors’ Key Employee Retention Plan* [ECF No. 227] (the “KERP Motion”).³ In support of this Limited Objection, the Noteholder Groups respectfully state as follows:

LIMITED OBJECTION

1. By the KERP Motion, the Debtors seek approval of an employee compensation program (the “KERP”) that covers 390 of the Debtors’ non-insider employees. The KERP provides for up to approximately \$37.7 million in total aggregate bonuses to be paid on a quarterly basis and has three separate components. The first component of the KERP consists of annual performance-based bonuses, with the maximum aggregate payout totaling \$21,009,441. This amount is substantially similar to the historical performance-based compensation paid by the Debtors to their non-insider employees prepetition. The second component of the KERP consists of cash retention-based payments (the “Retention Program”) that are based on the participants’ continued employment, which payments are in lieu of historical long-term equity grants provided by the Debtors to their non-insider employees prepetition.⁴ The aggregate total maximum payout under the Retention Program is \$14,685,000. The third component of the KERP consists of a \$2 million reserve pool for potential future KERP participants during the pendency of the Debtors’ chapter 11 cases.

2. The Noteholder Groups do not object to the aggregate amount of potential payments under the KERP. Indeed, despite the fact that the projected annual cost of the KERP is

³ Capitalized terms used but otherwise not defined herein have the meanings ascribed to them in the KERP Motion.

⁴ While the Debtors historically offered retention-based incentives to non-insider employees, the structure of the program for 2020 was modified by the Debtors’ board of directors in October 2019. The modifications to this program, as compared to prior programs, are described further herein.

approximately \$10 million greater than the historical annual cost of the Debtors' prepetition performance and retention programs, the Noteholder Groups believe that the aggregate amount of projected payments is reasonable under the circumstances. The Noteholder Groups do not believe, however, that the program as currently structured contains retentive components that are reasonably likely to increase employee retention as compared to prepetition programs.

3. In the KERP Motion, the Debtors state that the KERP is intended to "motivate KERP Participants to remain with the Debtors through the duration of their restructuring and that [it] continues retention and performance-based awards historically provided to such employees." KERP Motion ¶ 16. The Debtors fail to disclose, however, that they made modifications to their historic retention program in October 2019 with respect to the timing and size of grants, with such modifications to be implemented in connection with 2020 compensation and in light of the Debtors' impending restructuring.

4. Under the predecessor to the Retention Program, certain of the Debtors' employees were entitled to receive long-term equity awards as part of their compensation to provide incentives for such employees to remain with the Debtors. These equity incentive grants were granted annually but vested over a three-year period. For 2018 and 2019, in lieu of long-term equity incentive awards, annual grants were made in the form of restricted cash awards that, similar to historic equity grants, were paid out in annual installments over a three-year period (*i.e.*, three-year cycle, with one-third per year). In contrast with the Debtors' historical programs where equity and cash awards vested or were paid, respectively over a three year period,⁵ the Retention Program under the KERP contemplates quarterly payments over a one-year period; thereby, delivering compensation in one year that historically would have been paid over three years.

⁵ Equity and cash awards typically were granted/paid in February of each year.

5. As a result of this proposed change in pay-out structure, for the 2020 compensation year, participants would be eligible to receive: (i) one-third of the 2018 restricted cash award; (ii) one-third of the 2019 restricted cash award; and (iii) three-thirds of the 2020 award (the award under the Retention Program). Whereas eligible employees previously needed to stay with the Debtors for three years to receive the full amount of their awards, under the proposed KERP, employees will receive one-fourth of the award shortly after the close of each quarter in 2020 and will receive all payments within 12 months instead of 36 months. Given that the Debtors anticipate remaining in chapter 11 through at least a portion of 2021 as a result of the necessary regulatory approval process, the proposed Retention Program will not achieve its stated goal of motivating employees to remain with the Debtors through the restructuring. Indeed, rather than motivate the KERP Participants to remain with the Debtors “through the duration of their restructuring,” the Retention Program’s proposed pay-out structure, if approved, would result in the 2020 Retention Program being less retentive than the Debtors’ historic prepetition retention programs.

6. As such, the Noteholder Groups reasonably requested that the Debtors modify the Retention Program to provide for one-third of the 2020 award (approximately \$4,895,000) to be paid quarterly over 2020 with the remaining two-thirds of the award (approximately \$9,790,000) to be paid to the KERP Participants upon the Debtors’ emergence from chapter 11.⁶ Thus, as compared to the Debtors’ prepetition program, KERP Participants would receive (i) one-third of their Retention Program payments paid quarterly as opposed to a single annual payment following

⁶ Pursuant to the RSA, any key employee incentive and retention programs to be implemented during the Chapter 11 Cases were required to be subject to the reasonable consent of the Required Consenting Noteholders (as defined in the RSA). RSA § 3.02 (providing that “Definitive Documents,” which includes any key employee incentive plan or key employee retention plan, shall be in form and substance reasonably acceptable to the Debtors and the Required Consenting Noteholders). Nevertheless, the Debtors refused to engage with the Noteholder Groups regarding the proposed modifications addressed in this Limited Objection. Upon information and belief, the official committee of unsecured creditors appointed in the Debtors’ chapter 11 cases made substantially similar requests with respect to the timing of such payments.

calendar year 2020 and (ii) two-thirds of their Retention Program payments paid upon the Debtors’ emergence from chapter 11 as opposed to one-third following calendar year 2021 and the last third following calendar year 2022. Set forth below is an illustrative chart comparing the payment schedule for the Retention Program if such program were implemented in accordance with (i) the Debtors’ prepetition historical payment schedule; (ii) the payment schedule as proposed in the KERP Motion; and (iii) the Noteholder Groups’ proposed revised payment schedule:

	Historical Schedule	KERP Motion Schedule	Noteholder Groups’ Proposed Schedule
2020 Payout	Paid annually: - 1/3 of the 2018 award - 1/3 of the 2019 award - 1/3 of the 2020 award	Paid annually: - 1/3 of the 2018 award - 1/3 of the 2019 award Paid quarterly: - 3/3 of the 2020 award	Paid annually: - 1/3 of the 2018 award - 1/3 of the 2019 award Paid quarterly: - 1/3 of the 2020 award
2021 Payout	Paid annually: - 1/3 of the 2019 award - 1/3 of the 2020 award - 1/3 of the 2021 award	Paid annually: - 1/3 of the 2019 award	- 2/3 of the 2020 award at emergence Paid annually: - 1/3 of the 2019 award

7. The Noteholder Groups respectfully submit that their proposed modifications to the timing of the Retention Program payments under the KERP are reasonable and strike the appropriate balance of providing the KERP Participants with significantly accelerated payments as compared to the Debtors’ historical retention programs, while at the same time truly incentivizing such employees to remain in the Debtors’ employ for the duration of the Debtors’ restructuring.

RESERVATION OF RIGHTS

8. The Noteholder Groups reserve the right to raise further and other objections to the KERP Motion as may be necessary or appropriate.

CONCLUSION

WHEREFORE, the Noteholder Groups respectfully request that the Court (a) condition approval of the Retention Program on the modifications requested herein and (b) grant the Noteholder Groups such other and further relief as is just, proper and equitable.

Dated: May 18, 2020
New York, New York

By: /s/ Ira S. Dizengoff

By: /s/ Michael W. Price

Ira S. Dizengoff
Philip C. Dublin
Naomi Moss
AKIN GUMP STRAUSS
HAUER & FELD LLP
One Bryant Park
New York, New York 10036
Tel: (212) 872-1000
Fax: (212) 872-1002
Email: idizengoff@akingump.com
pdublin@akingump.com
nmoss@akingump.com

Dennis F. Dunne
Samuel A. Khalil
Michael W. Price
MILBANK LLP
55 Hudson Yards
New York, New York 10001
Tel: (212) 530-5000
Fax: (212) 660-5219
Email: ddunne@milbank.com
skhalil@milbank.com
mprice@milbank.com

Counsel to the Noteholder Groups