FRONTIER COMMUNICATIONS CORP
Form 10-Q
November 04, 2011

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, 2011

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, 2011

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 28, 2011 was 995,127,000.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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Explanatory Note

Effective July 1, 2010, Frontier's scope of operations and balance sheet capitalization changed materially as a result of the completion of the Transaction, as described in Note 3 of the Notes to Consolidated Financial Statements. Historical financial and operating data presented for Frontier is not indicative of the future financial position or operating results for Frontier, and includes the results of operations of the Acquired Business, as defined in Note 3 of the Notes to Consolidated Financial Statements, from the date of acquisition on July 1, 2010. The financial discussion represents an analysis of our results of operations on a historical basis for our Frontier operations as of and for the three and nine months ended September 30, 2011 and 2010, which includes the results of operations of the Acquired Business for the three months ended September 30, 2011 and 2010, and the nine months ended September 30, 2011.

PART I. FINANCIAL INFORMATION

Item 1.Financial Statements

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

($ in thousands)

	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 205,817	$ 251,263
Accounts receivable, less allowances of $60,763 and $73,571, respectively	527,395	568,308
Prepaid expenses	84,404	100,603
Income taxes and other current assets	152,130	208,245
Total current assets	969,746	1,128,419
Restricted cash	161,065	187,489
Property, plant and equipment, net	7,630,515	7,590,614
Goodwill	6,416,473	6,292,194
Other intangibles, net	2,095,220	2,491,195
Other assets	220,748	200,319
Total assets	$ 17,493,767	$ 17,890,230
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 43,763	$ 280,002
Accounts payable	469,219	436,886
Advanced billings	161,944	171,602
Accrued other taxes	71,694	167,857
Accrued interest	212,129	170,228
Other current liabilities	209,393	212,782
Total current liabilities	1,168,142	1,439,357
Deferred income taxes	2,377,518	2,220,677
Pension and other postretirement benefits	780,142	816,588
Other liabilities	240,296	220,251
Long-term debt	8,151,081	7,983,614
Equity:		

Shareholders' equity of Frontier:				
Common stock, $0.25 par value (1,750,000,000 authorized shares, 995,137,000 and 993,855,000 outstanding, respectively, and 1,027,986,000 issued at September 30, 2011 and December 31, 2010)		256,997		256,997
Additional paid-in capital		4,956,343		5,525,471
Retained earnings		184,474		77,107
Accumulated other comprehensive loss, net of tax		(221,225)		(229,549)
Treasury stock		(414,997)		(433,286)
Total shareholders' equity of Frontier		4,761,592		5,196,740
Noncontrolling interest in a partnership		14,996		13,003
Total equity		4,776,588		5,209,743
Total liabilities and equity	$	17,493,767	$	17,890,230

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, 2011 AND 2010
($ in thousands, except for per-share amounts)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Revenue	$1,290,939	$1,402,968	$3,959,891	$2,438,954
Operating expenses:				
Network access expenses	119,941	136,373	397,854	243,055
Other operating expenses	571,388	614,123	1,729,824	996,797
Depreciation and amortization	351,907	339,894	1,062,150	540,917
Acquisition and integration costs	67,412	78,533	100,899	125,867
Total operating expenses	1,110,648	1,168,923	3,290,727	1,906,636
Operating income	180,291	234,045	669,164	532,318
Investment income (loss)	(666)	397	2,624	6,394
Other income, net	1,502	2,207	7,415	13,497
Interest expense	165,755	166,607	500,034	354,362
Income before income taxes	15,372	70,042	179,169	197,847
Income tax expense (benefit)	(6,948)	40,358	66,809	88,752
Net income	22,320	29,684	112,360	109,095
Less: Income attributable to the noncontrolling interest in a partnership	1,925	689	4,993	2,414
Net income attributable to common shareholders of Frontier	$20,395	$28,995	$107,367	$106,681
Basic and diluted net income per common share attributable to common shareholders of Frontier	$0.02	$0.03	$0.11	$0.18

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010, THE THREE MONTHS ENDED DECEMBER 31, 2010 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2011
($ 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, 2010	349,456	$87,364	$956,401	$2,756	$(245,519)	(37,128)	$(473,391)	$11,459	$339,070
Acquisition of the Acquired Business	678,530	169,633	5,048,266	-	-	-	-	-	5,217,899
Stock plans	-	-	(31,927)	-	-	3,025	40,212	-	8,285
Dividends on common stock	-	-	(264,720)	(78,322)	-	-	-	-	(343,042)
Net income	-	-	-	106,681	-	-	-	2,414	109,095
Other comprehensive income, net of tax	-	-	-	-	4,172	-	-	-	4,172
Distributions	-	-	-	-	-	-	-	(1,500)	(1,500)
Balance September 30, 2010	1,027,986	256,997	5,708,020	31,115	(241,347)	(34,103)	(433,179)	12,373	5,333,979
Stock plans	-	-	3,798	-	-	(28)	(107)	-	3,691
Dividends on common stock	-	-	(186,347)	-	-	-	-	-	(186,347)
Net income	-	-	-	45,992	-	-	-	630	46,622
Other comprehensive income, net of tax	-	-	-	-	11,798	-	-	-	11,798
Balance December 31, 2010	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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
($ in thousands)
(Unaudited)

	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Net income	$ 22,320	$ 29,684	$ 112,360	$ 109,095
Other comprehensive income (loss), net of tax	3,334	(3,782)	8,324	4,172
Comprehensive income	25,654	25,902	120,684	113,267
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	(1,925)	(689)	(4,993)	(2,414)
Comprehensive income attributable to the common shareholders of Frontier	$ 23,729	$ 25,213	$ 115,691	$ 110,853

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, 2011 AND 2010
($ in thousands)
(Unaudited)

	2011	2010
Cash flows provided by (used in) operating activities:		
Net income	$112,360	$109,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,062,150	540,917
Stock based compensation expense	10,729	9,930
Pension/OPEB costs	22,515	24,224
Other non-cash adjustments	(3,320)	5,866
Deferred income taxes	20,219	10,092
Change in accounts receivable	16,162	(13,356)
Change in accounts payable and other liabilities	(36,458)	166,398
Change in prepaid expenses, income taxes and other current assets	68,297	33,004
Net cash provided by operating activities	1,272,654	886,170
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(636,569)	(252,360)
Capital expenditures - Integration activities	(62,641)	(77,936)
Cash paid for the Acquired Business (net of cash acquired)	-	(82,560)
Cash transferred to escrow	-	(115,000)
Other assets purchased and distributions received, net	22,236	(1,728)
Net cash used by investing activities	(676,974)	(529,584)
Cash flows provided from (used by) financing activities:		
Long-term debt payments	(78,990)	(6,286)
Dividends paid	(559,803)	(343,042)
Financing costs paid	-	(12,431)
Repayment of customer advances for construction, distributions to noncontrolling interests and other	(2,333)	(2,455)
Net cash used by financing activities	(641,126)	(364,214)
Decrease in cash and cash equivalents	(45,446)	(7,628)
Cash and cash equivalents at January 1,	251,263	358,693
Cash and cash equivalents at September 30,	$205,817	$351,065
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$447,645	$299,158
Income taxes (refunds)	$(16,247)	$4,042

Non-cash investing and financing activities:		
Financing obligation for contribution of real property to pension plan	$58,100	$-
Reduction of pension obligation	$(58,100)	$-
Shares issued for acquisitions	$-	$5,217,899
Assumed debt	$-	$3,456,782
Other acquired liabilities	$-	$1,058,956

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. On July 1, 2010, Frontier completed the Transaction for the acquisition of the Acquired Business, as described further in Note 3 – The Transaction. 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, 2010. 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 periods ended September 30, 2011, 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) which we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses at $24.5 million and $26.9 million, and

$78.7 million and $48.7 million, for the three and nine months ended September 30, 2011 and 2010, 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. Effective with the third quarter of 2011, the Company reorganized into six operating segments in order to leverage the full benefits of its local engagement model. The six operating segments consist of the following regions: National, Northeast, Southeast, Central, Midwest and West. Our operating segments are aggregated into one reportable segment. In conjunction with the reorganization of our operating segments effective with the third quarter of 2011, we reassigned goodwill to our reporting units using a relative fair value allocation approach.

The Company amortizes intangible assets with estimated useful lives over those lives and reviews such intangible assets to assess any impairment 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 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 is to be applied prospectively, and is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of ASU 2011-04 to have a material 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 is to be applied retrospectively, and is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of ASU 2011-05 to have a material impact on our financial position, results of operations or cash flows.

Testing Goodwill for Impairment
On September 15, 2011, the FASB ratified ASU No. 2011-08 (ASU 2011-08). “Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.” ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. The Company plans to perform its annual impairment test during the fourth quarter ending December 31, 2011. While ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, early adoption is permitted. The Company is currently evaluating the impact of ASU 2011-08 on its future goodwill impairment tests and early adoption is under consideration.

(3) The Transaction:
On July 1, 2010, Frontier 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 is considered the accounting acquirer of the Acquired Business.

We are accounting 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 $67.4 million and $100.9 million of integration related costs in connection with the Transaction during the three and nine months ended September 30, 2011, respectively, and $78.5 million and $125.9 million of acquisition and integration related costs during the three and nine months ended September 30, 2010, respectively. Such costs are required to be expensed as incurred and are reflected in "Acquisition and integration costs" in our consolidated statements of operations.

The allocation of the purchase price of the Acquired Business is based on the fair value of assets acquired and liabilities assumed as of July 1, 2010, the effective date of the Transaction. Our assessment of fair value was final as of June 30, 2011, and was adjusted during the first half of 2011 for information that was previously not available to us, primarily related to: deferred income tax assets and liabilities and other accrued liabilities.

The final allocation of the purchase price presented below represents the effect of recording the final fair value of assets acquired, liabilities assumed and related deferred income taxes as of the date of the Transaction, based on the total transaction consideration of $5.4 billion. The following allocation of purchase price includes revisions to the preliminary allocation that was reported as of December 31, 2010, primarily for goodwill, deferred taxes and current liabilities.

($ in thousands)		
Total transaction consideration:		$5,411,705
Current assets	$454,513	
Property, plant & equipment	4,407,676	
Goodwill	3,774,151	
Other intangibles – primarily customer list	2,532,200	
Other noncurrent assets	75,092	
Current liabilities	(483,118)	
Deferred income taxes	(1,430,122)	
Long-term debt	(3,456,782)	
Other noncurrent liabilities	(461,905)	
Total net assets acquired	$5,411,705	

The fair value of the total consideration issued to acquire the Acquired Business amounted to $5.4 billion and included $5.2 billion for the issuance of Frontier common shares and cash payments of $105.0 million. As a result of the Transaction, Verizon stockholders received 678,530,386 shares of Frontier common stock. Immediately after the closing of the Transaction, Verizon stockholders owned approximately 68.4% of the combined company's outstanding equity, and existing Frontier stockholders owned approximately 31.6% of the combined company's outstanding equity.

The following unaudited pro forma financial information presents the combined results of operations of Frontier and the Acquired Business as if the Transaction had occurred as of January 1, 2010. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the Transaction been completed as of January 1, 2010. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of Frontier. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from the Transaction.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED PRO FORMA CONDENSED COMBINED
STATEMENTS OF OPERATIONS INFORMATION

($ in millions, except per share amounts)	For the nine months ended September 30, 2010	
Revenue	$	4,293
Operating income		941
Net income attributable to common shareholders of Frontier		273
Basic and diluted net income per common share attributable to common shareholders of Frontier	$	0.28

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

($ in thousands)	September 30, 2011		December 31, 2010	
End user	$	559,411	$	627,573
Other		28,747		14,306
Less: Allowance for doubtful accounts		(60,763)		(73,571)
Accounts receivable, net	$	527,395	$	568,308

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 $19.3 million and $20.3 million for the three months ended September 30, 2011 and 2010, respectively, and $65.7 million and $31.6 million for the nine months ended September 30, 2011 and 2010, respectively.

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

($ in thousands)	September 30, 2011		December 31, 2010	
Property, plant and equipment	$	13,364,227	$	12,795,280
Less: Accumulated depreciation		(5,733,712)		(5,204,666)
Property, plant and equipment, net	$	7,630,515	$	7,590,614

Depreciation expense is principally based on the composite group method. Depreciation expense was $226.7 million and $211.2 million for the three months ended September 30, 2011 and 2010, respectively, and $671.2 million and $384.1 million for the nine months ended September 30, 2011 and 2010, respectively. As a result of an independent study of the estimated remaining useful lives of our Frontier legacy plant assets, we adopted new lives for certain plant assets as of October 1, 2010. In addition, we commissioned an independent study to determine the estimated remaining useful lives of plant assets for our Acquired Business. These new lives were adopted effective July 1, 2010.

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

($ in thousands)	September 30, 2011	December 31, 2010
Goodwill:	$ 6,416,473	$ 6,292,194
Other Intangibles:		
Customer base	$ 2,697,509	$ 2,702,409
Software licenses	104,923	105,019
Trade name and license	135,285	135,285
Other intangibles	2,937,717	2,942,713
Less: Accumulated amortization	(842,497)	(451,518)
Total other intangibles, net	$ 2,095,220	$ 2,491,195

Amortization expense was $125.2 million and $128.7 million for the three months ended September 30, 2011 and 2010, respectively, and $391.0 million and $156.8 million for the nine months ended September 30, 2011 and 2010, respectively. Amortization expense for the three and nine months ended September 30, 2011 included $111.1 million and $348.8 million for intangible assets (primarily customer base) that were acquired in the Transaction based on an estimated fair value of $2.5 billion and an estimated useful life of nine years for the residential customer list and 12 years for the business customer list, amortized on an accelerated method. Amortization expense for the three and nine months ended September 30, 2011 and 2010, respectively, included $14.1 million and $42.2 million in each period for intangible assets (customer base and trade name) that were acquired in the acquisitions of Commonwealth Telephone Enterprises, Inc., Global Valley Networks, Inc. and GVN Services. Amortization expense, based on our current estimate of useful lives, is estimated to be approximately $515 million in 2011 and approximately $425 million in 2012.

(7) Fair Value of Financial Instruments:
The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at September 30, 2011 and December 31, 2010. 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 on quoted market prices at the reporting date for those financial instruments.

($ in thousands)	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 8,151,081	$ 8,023,443	$ 7,983,614	$ 8,376,515

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, 2010 to September 30, 2011 is summarized as follows:

($ in thousands)	December 31, 2010	Nine months ended September 30, 2011: Payments	Nine months ended September 30, 2011: New Borrowings	September 30, 2011	Interest Rate* at September 30, 2011
Rural Utilities Service Loan Contracts	$ 11,214	$ (763)	$ -	$ 10,451	6.15 %
Senior Unsecured Debt	8,302,151	(78,227)	-	8,223,924	8.00 %
Industrial Development Revenue Bonds	13,550	-	-	13,550	6.33 %
TOTAL LONG-TERM DEBT	$ 8,326,915	$ (78,990)	$ -	$ 8,247,925	8.00 %
Less: Debt Discount	(63,299)			(53,081)	
Less: Current Portion	(280,002)			(43,763)	
	$ 7,983,614			$ 8,151,081	

* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates at September 30, 2011 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:

	September 30, 2011		December 31, 2010	
($ in thousands)	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes:				
Due 5/15/2011	$ -	-	$ 76,089	9.250%
Due 10/24/2011 *	200,000	6.270%	200,000	6.270%
Due 12/31/2012 *	142,875	1.625% (Variable)	144,000	1.688% (Variable)
Due 1/15/2013	580,724	6.250%	580,724	6.250%
Due 12/31/2013 *	130,275	2.000% (Variable)	131,288	2.063% (Variable)
Due 5/1/2014	600,000	8.250%	600,000	8.250%
Due 3/15/2015	300,000	6.625%	300,000	6.625%
Due 4/15/2015	500,000	7.875%	500,000	7.875%
Due 4/15/2017	1,100,000	8.250%	1,100,000	8.250%
Due 10/1/2018	600,000	8.125%	600,000	8.125%
Due 3/15/2019	434,000	7.125%	434,000	7.125%
Due 4/15/2020	1,100,000	8.500%	1,100,000	8.500%
Due 4/15/2022	500,000	8.750%	500,000	8.750%
Due 1/15/2027	345,858	7.875%	345,858	7.875%
Due 2/15/2028	200,000	6.730%	200,000	6.730%
Due 10/15/2029	50,000	8.400%	50,000	8.400%
Due 8/15/2031	945,325	9.000%	945,325	9.000%
	7,729,057		7,807,284	
Debentures:				
Due 11/1/2025	138,000	7.000%	138,000	7.000%
Due 8/15/2026	1,739	6.800%	1,739	6.800%
Due 10/1/2034	628	7.680%	628	7.680%
Due 7/1/2035	125,000	7.450%	125,000	7.450%
Due 10/1/2046	193,500	7.050%	193,500	7.050%
	458,867		458,867	
Subsidiary Senior Notes due 12/1/2012	36,000	8.050%	36,000	8.050%
Total	$ 8,223,924	8.00%	$ 8,302,151	8.04%

* These debt facilities were repaid in October 2011 as part of a fourth quarter debt refinancing, as discussed below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We have a $750.0 million revolving credit facility (the Credit Facility). As of September 30, 2011, we had not made any borrowings utilizing this facility. The terms of the Credit Facility are set forth in the Credit Agreement, dated as of March 23, 2010, among the Company, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (the Credit Agreement). Associated facility fees under the Credit Facility will vary from time to time depending on the Company’s credit rating (as defined in the Credit Agreement) and were 0.625% per annum as of September 30, 2011. 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 Credit Agreement), at the Company’s election, plus a margin specified in the 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 will be available for general corporate purposes but may not be used to fund dividend payments.

We also have a $100.0 million unsecured letter of credit facility. 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. 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 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.

As of September 30, 2011, we were in compliance with all of our debt and credit facility financial covenants.

On October 14, 2011, the Company entered into 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 million senior unsecured term loan facility with a final maturity of October 14, 2016. Repayment of the outstanding principal balance will be made in quarterly installments in the amount of $14,375,000, commencing 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 initial pricing on this facility is LIBOR plus 2.875%, which will vary depending on the leverage ratio, as described above. The maximum permitted leverage ratio is 4.5 times.

The entire facility was drawn on the closing date of the Credit Agreement. Proceeds were used to repay in full the remaining outstanding principal on three debt facilities (Frontier’s $200 million Rural Telephone Financing Cooperative term loan maturing October 24, 2011, its $143 million CoBank term loan maturing December 31, 2012, and its $130 million CoBank term loan maturing December 31, 2013) and the remaining proceeds will be used for general corporate purposes.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants, including a restriction on the Company's ability to declare dividends if an event of default has occurred or will result therefrom, a financial covenant that requires compliance with a leverage ratio, and customary events of default. Upon proper notice, the Company may, in whole or in part, repay the facility without premium or penalty, but subject to breakage fees on LIBOR loans, if applicable. Amounts pre-paid may not be re-borrowed.

PART I. FINANCIAL INFORMATION (Continued)
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our principal payments for the next five years reflect the Credit Agreement entered into on October 14, 2011 and the related debt repayments referred to above, and are as follows as of September 30, 2011:

	($ in thousands) Principal Payments
2011 (remaining three months)	$ 253
2012	$ 94,016
2013	$ 638,767
2014	$ 658,017
2015	$ 858,049
2016	$ 345,466

(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,	
	2011	2010	2011	2010
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	9.6	7.1	3.8	3.3
Non-deductuctible Transaction costs	-	17.4	-	6.1
Tax reserve adjustment	(91.2)	-	(8.1)	-
All other, net	1.4	(1.9)	0.7	0.5
Effective tax rate	(45.2%)	57.6%	37.3%	44.9%

Income taxes for the third quarter of 2011 and the nine months ended September 30, 2011 include the reversal of uncertain tax positions of $14.0 million. 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.

In the third quarter of 2010, Frontier reduced certain deferred tax assets of approximately $12.0 million related to Transaction costs which were not tax deductible. Prior to the closing of the Transaction, these costs were deemed to be tax deductible as the Transaction had not yet been successfully completed. These costs were incurred to facilitate the Transaction and as such must be capitalized for tax purposes. Income taxes for the nine months ended September 30, 2010 also includes the impact of a $4.1 million charge resulting from health care reform legislation associated with the passage of the Patient Protection and Affordable Care Act and of the Health Care and Education Reconciliation Act of 2010 (the Acts). The health care reform legislation enacted in March 2010 under the Acts eliminated the tax deduction for the subsidy that the Company receives under Medicare Part D for prescription drug costs.

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 $9.1 million as of September 30, 2011.

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, 2011	2010	For the nine months ended September 30, 2011	2010
Net income used for basic and diluted earnings per common share:				
Net income attributable to common shareholders of Frontier	$ 20,395	$ 28,995	$ 107,367	$ 106,681
Less: Dividends paid on unvested restricted stock awards	(914)	(865)	(2,835)	(2,240)
Total basic and diluted net income attributable to common shareholders of Frontier	$ 19,481	$ 28,130	$ 104,532	$ 104,441
Basic earnings per common share:				
Total weighted average shares and unvested restricted stock awards outstanding - basic	995,188	993,056	994,642	585,049
Less: Weighted average unvested restricted stock awards	(4,929)	(4,111)	(4,917)	(3,180)
Total weighted average shares outstanding - basic	990,259	988,945	989,725	581,869
Net income per share attributable to common shareholders of Frontier	$ 0.02	$ 0.03	$ 0.11	$ 0.18
Diluted earnings per common share:				
Total weighted average shares outstanding - basic	990,259	988,945	989,725	581,869
Effect of dilutive shares	535	855	1,478	250
Effect of dilutive stock units	490	-	490	-
Total weighted average shares outstanding - diluted	991,284	989,800	991,693	582,119
Net income per share attributable to common shareholders of Frontier	$ 0.02	$ 0.03	$ 0.11	$ 0.18

Stock Options
For the three and nine months ended September 30, 2011 and 2010, options to purchase 930,000 shares (at exercise prices ranging from $8.19 to $14.15) and 3,429,000 shares (at exercise prices ranging from $8.19 to $18.46),

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.

In addition, for the three and nine months ended September 30, 2011 and 2010, we have deducted the impact of dividends paid on unvested restricted stock awards from net income attributable to common shareholders of Frontier.

Stock Units

At September 30, 2011 and 2010, we had 490,018 and 388,722 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). These securities have not been included in the diluted income per share of common stock calculation for the three and nine months ended September 30, 2010, because their inclusion would have an antidilutive effect.

(11) Stock Plans:
At September 30, 2011, 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 (collectively, together with the 2009 Equity Incentive Plan, the EIP) and the Deferred Fee Plan. At September 30, 2011, there were 12,540,761 shares authorized for grant under these plans and 7,090,425 shares available for grant under two of the plans.

The following summary presents information regarding outstanding stock options as of September 30, 2011 and changes during the nine months then ended with regard to options under the EIP:

	Shares Subject to Option		Weighted Average Option Price Per Share	Weighted Average Remaining Life in Years		Aggregate Intrinsic Value
Balance at January 1, 2011	1,507,000	$	10.50	1.7	$	603,000
Options granted	-	$	-			
Options exercised	(10,000)	$	8.19		$	12,000
Options canceled, forfeited or lapsed	(567,000)	$	11.52			
Balance at September 30, 2011	930,000	$	9.92	1.5	$	-
Exercisable at September 30, 2011	930,000	$	9.92	1.5	$	-

There were no options granted or exercised during the first nine months of 2010. There was no intrinsic value to the stock options outstanding and exercisable at September 30, 2010.

The following summary presents information regarding unvested restricted stock as of September 30, 2011 and changes during the nine months then ended with regard to restricted stock under the EIP:

	Number of Shares		Weighted Average Grant Date Fair Value	Aggregate Fair Value
Balance at January 1, 2011	4,440,000	$	8.29	$ 43,199,000
Restricted stock granted	1,721,000	$	9.41	$ 10,513,000
Restricted stock vested	(1,135,000)	$	9.54	$ 6,933,000
Restricted stock forfeited	(163,000)	$	8.03	
Balance at September 30, 2011	4,863,000	$	8.41	$ 29,711,000

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, 2011 was $29.6 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 2010 totaled 3,244,000. The total fair value of shares granted and vested during the nine months ended September 30, 2010 was approximately $26.5 million and $7.1 million, respectively. The total fair value of unvested restricted stock at September 30, 2010 was $36.6 million. The weighted average grant date fair value of restricted shares granted during the nine months ended September 30, 2010 was $7.53.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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(12) Segment Information:
We operate in one reportable segment, Frontier. 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. In conjunction with the reorganization of our operating segments effective with the third quarter of 2011, we reassigned goodwill to our reporting units using a relative fair value allocation approach.

(13) Investment Income (Loss):
The components of investment income (loss) are as follows:

($ in thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Interest and dividend income	$ 87	$ 289	$ 2,971	$ 2,822
Investment gain	-	-	1,071	2,905
Equity earnings (losses)	(753)	108	(1,418)	667
Total investment income (loss)	$ (666)	$ 397	$ 2,624	$ 6,394

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

($ in thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Gain on expiration/settlement of customer advances	$ 1,268	$ 1,175	$ 7,605	$ 6,023
Split-dollar life insurance policy settlement	-	75	-	4,454
Litigation settlement proceeds	236	1,035		