FRONTIER COMMUNICATIONS CORP
Form 10-Q
November 08, 2012

FRONTIER COMMUNICATIONS CORPORATION

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from _________to__________

Commission file number: 001-11001

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

Delaware (State or other jurisdiction of incorporation or organization)	06-0619596 (I.R.S. Employer Identification No.)
3 High Ridge Park Stamford, Connecticut (Address of principal executive offices)	06905 (Zip Code)

(203) 614-5600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares outstanding of the registrant's Common Stock as of October 26, 2012 was 998,445,000.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1.Financial Statements

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

	(Unaudited) September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,099,489	$ 326,094
Accounts receivable, less allowances of $107,725 and $107,048, respectively	557,573	585,157
Prepaid expenses	69,595	63,422
Restricted cash	54,967	-
Income taxes and other current assets	347,602	264,357
Total current assets	2,129,226	1,239,030
Restricted cash	42,357	144,680
Property, plant and equipment, net	7,482,900	7,547,523
Goodwill	6,337,719	6,337,719
Other intangibles, net	1,630,965	1,964,505
Other assets	215,319	196,311
Total assets	$ 17,838,486	$ 17,429,768
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 596,545	$ 94,016
Accounts payable	322,811	519,548
Advanced billings	147,228	152,784
Accrued other taxes	83,995	64,392
Accrued interest	217,525	169,340
Other current liabilities	152,882	152,136
Total current liabilities	1,520,986	1,152,216
Deferred income taxes	2,608,051	2,458,018
Pension and other postretirement benefits	923,634	918,701
Other liabilities	224,816	225,858
Long-term debt	8,257,599	8,205,841
Equity:		
Shareholders' equity of Frontier:		
Common stock, $0.25 par value (1,750,000,000 authorized shares, 998,453,000 and 995,128,000 outstanding, respectively, and 1,027,986,000 issued, at September 30, 2012 and December 31, 2011)	256,997	256,997
Additional paid-in capital	4,735,516	4,773,383
Retained earnings	38,931	226,721
Accumulated other comprehensive loss, net of tax	(374,821)	(386,963)

Treasury stock		(368,578)		(415,001)
Total shareholders' equity of Frontier		4,288,045		4,455,137
Noncontrolling interest in a partnership		15,355		13,997
Total equity		4,303,400		4,469,134
Total liabilities and equity	$	17,838,486	$	17,429,768

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

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
($ in thousands, except for per-share amounts)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenue	$1,252,469	$1,290,939	$3,779,300	$3,959,891
Operating expenses:				
Network access expenses	102,051	119,941	333,053	397,854
Other operating expenses	572,348	571,388	1,663,842	1,729,824
Depreciation and amortization	298,416	351,907	962,763	1,062,150
Integration costs	4,458	67,412	68,204	100,899
Total operating expenses	977,273	1,110,648	3,027,862	3,290,727
Operating income	275,196	180,291	751,438	669,164
Investment income (loss)	323	(666)	12,417	2,624
Losses on early extinguishment of debt	(245)	-	(71,063)	-
Other income (loss), net	4,279	1,502	6,577	7,415
Interest expense	172,188	165,755	509,104	500,034
Income before income taxes	107,365	15,372	190,265	179,169
Income tax expense (benefit)	35,739	(6,948)	66,150	66,809
Net income	71,626	22,320	124,115	112,360
Less: Income attributable to the noncontrolling interest in a partnership	4,626	1,925	12,358	4,993
Net income attributable to common shareholders of Frontier	$67,000	$20,395	$111,757	$107,367
Basic and diluted net income per share attributable to common shareholders of Frontier	$0.07	$0.02	$0.11	$0.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
($ in thousands)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income	$71,626	$22,320	$124,115	$112,360

Other comprehensive income, net of tax (see Note 15)	2,308	3,334	12,142	8,324
Comprehensive income	73,934	25,654	136,257	120,684
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	(4,626)	(1,925)	(12,358)	(4,993)
Comprehensive income attributable to the common shareholders of Frontier	$69,308	$23,729	$123,899	$115,691

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

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011, THE THREE MONTHS ENDED DECEMBER 31, 2011 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2012
($ and shares in thousands)
(Unaudited)

	Frontier Shareholders								
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling	Total
	Shares	Amount	Capital	Earnings	Loss	Shares	Amount	Interest	Equity
Balance January 1, 2011	1,027,986	$256,997	$5,525,471	$77,107	$(229,549)	(34,131)	$(433,286)	$13,003	$5,209,743
Stock plans	-	-	(9,325)	-	-	1,282	18,289	-	8,964
Dividends on common stock	-	-	(559,803)	-	-	-	-	-	(559,803)
Net income	-	-	-	107,367	-	-	-	4,993	112,360
Other comprehensive income, net of tax	-	-	-	-	8,324	-	-	-	8,324
Distributions	-	-	-	-	-	-	-	(3,000)	(3,000)
Balance September 30, 2011	1,027,986	256,997	4,956,343	184,474	(221,225)	(32,849)	(414,997)	14,996	4,776,588
Stock plans	-	-	3,624	-	-	(9)	(4)	-	3,620
Dividends on common stock	-	-	(186,584)	-	-	-	-	-	(186,584)
Net income	-	-	-	42,247	-	-	-	3,001	45,248
Other comprehensive income, net of tax	-	-	-	-	(165,738)	-	-	-	(165,738)
Distributions	-	-	-	-	-	-	-	(4,000)	(4,000)
Balance December 31, 2011	1,027,986	256,997	4,773,383	226,721	(386,963)	(32,858)	(415,001)	13,997	4,469,134
Stock plans	-	-	(37,867)	-	-	3,325	46,423	-	8,556
Dividends on common stock	-	-	-	(299,547)	-	-	-	-	(299,547)
Net income	-	-	-	111,757	-	-	-	12,358	124,115

Other comprehensive income, net of tax	-	-	-	-	12,142	-	-	-	12,142
Distributions	-	-	-	-	-	-	-	(11,000)	(11,000)
Balance September 30, 2012	1,027,986	$256,997	$4,735,516	$38,931	$(374,821)	(29,533)	$(368,578)	$15,355	$4,303,400

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

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
($ in thousands)
(Unaudited)

	2012	2011
Cash flows provided by (used in) operating activities:		
Net income	$124,115	$112,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	962,763	1,062,150
Stock based compensation expense	12,950	10,729
Pension/OPEB costs	24,220	22,515
Losses on early extinguishment of debt	71,063	-
Other non-cash adjustments	7,040	(3,320)
Deferred income taxes	59,794	20,219
Change in accounts receivable	19,941	16,162
Change in accounts payable and other liabilities	(131,027)	(36,458)
Change in prepaid expenses, income taxes and other current assets	9,426	68,297
Net cash provided by operating activities	1,160,285	1,272,654
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(571,107)	(636,569)
Capital expenditures - Integration activities	(38,768)	(62,641)
Network expansion funded by Connect America Fund	(854)	-
Grant funds received for network expansion from Connect America Fund	47,986	-
Cash transferred from escrow	47,356	26,586
Other assets purchased and distributions received, net	(12,251)	(4,350)
Net cash used by investing activities	(527,638)	(676,974)
Cash flows provided from (used by) financing activities:		
Long-term debt borrowings	1,100,000	-
Financing costs paid	(22,754)	-
Long-term debt payments	(571,472)	(78,990)
Premium paid to retire debt	(52,560)	-
Dividends paid	(299,547)	(559,803)
Repayment of customer advances for construction, distributions to noncontrolling interests and other	(12,919)	(2,333)
Net cash provided from (used by) financing activities	140,748	(641,126)
Increase/(Decrease) in cash and cash equivalents	773,395	(45,446)
Cash and cash equivalents at January 1,	326,094	251,263
Cash and cash equivalents at September 30,	$1,099,489	$205,817
Supplemental cash flow information:		

Cash paid (received) during the period for:		
Interest	$445,121	$447,645
Income taxes (refunds)	$4,093	$(16,247)
Non-cash investing and financing activites:		
Financing obligation for contribution of real property to pension plan	$-	$58,100
Reduction of pension obligation	$-	$(58,100)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

(a) Basis of Presentation and Use of Estimates:

Frontier Communications Corporation and its subsidiaries are referred to as “we,” “us,” “our,” “Frontier,” or the “Company” this report. Our interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011. Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation. These interim unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary, in the opinion of Frontier’s management, to present fairly the results for the interim periods shown. Revenues, net income and cash flows for any interim periods are not necessarily indicative of results that may be expected for the full year. For our interim financial statements as of and for the period ended September 30, 2012, we evaluated subsequent events and transactions for potential recognition or disclosure through the date that we filed this quarterly report on Form 10-Q with the Securities and Exchange Commission (SEC).

The preparation of our interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities at the date of the financial statements, (ii) the disclosure of contingent assets and liabilities, and (iii) the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, income taxes, purchase price allocations, contingencies, and pension and other postretirement benefits, among others. Certain information and footnote disclosures have been excluded and/or condensed pursuant to SEC rules and regulations.

(b) Revenue Recognition:

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

As required by law, the Company collects various taxes from its customers and subsequently remits these taxes to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) that we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses at $29.0 million and $24.5 million, and

$87.5 million and $78.7 million, for the three and nine months ended September 30, 2012 and 2011, respectively.

(c) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) or more frequently, if appropriate, examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for goodwill impairment at the “operating segment” level, as that term is defined in U.S. GAAP. Our operating segments consist of the following regions: Central, Midwest, National, Northeast, Southeast and West. Our operating segments are aggregated into one reportable segment.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company amortizes finite lived intangible assets over their estimated useful lives and reviews such intangible assets at least annually to assess whether any potential impairment exists and whether factors exist that would necessitate a change in useful life and a different amortization period.

(2) Recent Accounting Literature:

Fair Value Measurements
In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04 (ASU 2011-04), "Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (ASC Topic 820). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance was to be applied prospectively, and was effective for interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-04 in the first quarter of 2012 with no impact on our financial position, results of operations or cash flows.

Presentation of Comprehensive Income
In June 2011, the FASB issued Accounting Standards Update No. 2011-05 (ASU 2011-05), "Comprehensive Income: Presentation of Comprehensive Income," (ASC Topic 220). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance was to be applied retrospectively, and was effective for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12 that defers the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income in ASU 2011-05. The Company adopted ASU 2011-05 in the first quarter of 2012 with no impact on our financial position, results of operations or cash flows.

Indefinite-Lived Intangible Assets
In July 2012, the FASB issued Accounting Standards Update No. 2012-02 (ASU 2012-02), "Intangibles—Goodwill and Other – Testing Indefinite-Lived Intangible Assets for Impairment," (ASC Topic 350). ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. This amendment also gives an entity the option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity can determine that it is not more likely than not that the asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. While ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The Company is currently evaluating the impact of ASU 2012-02 on its future impairment tests and early adoption is under consideration. We do not expect the adoption of ASU 2012-02 to have any impact on our financial position, results of operations or cash flows.

(3) The Transaction:

On July 1, 2010, we acquired the defined assets and liabilities of the local exchange business and related landline activities of Verizon Communications Inc. (Verizon) in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin and in portions of California bordering Arizona, Nevada and Oregon (collectively, the Territories), including Internet access and long distance services and broadband video provided to designated customers in the Territories (the Acquired Business). Frontier was considered the acquirer of the Acquired Business for accounting purposes.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We have accounted for our acquisition of approximately 4.0 million access lines from Verizon (the Transaction) using the guidance included in Accounting Standards Codification (ASC) Topic 805. We incurred approximately $4.5 million and $67.4 million, and $68.2 million and $100.9 million of integration related costs in connection with the Transaction during the three and nine months ended September 30, 2012 and 2011, respectively. Such costs are required to be expensed as incurred and are reflected in "Integration costs" in our consolidated statements of operations.

(4) Accounts Receivable:
The components of accounts receivable, net are as follows:

($ in thousands)	September 30, 2012		December 31, 2011	
Retail and Wholesale	$	624,852	$	639,842
Other		40,446		52,363
Less: Allowance for doubtful accounts		(107,725)		(107,048)
Accounts receivable, net	$	557,573	$	585,157

Retail and wholesale accounts receivable and the allowance for doubtful accounts are presented net of a fair value adjustment related to purchase accounting of $9.8 million at December 31, 2011. No further fair value adjustment was required as of the quarter ended March 31, 2012. We maintain an allowance for estimated bad debts based on our estimate of our ability to collect accounts receivable. Bad debt expense, which is recorded as a reduction to revenue, was $20.8 million and $19.3 million for the three months ended September 30, 2012 and 2011, respectively, and $61.5 million and $65.7 million for the nine months ended September 30, 2012 and 2011, respectively.

Amounts for retail and wholesale accounts receivable as of December 31, 2011 have been revised to conform to the current presentation, reflecting a reduction of $31.0 million for customer volume discounts with a right of offset to the customer's accounts receivable. There was a similar reduction to other current liabilities in the balance sheet.

(5) Property, Plant and Equipment:
Property, plant and equipment, net is as follows:

($ in thousands)	September 30, 2012		December 31, 2011	
Property, plant and equipment	$	14,133,935	$	13,638,136
Less: Accumulated depreciation		(6,651,035)		(6,090,613)
Property, plant and equipment, net	$	7,482,900	$	7,547,523

Depreciation expense is principally based on the composite group method. Depreciation expense was $209.9 million and $226.7 million, and $628.8 million and $671.2 million for the three and nine months ended September 30, 2012 and 2011, respectively. As a result of an independent study of the estimated remaining useful lives of our plant assets, we adopted new estimated remaining useful lives for certain plant assets as of October 1, 2011.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Goodwill and Other Intangibles:
The components of goodwill and other intangibles, net are as follows:

($ in thousands)	September 30, 2012	December 31, 2011
Goodwill:	$ 6,337,719	$ 6,337,719
Other Intangibles:		
Customer base	$ 2,697,763	$ 2,697,413
Software licenses	105,019	105,019
Trade name and license	135,285	135,285
Other intangibles	2,938,067	2,937,717
Less: Accumulated amortization	(1,307,102)	(973,212)
Total other intangibles, net	$ 1,630,965	$ 1,964,505

Amortization expense was $88.5 million and $125.2 million, and $333.9 million and $391.0 million for the three and nine months ended September 30, 2012 and 2011, respectively. Amortization expense primarily represents the amortization of intangible assets (primarily customer base) that were acquired in the Transaction based on a fair value of $2.5 billion and a useful life of nine years for the residential customer base and 12 years for the business customer base, amortized on an accelerated method. Amortization expense included $10.2 million and $41.1 million for the nine months ended September 30, 2012 and 2011, respectively, for amortization associated with certain Frontier legacy properties, which were fully amortized in March 2012.

(7) Fair Value of Financial Instruments:
The following table summarizes the carrying amounts and estimated fair values for long-term debt at September 30, 2012 and December 31, 2011. For the other financial instruments, representing cash, accounts receivable, long-term debt due within one year, accounts payable and other current liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments, for which market values are not readily available, are carried at cost, which approximates fair value.

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

	September 30, 2012		December 31, 2011	
($ in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 8,257,599	$ 8,650,919	$ 8,205,841	$ 7,958,873

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-Term Debt:
The activity in our long-term debt from December 31, 2011 to September 30, 2012 is summarized as follows:

($ in thousands)	December 31, 2011	Nine months ended September 30, 2012 Payments	New Borrowings	September 30, 2012	Interest Rate* at September 30, 2012
Senior Unsecured Debt	$8,325,774	$(570,691)	$1,100,000	$8,855,083	7.88%
Industrial Development Revenue Bonds	13,550	-	-	13,550	6.33%
Rural Utilities Service Loan Contracts	10,197	(781)	-	9,416	6.15%
TOTAL LONG-TERM DEBT	$8,349,521	$(571,472)	$1,100,000	$8,878,049	7.87%
Less: Debt Discount	(49,664)			(23,905)	
Less: Current Portion	(94,016)			(596,545)	
	$8,205,841			$8,257,599	

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at September 30, 2012 represent a weighted average of multiple issuances.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information regarding our Senior Unsecured Debt is as follows:

($ in thousands)	September 30, 2012		December 31, 2011	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes and Debentures Due:				
1/15/2013	$ 502,658	6.250%	$ 580,724	6.250%
5/1/2014	200,000	8.250%	600,000	8.250%
3/15/2015	300,000	6.625%	300,000	6.625%
4/15/2015 *	450,500	7.875%	500,000	7.875%
10/14/2016 **	531,875	3.095% (Variable)	575,000	3.175% (Variable)
4/15/2017 *	1,100,000	8.250%	1,100,000	8.250%
10/1/2018	600,000	8.125%	600,000	8.125%
3/15/2019	434,000	7.125%	434,000	7.125%
4/15/2020	1,100,000	8.500%	1,100,000	8.500%
7/1/2021	500,000	9.250%	-	-
4/15/2022	500,000	8.750%	500,000	8.750%
1/15/2023 *	600,000	7.125%	-	-
11/1/2025	138,000	7.000%	138,000	7.000%
8/15/2026	1,739	6.800%	1,739	6.800%
1/15/2027	345,858	7.875%	345,858	7.875%
8/15/2031	945,325	9.000%	945,325	9.000%
10/1/2034	628	7.680%	628	7.680%
7/1/2035	125,000	7.450%	125,000	7.450%
10/1/2046	193,500	7.050%	193,500	7.050%
	8,569,083		8,039,774	
Subsidiary Senior Notes and Debentures Due:				
12/1/2012	36,000	8.050%	36,000	8.050%
2/15/2028	200,000	6.730%	200,000	6.730%
10/15/2029	50,000	8.400%	50,000	8.400%
Total	$ 8,855,083	7.88%	$ 8,325,774	7.93%

* See Note 18 – Subsequent Events.

** Represents borrowings under the Credit Agreement with CoBank.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On August 15, 2012, the Company completed a registered offering of $600 million aggregate principal amount of 7.125% senior notes due 2023, issued at a price of 100% of their principal amount. We received net proceeds of approximately $588.1 million from the offering after deducting underwriting discounts and offering expenses. The Company will use the net proceeds from the sale of the notes to repurchase or retire its existing indebtedness or for general corporate purposes.

On May 17, 2012, the Company completed a registered offering of $500 million aggregate principal amount of 9.250% senior unsecured notes due 2021, issued at a price of 100% of their principal amount. We received net proceeds of approximately $489.6 million from the offering after deducting underwriting discounts and offering expenses. The Company also commenced a tender offer to purchase the maximum aggregate principal amount of its 8.250% Senior Notes due 2014 (the "2014 Notes") and its 7.875% Senior Notes due 2015 (the "April 2015 Notes" and, together with the 2014 Notes, the "Notes") that it could purchase for up to $500 million in cash. The 2014 Notes had an effective interest cost of 10.855%, reflecting the fact that such notes were issued at a discount in April 2009.

On June 1, 2012, the Company accepted for purchase $400 million aggregate principal amount of 2014 Notes tendered for total consideration of $446.0 million. On June 18, 2012, Frontier accepted for purchase $49.5 million aggregate principal amount of April 2015 Notes tendered for total consideration of $54.0 million. Frontier used proceeds from the sale of its previously announced offering of $500.0 million of 9.250% Senior Notes due 2021, plus cash on hand, to purchase the Notes. As a result of the successful tender offer, the amount of 2014 Notes and April 2015 Notes outstanding as of September 30, 2012 were $200.0 million and $450.5 million, respectively.

In connection with our tender offer and repurchase of the Notes, the Company recognized a loss of $69.2 million on the early extinguishment of debt during the second quarter of 2012. We also recognized losses of $0.5 million and $2.1 million during the third quarter and first nine months of 2012, respectively, for $78.1 million in total open market repurchases of our 6.25% Senior Notes due 2013.

The Company has a credit agreement (the Credit Agreement) with CoBank, ACB, as administrative agent, lead arranger and a lender, and the other lenders party thereto for a $575.0 million senior unsecured term loan facility with a final maturity of October 14, 2016. The entire facility was drawn upon execution of the Credit Agreement in October 2011. Repayment of the outstanding principal balance is made in quarterly installments in the amount of $14,375,000, which commenced on March 31, 2012, with the remaining outstanding principal balance to be repaid on the final maturity date. Borrowings under the Credit Agreement bear interest based on the margins over the Base Rate (as defined in the Credit Agreement) or LIBOR, at the election of the Company. Interest rate margins under the facility (ranging from 0.875% to 2.875% for Base Rate borrowings and 1.875% to 3.875% for LIBOR borrowings) are subject to adjustments based on the Total Leverage Ratio of the Company, as such term is defined in the Credit Agreement. The current pricing on this facility is LIBOR plus 2.875%. The maximum permitted leverage ratio is 4.5 times.

We have a $750.0 million revolving credit facility. As of September 30, 2012, we had not made any borrowings utilizing this facility. The terms of the credit facility are set forth in the credit agreement (the Revolving Credit Agreement), dated as of March 23, 2010, among the Company, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent. Associated facility fees under the credit facility will vary from time to time depending on the Company’s credit rating (as defined in the Revolving Credit Agreement) and were 0.625% per annum as of September 30, 2012. The credit facility is scheduled to terminate on January 1, 2014. During the term of the credit facility, the Company may borrow, repay and reborrow funds, and may obtain letters of credit, subject to customary borrowing conditions. Loans under the credit facility will bear interest based on the alternate base rate or the adjusted LIBOR rate (each as determined in the Revolving Credit Agreement), at the Company's election, plus a margin specified in the Revolving Credit Agreement based on the Company's credit rating. Letters of credit issued under the credit facility will also be subject to fees that vary depending on the Company's credit rating. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

We also have a $40.0 million unsecured letter of credit facility, as amended. The terms of the letter of credit facility are set forth in a Credit Agreement, dated as of September 8, 2010, among the Company, the Lenders party thereto, and Deutsche Bank AG, New York Branch (the Bank), as Administrative Agent and Issuing Bank (the Letter of Credit Agreement). An initial letter of credit for $190.0 million was issued to the West Virginia Public Service Commission to guarantee certain of our capital investment commitments in West Virginia in connection with the Transaction. The initial commitments under the Letter of Credit Agreement expired on September 20, 2011, with the Bank exercising its option to extend $100.0 million of the commitments to September 20, 2012. On September 11, 2012, the Company entered into an amendment to the Letter of Credit Agreement to extend $40 million of the commitments to September 20, 2013. Two letters of credit, one for $20 million expiring March 2013 and the other for $20 million expiring September 2013, were issued on September 13, 2012. The Company is required to pay an annual facility fee on the available commitment, regardless of usage. The covenants binding on the Company under the terms of the amended Letter of Credit Agreement are substantially similar to those in the Company's other credit facilities, including limitations on liens, substantial asset sales and mergers, subject to customary exceptions and thresholds.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2012, we were in compliance with all of our debt and credit facility financial covenants.

Our principal payments for the next five years are as follows as of September 30, 2012:

($ in thousands)	Principal Payments
2012 (remaining three months)	$ 50,470
2013	$ 560,550
2014	$ 257,916
2015	$ 808,442
2016	$ 345,466
2017	$ 1,100,501

(9) Income Taxes:
The following is a reconciliation of the provision for income taxes computed at federal statutory rates to the effective rates:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Consolidated tax provision at federal statutory rate	35.0%	35.0%	35.0%	35.0%
Reversal of tax credits	-	-	-	5.9
State income tax provisions, net of federal income tax benefit	4.5	9.6	3.7	3.8
Tax reserve adjustment	(7.1)	(91.2)	(4.0)	(8.1)
All other, net	0.9	1.4	0.1	0.7
Effective tax rate	33.3%	(45.2%)	34.8%	37.3%

Income taxes for both the third quarter and the nine months ended September 30, 2012 and 2011 include the reversal of uncertain tax positions of $7.8 million and $14.0 million, respectively. Income taxes for the nine months ended September 30, 2011 includes the impact of a $10.5 million charge resulting from the enactment on May 25, 2011 of the Michigan Corporate Income Tax which eliminated certain future tax deductions.

The amount of our uncertain tax positions whose statute of limitations are expected to expire during the next twelve months and which would affect our effective tax rate is $6.3 million as of September 30, 2012.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Net Income Per Common Share:
The reconciliation of the net income per common share calculation is as follows:

($ and shares in thousands, except per share amounts)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Net income used for basic and diluted earnings per common share:				
Net income attributable to common shareholders of Frontier	$ 67,000	$ 20,395	$ 111,757	$ 107,367
Less: Dividends paid on unvested restricted stock awards	(717)	(914)	(2,189)	(2,835)
Total basic and diluted net income attributable to common shareholders of Frontier	$ 66,283	$ 19,481	$ 109,568	$ 104,532
Basic earnings per common share:				
Total weighted average shares and unvested restricted stock awards outstanding - basic	998,488	995,188	997,437	994,642
Less: Weighted average unvested restricted stock awards	(7,193)	(4,929)	(7,137)	(4,917)
Total weighted average shares outstanding - basic	991,295	990,259	990,300	989,725
Net income per share attributable to common shareholders of Frontier	$ 0.07	$ 0.02	$ 0.11	$ 0.11
Diluted earnings per common share:				
Total weighted average shares outstanding - basic	991,295	990,259	990,300	989,725
Effect of dilutive shares	163	535	667	1,478
Effect of dilutive stock units	-	490	-	490
Total weighted average shares outstanding - diluted	991,458	991,284	990,967	991,693
Net income per share attributable to common shareholders of Frontier	$ 0.07	$ 0.02	$ 0.11	$ 0.11

Stock Options

For both the three and nine months ended September 30, 2012 and 2011, options to purchase 540,000 shares (at exercise prices ranging from $8.19 to $14.15) and 930,000 shares (at exercise prices ranging from $8.19 to $14.15), respectively, issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive. In calculating diluted EPS, we apply the treasury stock method and include future unearned compensation as part of the assumed proceeds.

Stock Units

At September 30, 2012 and 2011, we had 788,165 and 490,018 stock units, respectively, issued under our Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan) and the Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan).

(11) Stock Plans:

At September 30, 2012, we had five stock-based compensation plans under which grants were made and awards remained outstanding. No further awards may be granted under three of the plans: the 1996 Equity Incentive Plan, the Amended and Restated 2000 Equity Incentive Plan (the 2000 EIP) and the Deferred Fee Plan. At September 30, 2012, there were 12,540,761 shares authorized for grant and 3,112,457 shares available for grant under the 2009 Equity Incentive Plan (the 2009 EIP) and the Directors' Equity Plan.

Performance Shares

On February 15, 2012, the Company's Compensation Committee, in consultation with the other non-management directors of the Company's Board of Directors and the Committee's independent executive compensation consultant, adopted the new Frontier Long-Term Incentive Plan (the "LTIP"). LTIP awards are granted in the form of performance shares. The LTIP is offered under the Company's 2009 Equity Incentive Plan and participants consist of senior vice presidents and above. The LTIP awards have performance, market and time-vesting conditions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Beginning in 2012, during the first 90 days of a three-year performance period (a "Measurement Period"), a target number of performance shares are awarded to each LTIP participant with respect to the Measurement Period. The performance metrics under the LTIP are (1) annual targets for operating cash flow based on a goal set during the first 90 days of each year in the three-year Measurement Period and (2) an overall performance "modifier" set during the first 90 days of the Measurement Period, based on the Company's total return to stockholders (i.e., Total Shareholder Return or "TSR") relative to the Diversified Telecommunications Services Group (GICS Code 501010) for the three-year Measurement Period. Operating cash flow performance is determined at the end of each year and the annual results will be averaged at the end of the three-year Measurement Period to determine the preliminary number of shares earned under the LTIP award. The TSR performance measure is then applied to decrease or increase payouts based on the Company's three year relative TSR performance. LTIP awards, to the extent earned, will be paid out in the form of common stock shortly following the end of the three-year Measurement Period.

On February 15, 2012, the Compensation Committee granted 930,020 performance shares under the LTIP for the 2012-2014 Measurement Period and set the operating cash flow performance goal for the first year in that Measurement Period and the TSR modifier for the three-year Measurement Period. The number of shares of common stock earned at the end of the three-year Measurement Period may be more or less than the number of target performance shares granted as a result of operating cash flow and TSR performance. An executive must maintain a satisfactory performance rating during the Measurement Period and must be employed by the Company at the end of the three-year Measurement Period in order for the award to vest. The Compensation Committee will determine the number of shares earned for the 2012-2014 Measurement Period in February 2015.

For the nine months ended September 30, 2012, the Company recognized an expense of $0.3 million for the LTIP.

Restricted Stock

The following summary presents information regarding unvested restricted stock as of September 30, 2012 and changes during the nine months then ended with regard to restricted stock under the 2009 EIP:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Fair Value
Balance at January 1, 2012	4,847,000	$ 8.40	$ 24,962,000
Restricted stock granted	3,941,000	$ 4.17	$ 19,390,000
Restricted stock vested	(1,332,000)	$ 8.84	$ 6,554,000
Restricted stock forfeited	(289,000)	$ 6.08	
Balance at September 30, 2012	7,167,000	$ 6.09	$ 35,259,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at September 30, 2012 was $28.9

million and the weighted average period over which this cost is expected to be recognized is approximately two years.

Shares granted during the first nine months of 2011 totaled 1,721,000. The total fair value of shares granted and vested at September 30, 2011 was approximately $10.5 million and $6.9 million, respectively. The total fair value of unvested restricted stock at September 30, 2011 was $29.7 million. The weighted average grant date fair value of restricted shares granted during the nine months ended September 30, 2011 was $9.41.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options

The following summary presents information regarding outstanding stock options as of September 30, 2012 and changes during the nine months then ended with regard to options under the 2000 EIP and the 2009 EIP:

	Shares Subject to Option	Weighted Average Option Price Per Share	Weighted Average Remaining Life in Years	Aggregate Intrinsic Value
Balance at January 1, 2012	895,000	$ 9.94	1.3	$ -
Options granted	-	$ -		
Options exercised	-	$ -		
Options canceled, forfeited or lapsed	(355,000)	$ 8.35		
Balance at September 30, 2012	540,000	$ 11.00	1.1	$ -
Exercisable at September 30, 2012	540,000	$ 11.00	1.1	$ -

There were no options granted during the first nine months of 2011. There were 10,000 options exercised during that period with cash received of $0.1 million. There was no intrinsic value for the stock options outstanding and exercisable at September 30, 2011.

(12) Segment Information:

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

As permitted by U.S. GAAP, we have utilized the aggregation criteria to combine our operating segments because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not materially impact the economic characteristics or operating results of a particular property.

(13) Investment Income (Loss):

The components of investment income (loss) are as follows:

($ in thousands)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011

Interest and dividend income	$ 323	$ 87	$ 3,159	$ 2,971
Investment gain	-	-	9,780	1,071
Equity earnings (loss)	-	(753)	(522)	(1,418)
Total investment income (loss)	$ 323	$ (666)	$ 12,417	$ 2,624

During the second quarter of 2012, we recognized a gain of $9.8 million associated with cash received in connection with our previously written-off investment in Adelphia.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Other Income (Loss), Net:
The components of other income (loss), net are as follows:

($ in thousands)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Gain on expiration/settlement of customer advances	$ 4,335			