FRONTIER COMMUNICATIONS CORP
Form 10-Q
May 09, 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 MARCH 31, 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 March 31, 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 May 2, 2012 was 998,448,000.

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) March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 365,814	$ 326,094
Accounts receivable, less allowances of $104,125 and $107,048, respectively	525,252	585,157
Prepaid expenses	61,949	63,422
Income taxes and other current assets	264,161	264,357
Total current assets	1,217,176	1,239,030
Restricted cash	139,255	144,680
Property, plant and equipment, net	7,501,149	7,547,523
Goodwill	6,337,719	6,337,719
Other intangibles, net	1,817,901	1,964,505
Other assets	205,050	196,311
Total assets	$ 17,218,250	$ 17,429,768
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 674,746	$ 94,016
Accounts payable	327,584	519,548
Advanced billings	150,174	152,784
Accrued other taxes	72,907	64,392
Accrued interest	212,107	169,340
Other current liabilities	138,699	152,136
Total current liabilities	1,576,217	1,152,216
Deferred income taxes	2,478,924	2,458,018
Pension and other postretirement benefits	929,210	918,701
Other liabilities	219,527	225,858
Long-term debt	7,614,392	8,205,841
Equity:		
Shareholders' equity of Frontier:		
Common stock, $0.25 par value (1,750,000,000 authorized shares, 998,512,000 and 995,128,000 outstanding, respectively, and 1,027,986,000 issued, at March 31, 2012 and December 31, 2011)	256,997	256,997
Additional paid-in capital	4,729,338	4,773,383
Retained earnings	153,638	226,721

Accumulated other comprehensive loss, net of tax		(382,696)		(386,963)
Treasury stock		(370,016)		(415,001)
Total shareholders' equity of Frontier		4,387,261		4,455,137
Noncontrolling interest in a partnership		12,719		13,997
Total equity		4,399,980		4,469,134
Total liabilities and equity	$	17,218,250	$	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 MONTHS ENDED MARCH 31, 2012 AND 2011
($ in thousands, except for per-share amounts)
(Unaudited)

	2012	2011
Revenue	$1,268,054	$1,346,697
Operating expenses:		
Network access expenses	115,569	151,284
Other operating expenses	551,583	580,340
Depreciation and amortization	357,300	351,257
Integration costs	35,144	13,223
Total operating expenses	1,059,596	1,096,104
Operating income	208,458	250,593
Investment income	2,103	3,115
Other income, net	3,485	6,470
Interest expense	164,862	167,415
Income before income taxes	49,184	92,763
Income tax expense	18,694	36,567
Net income	30,490	56,196
Less: Income attributable to the noncontrolling interest in a partnership	3,722	1,485
Net income attributable to common shareholders of Frontier	$26,768	$54,711
Basic and diluted net income per common share attributable to common shareholders of Frontier	$0.03	$0.05

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
($ in thousands)
(Unaudited)

	2012	2011
Net income	$30,490	$56,196
Other comprehensive income, net of tax (see Note 15)	4,267	1,655
Comprehensive income	34,757	57,851
Less: Comprehensive income		

attributable to the noncontrolling interest in a partnership	(3,722)	(1,485)
Comprehensive income attributable to the common shareholders of Frontier	$31,035	$56,366

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 THREE MONTHS ENDED MARCH 31, 2011, THE NINE MONTHS ENDED DECEMBER 31, 2011
AND THE THREE MONTHS ENDED MARCH 31, 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	-	-	(17,070)	-	-	1,370	18,591	-	1,521
Dividends on common stock	-	-	(186,605)	-	-	-	-	-	(186,605)
Net income	-	-	-	54,711	-	-	-	1,485	56,196
Other comprehensive income, net of tax	-	-	-	-	1,655	-	-	-	1,655
Distributions	-	-	-	-	-	-	-	(1,500)	(1,500)
Balance March 31, 2011	1,027,986	256,997	5,321,796	131,818	(227,894)	(32,761)	(414,695)	12,988	5,081,010
Stock plans	-	-	11,369	-	-	(97)	(306)	-	11,063
Dividends on common stock	-	-	(559,782)	-	-	-	-	-	(559,782)
Net income	-	-	-	94,903	-	-	-	6,509	101,412
Other comprehensive income, net of tax	-	-	-	-	(159,069)	-	-	-	(159,069)
Distributions	-	-	-	-	-	-	-	(5,500)	(5,500)
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	-	-	(44,045)	-	-	3,384	44,985	-	940
Dividends on common stock	-	-	-	(99,851)	-	-	-	-	(99,851)
Net income	-	-	-	26,768	-	-	-	3,722	30,490
Other comprehensive income, net									

of tax	-	-	-	-	4,267	-	-	-	4,267
Distributions	-	-	-	-	-	-	-	(5,000)	(5,000)
Balance March 31, 2012	1,027,986	$256,997	$4,729,338	$153,638	$(382,696)	(29,474)	$(370,016)	$12,719	$4,399,980

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 CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
($ in thousands)
(Unaudited)

	2012	2011
Cash flows provided by (used in) operating activities:		
Net income	$30,490	$56,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	357,300	351,257
Stock based compensation expense	3,718	3,584
Pension/OPEB costs	12,403	11,279
Other non-cash adjustments	1,537	(2,999)
Deferred income taxes	15,764	27,744
Change in accounts receivable	59,905	30,996
Change in accounts payable and other liabilities	(102,042)	29,469
Change in prepaid expenses, income taxes and other current assets	3,438	6,588
Net cash provided by operating activities	382,513	514,114
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(208,522)	(203,534)
Capital expenditures - Integration activities	(15,731)	(5,578)
Cash transferred from escrow	5,425	3,349
Other assets purchased and distributions received, net	(5,918)	(6,556)
Net cash used by investing activities	(224,746)	(212,319)
Cash flows provided from (used by) financing activities:		
Long-term debt payments	(14,502)	(969)
Dividends paid	(99,851)	(186,605)
Repayment of customer advances for construction, distributions to noncontrolling interests and other	(3,694)	(6,102)
Net cash used by financing activities	(118,047)	(193,676)
Increase in cash and cash equivalents	39,720	108,119
Cash and cash equivalents at January 1,	326,094	251,263
Cash and cash equivalents at March 31,	$365,814	$359,382
Supplemental cash flow information:		
Cash paid (received) during the period for:		
Interest	$118,524	$119,067

Income taxes (refunds)	$(369)	$8,946

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

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 March 31, 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 $29.7 million and $28.1 million, for the three months ended March 31, 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.

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 is to be applied prospectively, and is 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 is to be applied retrospectively, and is 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.

(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.

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 $35.1 million and $13.2 million of integration related costs in connection with the Transaction during the three months ended March 31, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

($ in thousands)	March 31, 2012	December 31, 2011
Retail and Wholesale	$ 575,474	$ 639,842
Other	53,903	52,363
Less: Allowance for doubtful accounts	(104,125)	(107,048)
Accounts receivable, net	$ 525,252	$ 585,157

Retail and wholesale accounts receivable and the allowance for doubtful accounts are presented net of a fair value adjustment of $9.8 million at December 31, 2011. As of March 31, 2012, no further fair value adjustment is required. 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 $16.6 million and $28.3 million for the three months ended March 31, 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 is as follows:

($ in thousands)	March 31, 2012	December 31, 2011
Property, plant and equipment	$ 13,779,230	$ 13,638,136
Less: Accumulated depreciation	(6,278,081)	(6,090,613)
Property, plant and equipment, net	$ 7,501,149	$ 7,547,523

Depreciation expense is principally based on the composite group method. Depreciation expense was $210.3 million and $219.1 million for the three months ended March 31, 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.

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 are as follows:

($ in thousands)	March 31, 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	(1,120,166)	(973,212)
Total other intangibles, net	$ 1,817,901	$ 1,964,505

Amortization expense was $147.0 million and $132.2 million for the three months ended March 31, 2012 and 2011, respectively. Amortization expense for the three months ended March 31, 2012 and 2011 included $136.5 million and $118.1 million, respectively, for 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 $10.5 million and $14.1 million for the three months ended March 31, 2012 and 2011, respectively, 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.

(7) Fair Value of Financial Instruments:
The following table summarizes the carrying amounts and estimated fair values for long-term debt at March 31, 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.

($ in thousands)	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$ 7,614,392	$ 7,720,171	$ 8,205,841	$ 7,958,873

Long-term
debt

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(8)Long-Term Debt:

The activity in our long-term debt from December 31, 2011 to March 31, 2012 is summarized as follows:

($ in thousands)	December 31, 2011	Three months ended March 31, 2012 Payments	New Borrowings	March 31, 2012	Interest Rate* at March 31, 2012
Rural Utilities Service Loan Contracts	$ 10,197	$ (127)	$ -	$ 10,070	6.15%
Senior Unsecured Debt	8,325,774	(14,375)	-	8,311,399	7.92%
Industrial Development Revenue Bonds	13,550	-	-	13,550	6.33%
TOTAL LONG-TERM DEBT	$ 8,349,521	$ (14,502)	$ -	$ 8,335,019	7.92%
Less: Debt Discount	(49,664)			(45,881)	
Less: Current Portion	(94,016)			(674,746)	
	$ 8,205,841			$ 7,614,392	

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at March 31, 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:

	March 31, 2012		December 31, 2011	
($ in thousands)	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes:				
Due 1/15/2013	$ 580,724	6.250%	$ 580,724	6.250%
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 10/14/2016 *	560,625	3.125% (Variable)	575,000	3.175% (Variable)
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%
	7,816,532		7,830,907	
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	$ 8,311,399	7.92%	$ 8,325,774	7.93%

* Represents borrowings under the Credit Agreement with CoBank, as discussed below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 initial pricing on this facility is LIBOR plus 2.875% through September 30, 2012. The maximum permitted leverage ratio is 4.5 times.

We have a $750.0 million revolving credit facility. As of March 31, 2012, we had not made any borrowings utilizing this facility. The terms of the credit facility are set forth in 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 (the Revolving 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 Revolving Credit Agreement) and were 0.625% per annum as of March 31, 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 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 March 31, 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 March 31, 2012:

($ in thousands)	Principal Payments
2012 (remaining nine months)	$ 79,514

2013	$	638,767
2014	$	658,017
2015	$	858,049
2016	$	345,466
2017	$	1,100,501

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 March 31, 2012	2011
Consolidated tax provision at federal statutory rate	35.0%	35.0%
State income tax provisions, net of federal income tax benefit	3.6	3.8
All other, net	(0.6)	0.6
Effective tax rate	38.0%	39.4%

Income taxes for the three months ended March 31, 2011 includes the impact of a $1.1 million charge resulting from increases in certain state income tax rates.

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 $8.4 million as of March 31, 2012.

(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 March 31, 2012	2011
Net income used for basic and diluted earnings per common share:		
Net income attributable to common shareholders of Frontier	$ 26,768	$ 54,711
Less: Dividends paid on unvested restricted stock awards	(737)	(966)
Total basic and diluted net income attributable to common shareholders of Frontier	$ 26,031	$ 53,745
Basic earnings per common share:		
Total weighted average shares and unvested restricted stock awards outstanding - basic	995,897	994,547
Less: Weighted average unvested restricted stock awards	(7,024)	(4,798)
Total weighted average shares outstanding - basic	988,873	989,749
Net income per share attributable to common shareholders of Frontier	$ 0.03	$ 0.05
Diluted earnings per common share:		

Total weighted average shares outstanding - basic		988,873		989,749
Effect of dilutive shares		12		1,213
Effect of dilutive stock units		623		474
Total weighted average shares outstanding - diluted		989,508		991,436
Net income per share attributable to common shareholders of Frontier	$	0.03	$	0.05

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Stock Options

For the three months ended March 31, 2012 and 2011, options to purchase 895,000 shares (at exercise prices ranging from $8.19 to $14.15) and 1,115,000 shares (at exercise prices ranging from $10.44 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.

In addition, for the three months ended March 31, 2012 and 2011, 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 March 31, 2012 and 2011, we had 623,121 and 473,940 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 March 31, 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 (collectively, together with the 2009 Equity Incentive Plan, the EIP) and the Deferred Fee Plan. At March 31, 2012, there were 12,540,761 shares authorized for grant under these plans and 3,274,997 shares available for grant under two of the plans.

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 will be 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.

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. LTIP awards will be paid out in the form of common stock shortly following the end of the three-year Measurement Period. Operating cash flow performance will be 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.

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. Actual amounts earned will be subject to increase or decrease (including forfeiture of the entire award). 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.

Restricted Stock

The following summary presents information regarding unvested restricted stock as of March 31, 2012 and changes during the three 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, 2012	4,847,000	$	8.40	$ 24,962,000
Restricted stock granted	3,667,000	$	4.22	$ 15,291,000
Restricted stock vested	(1,131,000)	$	9.04	$ 4,716,000
Restricted stock forfeited	(13,000)	$	7.64	
Balance at March 31, 2012	7,370,000	$	6.23	$ 30,732,000

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 March 31, 2012 was $37.3 million and the weighted average period over which this cost is expected to be recognized is approximately two years.

Shares granted during the first three months of 2011 totaled 1,679,000. The total fair value of shares granted and vested during the three months ended March 31, 2011 was approximately $13.8 million and $7.5 million, respectively. The total fair value of unvested restricted stock at March 31, 2011 was $42.4 million. The weighted average grant date fair value of restricted shares granted during the three months ended March 31, 2011 was $9.40.

Stock Options

The following summary presents information regarding outstanding stock options as of March 31, 2012 and changes during the three 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, 2012	895,000	$	9.94	1.3	$	-
Options granted	-	$	-	-		
Options exercised	-	$	-	-	$	-
Options canceled, forfeited or lapsed	-	$	-	-		
Balance at March 31, 2012	895,000	$	9.94	1.1	$	-
Exercisable at March 31, 2012	895,000	$	9.94	1.1	$	-

There were no options granted during the first three months of 2011. Cash received upon the exercise of options during the first three months of 2011 was $0.1 million. The intrinsic value of the stock options outstanding and exercisable at March 31, 2011 was $11,000.

(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:
The components of investment income are as follows:

($ in thousands)	For the three months ended March 31, 2012	2011
Interest and dividend income	$ 2,623	$ 2,731
Investment gain	-	552
Equity earnings (loss)	(520)	(168)
Total investment income	$ 2,103	$ 3,115

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

($ in thousands)	For the three months ended March 31, 2012	2011
Gain on expiration/settlement of customer advances	$ 3,463	$ 6,337
All other, net	22	133
Total other income, net	$ 3,485	$ 6,470

(15) Comprehensive Income:
Comprehensive income consists of net income and other gains and losses affecting shareholders' investment and pension/OPEB liabilities that, under U.S. GAAP, are excluded from net income.

The components of accumulated other comprehensive loss, net of tax are as follows:

($ in thousands)	March 31, 2012	December 31, 2011
Pension costs	$ 567,427	$ 575,163
Postretirement costs	42,403	41,811
Deferred taxes on pension and OPEB costs	(227,283)	(230,161)
All other	149	150
	$ 382,696	$ 386,963