

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

FRONTIER COMMUNICATIONS CORP  
Form 10-Q  
August 04, 2009

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 JUNE 30, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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

06-0619596

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

3 High Ridge Park  
Stamford, Connecticut

06905

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(203) 614-5600

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

-----  
(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 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  Accelerated filer  Non-accelerated filer  Smaller reporting

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 July 24, 2009 was 312,360,048.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Index

Part I. Financial Information (Unaudited)

Item 1. Financial Statements

Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Consolidated Statements of Operations for the three months ended June 30, 2009 and 2008

Consolidated Statements of Operations for the six months ended June 30, 2009 and 2008

Consolidated Statements of Equity for the six months ended June 30, 2008,  
December 31, 2008 and June 30, 2009

Consolidated Statements of Comprehensive Income for the three and six months  
ended June 30, 2009 and 2008

Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

Signature

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(Unaudited)  
June 30, 2009  
-----

ASSETS

-----

Current assets:

Cash and cash equivalents	\$	454,
Accounts receivable, less allowances of \$26,456 and \$40,125, respectively		216,
Prepaid expenses and other current assets		88,

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Total current assets	759,
Property, plant and equipment, net	3,165,
Goodwill, net	2,642,
Other intangibles, net	275,
Other assets	175,
	-----
Total assets	\$ 7,018,
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
-----	
Current liabilities:	
Long-term debt due within one year	\$ 7,
Accounts payable and other current liabilities	351,
	-----
Total current liabilities	358,
Deferred income taxes	684,
Other liabilities	581,
Long-term debt	4,944,
Equity:	
Shareholders' equity of Frontier:	
Common stock, \$0.25 par value (600,000,000 authorized shares; 312,363,000 and 311,314,000 outstanding, respectively, and 349,456,000 issued at June 30, 2009 and December 31, 2008)	87,
Additional paid-in capital	1,028,
Retained earnings	24,
Accumulated other comprehensive loss, net of tax	(229,
Treasury stock	(473,
	-----
Total shareholders' equity of Frontier	438,
Noncontrolling interest in a partnership	10,
	-----
Total equity	448,
	-----
Total liabilities and equity	\$ 7,018,
	=====

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

2

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND 2008  
(\$ in thousands, except for per-share amounts)  
(Unaudited)

2009

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Revenue	\$ 532,
Operating expenses:	
Network access expenses	59,
Other operating expenses	192,
Depreciation and amortization	132,
Acquisition related costs	10,
Total operating expenses	395,
Operating income	136,
Investment and other income, net	4,
Interest expense	98,
Income before income taxes	42,
Income tax expense	14,
Net income	28,
Less: Income attributable to the noncontrolling interest in a partnership	
Net income attributable to common shareholders of Frontier	\$ 27,
Basic and diluted income per common share attributable to common shareholders of Frontier	\$ 0

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

3

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008  
(\$ in thousands, except for per-share amounts)  
(Unaudited)

	2009
Revenue	\$1,070,
Operating expenses:	
Network access expenses	119,
Other operating expenses	392,
Depreciation and amortization	270,
Acquisition related costs	10,
Total operating expenses	793,

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Operating income	276,
Investment and other income, net	12,
Interest expense	187,
	-----
Income before income taxes	101,
Income tax expense	36,
	-----
Net income	65,
Less: Income attributable to the noncontrolling interest in a partnership	1,
	-----
Net income attributable to common shareholders of Frontier	\$ 64,
	=====
Basic and diluted income per common share attributable to common shareholders of Frontier	\$ 0
	=====

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

4

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2008,  
DECEMBER 31, 2008 AND JUNE 30, 2009 (\$  
and shares in thousands, except for  
per-share amounts)  
(Unaudited)

	Frontier Shareholders					
	Common Stock		Additional	Accumulated		Treasury
	Shares	Amount	Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Shares
	-----		-----	-----	-----	-----
Balance January 1, 2008	349,456	\$87,364	\$1,280,508	\$ 14,001	\$ (77,995)	(21,707)
Stock plans	-	-	(9,883)	-	-	1,047
Acquisition of Commonwealth	-	-	-	-	-	1
Conversion of EPPICS	-	-	(13)	-	-	7
Dividends on common stock of \$0.50 per share	-	-	(82,103)	(80,221)	-	-
Shares repurchased	-	-	-	-	-	(10,383)
Net income	-	-	-	101,367	-	-
Other comprehensive income, net of tax and reclassification adjustments	-	-	-	-	834	-
Distributions	-	-	-	-	-	-
	-----		-----	-----	-----	-----
Balance June 30, 2008	349,456	87,364	1,188,509	35,147	(77,161)	(31,035)

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Stock plans	-	-	8,124	-	-	49
Acquisition of Commonwealth	-	-	1	-	-	2
Conversion of EPPICS	-	-	(61)	-	-	44
Conversion of Commonwealth Notes	-	-	(801)	-	-	193
Dividends on common stock of						
\$0.50 per share	-	-	(77,836)	(78,277)	-	-
Shares repurchased	-	-	-	-	-	(7,395)
Net income	-	-	-	81,293	-	-
Other comprehensive loss, net of tax and reclassification adjustments	-	-	-	-	(159,991)	-
Balance December 31, 2008	349,456	87,364	1,117,936	38,163	(237,152)	(38,142)
Stock plans	-	-	(11,188)	-	-	1,049
Dividends on common stock of						
\$0.50 per share	-	-	(78,085)	(78,099)	-	-
Net income	-	-	-	64,221	-	-
Other comprehensive income, net of tax and reclassification adjustments	-	-	-	-	8,049	-
Distributions	-	-	-	-	-	-
Balance June 30, 2009	349,456	\$87,364	\$1,028,663	\$ 24,285	\$(229,103)	(37,093)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008  
(\$ in thousands)  
(Unaudited)

	For the three months ended June 30,		For
	2009	2008	2008
Net income	\$ 28,310	\$ 56,226	\$
Other comprehensive income, net of tax and reclassification adjustments	4,018	417	
Comprehensive income	32,328	56,643	
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	392	448	
Comprehensive income attributable to the common shareholders of Frontier	\$ 31,936	\$ 56,195	\$

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 SIX MONTHS ENDED JUNE 30, 2009 AND 2008

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

(\$ in thousands)  
(Unaudited)

	2009
Cash flows provided by (used in) operating activities:	
Net income	\$ 65,265
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	270,376
Stock based compensation expense	4,561
Pension expense	16,454
(Gain)/loss on extinguishment of debt	(3,664)
Other non-cash adjustments	(1,702)
Deferred income taxes	8,319
Change in accounts receivable	10,231
Change in accounts payable and other liabilities	(21,287)
Change in prepaid expenses and other current assets	(18,223)
Net cash provided by operating activities	330,330
Cash flows provided from (used by) investing activities:	
Capital expenditures	(110,364)
Other assets (purchased) distributions received, net	628
Net cash used by investing activities	(109,736)
Cash flows provided from (used by) financing activities:	
Long-term debt borrowings	538,830
Long-term debt payments	(309,954)
Settlement of interest rate swaps	-
Financing costs paid	(911)
Premium paid to retire debt	-
Issuance of common stock	680
Common stock repurchased	-
Dividends paid	(156,184)
Repayment of customer advances for construction and distributions to noncontrolling interests	(2,580)
Net cash provided from (used by) financing activities	69,881
Increase (decrease) in cash and cash equivalents	290,475
Cash and cash equivalents at January 1,	163,627
Cash and cash equivalents at June 30,	\$ 454,102
Cash paid during the period for:	
Interest	\$ 181,066
Income taxes	\$ 40,458
Non-cash investing and financing activities:	
Change in fair value of interest rate swaps	\$ -
Conversion of EPPICS	\$ -

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 (formerly Citizens Communications Company through July 30, 2008) and its subsidiaries are referred to as "we," "us," "our," or the "Company" in this report. Our 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, 2008. 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 unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the results for the interim periods shown.

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and 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 Securities and Exchange Commission rules and regulations. The results of the interim periods are not necessarily indicative of the results for the full year.

(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 charges. The unearned portion of this revenue is initially deferred as a component of other liabilities on our consolidated balance sheet and recognized in 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 this revenue is recognized in 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

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

installation fee revenue.

The Company collects various taxes from its customers and subsequently remits such funds 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 of \$8.7 million and \$9.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$16.2 million and \$18.5 million for the six months ended June 30, 2009 and 2008, 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) examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for impairment at the "operating segment" level, as that term is defined in Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (Accounting Standards Codification) (ASC Topic 350). The Company revised its management and operating structure during the first quarter of 2009 and now has three "operating segments." Our "operating segments" are aggregated into one reportable segment.

7

SFAS No. 142 (ASC Topic 350) requires that intangible assets with estimated useful lives be amortized over those lives and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (ASC Topic 360) to determine whether any changes to these lives are required. We periodically reassess the useful lives of our intangible assets to determine whether any changes are required.

### (2) Recent Accounting Literature and Changes in Accounting Principles:

#### Fair Value Measurements

-----  
In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (ASC Topic 820) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB amended SFAS No. 157 (ASC Topic 820) to defer the application of this standard to nonfinancial assets and liabilities until 2009. The provisions of SFAS No. 157 (ASC Topic 820) related to financial assets and liabilities were effective as of the beginning of our 2008 fiscal year. Our partial adoption of SFAS No. 157 (ASC Topic 820) in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows. The adoption of SFAS No. 157 (ASC Topic 820), as amended, in the first quarter of 2009 with respect to its effect on nonfinancial assets and liabilities had no impact on our financial position, results of operations or cash flows.

#### Business Combinations

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

In December 2007, the FASB revised SFAS No. 141, "Business Combinations" (ASC Topic 805). The revised statement, SFAS No. 141R (ASC Topic 805), as amended by FSP SFAS No. 141(R)-1 (ASC Topic 805), requires an acquiring entity to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to recognize and measure preacquisition contingencies, including contingent consideration, at fair value (if possible), to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R (ASC Topic 805) was for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will account for our pending acquisition of approximately 4.8 million access lines from Verizon Communications Inc. (Verizon) using the guidance included in SFAS No. 141R (ASC Topic 805). During the three and six months ended June 30, 2009, we incurred approximately \$10.8 million of acquisition related costs in connection with our pending acquisition from Verizon. In accordance with SFAS No. 141R (ASC Topic 805), such costs are required to be expensed as incurred and are reflected in "Acquisition related costs" in our consolidated statements of operations.

### Noncontrolling Interests in Consolidated Financial Statements

---

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (ASC Topic 810). SFAS No. 160 (ASC Topic 810) establishes requirements for ownership interest in subsidiaries held by parties other than the Company (sometimes called "minority interest") be clearly identified, presented and disclosed in the consolidated statement of financial position within shareholder equity, but separate from the parent's equity. All changes in the parent's ownership interest are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in unconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 (ASC Topic 810) was effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The adoption of SFAS No. 160 (ASC Topic 810) in the first quarter of 2009 did not have a material impact on our financial position, results of operations or cash flows.

### Determining Whether Instruments Granted in Share-Based Payment

---

#### Transactions are Participating Securities

---

In June 2008, the FASB ratified FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (ASC Topic 260). FSP EITF No. 03-6-1 (ASC Topic 260) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF No. 03-6-1 (ASC Topic 260) was effective, on a retrospective basis, for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Our outstanding non-vested restricted stock is a participating security in accordance with FSP EITF No. 03-6-1 (ASC Topic 260) and we have adjusted our previously reported basic and diluted income per common share. The adoption of FSP EITF No. 03-6-1 (ASC Topic 260) in the first quarter of 2009 did not have a material impact on our basic and diluted income per common share for the three and six months ended June 30, 2009 and 2008.

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

### Employers' Disclosures about Postretirement Benefit Plan Assets

---

In December 2008, the FASB issued FSP SFAS No. 132 (R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (ASC Topic 715). FSP SFAS No. 132 (R)-1 (ASC Topic 715) amends SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," (ASC Topic 230) to provide guidance on an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS No. 132 (R)-1 (ASC Topic 715) requires additional disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The disclosures about plan assets required by FSP SFAS No. 132 (R)-1 (ASC Topic 715) are effective for fiscal years ending after December 15, 2009. We do not expect the adoption of FSP SFAS No. 132 (R)-1 (ASC Topic 715) to have a material impact on our financial position, results of operations or cash flows. We will adopt the disclosure requirements of FSP SFAS No. 132 (R)-1 (ASC Topic 715) in the annual report for our fiscal year ending December 31, 2009.

### Subsequent Events

---

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (ASC Topic 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, SFAS No. 165 (ASC Topic 855) sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 (ASC Topic 855) is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS No. 165 (ASC Topic 855) in the second quarter of 2009 had no impact on our financial position, results of operations or cash flows. For our financial statements as of and for the periods ended June 30, 2009, we evaluated subsequent events through August 4, 2009, the date that we filed our Form 10-Q quarterly report for the period ended June 30, 2009 with the Securities and Exchange Commission.

### Accounting Standards Codification

---

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals" (ASC Topic 105). SFAS No. 168 (ASC Topic 105) replaces the guidance that previously existed in SFAS No. 162, entitled "The Hierarchy of Generally Accepted Accounting Principals" and designates the FASB Accounting Standards Codification as the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the Codification now is considered to be non-authoritative. SFAS No. 168 (ASC Topic 105) is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will fully adopt SFAS No. 168 (ASC Topic 105) in the third quarter of 2009.

### (3) Pending Acquisition:

---

On May 13, 2009, we entered into a definitive agreement with Verizon Communications Inc. under which Frontier will acquire approximately 4.8 million access lines (as of December 31, 2008) from Verizon. The \$8.6 billion transaction represents approximately \$5.3 billion of common stock plus the assumption of approximately \$3.33 billion in debt. Completion of

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

the transaction is subject to approval by Frontier's shareholders, the receipt of regulatory approvals, including approvals from the Federal Communications Commission (FCC) and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction during the second quarter of 2010.

9

(4) Accounts Receivable:  
-----

The components of accounts receivable, net at June 30, 2009 and December 31, 2008 are as follows:

(\$ in thousands) -----	June 30, 2009 -----	December 31, 2008 -----
End user	\$ 224,987	\$ 244,395
Other	18,080	17,977
Less: Allowance for doubtful accounts	(26,456)	(40,125)
Accounts receivable, net	\$ 216,611 =====	\$ 222,247 =====

We maintain an allowance for estimated bad debts based on our estimate of collectibility of our accounts receivable. Bad debt expense, which is recorded as a reduction of revenue, was \$7.6 million and \$8.4 million for the three months ended June 30, 2009 and 2008, respectively, and \$14.3 million and \$15.6 million for the six months ended June 30, 2009 and 2008, respectively.

(5) Property, Plant and Equipment:  
-----

Property, plant and equipment at June 30, 2009 and December 31, 2008 is as follows:

(\$ in thousands) -----	June 30, 2009 -----	December 31, 2008 -----
Property, plant and equipment	\$ 7,673,198	\$ 7,581,060
Less: Accumulated depreciation	(4,507,281)	(4,341,087)
Property, plant and equipment, net	\$ 3,165,917 =====	\$ 3,239,973 =====

Depreciation expense is principally based on the composite group method. Depreciation expense was \$91.4 million and \$98.3 million for the three months ended June 30, 2009 and 2008, respectively, and \$184.3 million and \$193.5 million for the six months ended June 30, 2009 and 2008, respectively. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2008.

(6) Other Intangibles:  
-----

Other intangibles at June 30, 2009 and December 31, 2008 are as follows:

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

(\$ in thousands)	June 30, 2009	December 31, 2008
Customer base	\$ 1,265,052	\$ 1,265,052
Trade name and license	134,680	132,664
Other intangibles	1,399,732	1,397,716
Less: Accumulated amortization	(1,124,100)	(1,038,042)
Total other intangibles, net	\$ 275,632	\$ 359,674

Amortization expense was \$41.4 million and \$45.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$86.1 million and \$91.8 million for the six months ended June 30, 2009 and 2008, respectively. Amortization expense for the three and six months ended June 30, 2009 is comprised of \$27.3 million and \$57.9 million, respectively, for amortization associated with our "legacy" properties, which were fully amortized in June 2009, and \$14.1 million and \$28.2 million, 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 certain of our financial instruments at June 30, 2009 and December 31, 2008. 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.

10

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)	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$4,944,989	\$4,318,648	\$4,721,685	\$ 3,651,924

(8) Long-Term Debt:

The activity in our long-term debt from December 31, 2008 to June 30, 2009 is as follows:

Six months ended June 30, 2009

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

(\$ in thousands)	December 31, 2008	Retirements	New Borrowings	June 30 2009
Rural Utilities Service Loan Contracts	\$ 16,607	\$ (500)	\$ -	\$ 1
Senior Unsecured Debt	4,702,331	(313,118)	600,000	4,98
Industrial Development Revenue Bonds	13,550	-	-	1
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 4,732,488</b>	<b>\$ (313,618)</b>	<b>\$ 600,000</b>	<b>\$ 5,01</b>
Less: Debt Discount	(6,946)			(6
Less: Current Portion	(3,857)			(
	<b>\$ 4,721,685</b>			<b>\$ 4,94</b>

\* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates represent a weighted average of multiple issuances.

During the first six months of 2009, we retired an aggregate principal amount of \$313.6 million of debt, consisting of \$313.1 million of senior unsecured debt and \$0.5 million of rural utilities service loan contracts.

On April 9, 2009, we completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of our 9.25% Senior Notes due May 15, 2011, \$40.0 million of our 7.875% Senior Notes due January 15, 2027 and \$16.0 million of our 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in investment and other income, net in our consolidated statements of operations for the three and six months ended June 30, 2009. We intend to use the remaining net proceeds from the offering to reduce, repurchase or refinance our indebtedness or the indebtedness of our subsidiaries or for general corporate purposes.

As of June 30, 2009, we had an available line of credit with seven financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of June 30, 2009. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

On March 28, 2008, we borrowed \$135.0 million under a senior unsecured term

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.18% as of June 30, 2009. The interest rate is based on the prime rate or LIBOR, at our election, plus a margin which varies depending on our debt leverage ratio. We used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of our 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

As of June 30, 2009, we were in compliance with all of our debt and credit facility financial covenants.

(9) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the three and six months ended June 30, 2009 and 2008, respectively, is as follows:

(\$ in thousands, except per share amounts)	For the three months ended June 30,	
	2009	2008
Net income used for basic and diluted earnings		
per common share:		
Net income attributable to common shareholders of Frontier	\$ 27,918	\$ 55,778
Less: Dividends allocated to unvested restricted stock awards	(566)	(437)
Total basic net income available for common shareholders of Frontier	27,352	55,341
Effect of conversion of preferred securities - EPPICS	-	31
Total diluted net income available for common shareholders of Frontier	\$ 27,352	\$ 55,372
Basic earnings per common share:		
Total weighted average shares and unvested restricted stock awards outstanding - basic	312,361	322,592
Less: Weighted average unvested restricted stock awards	(2,266)	(1,754)
Total weighted average shares outstanding - basic	310,095	320,838
Net income per share available for common shareholders of Frontier	\$ 0.09	\$ 0.17
Diluted earnings per common share:		
Total weighted average shares outstanding - basic	310,095	320,838
Effect of dilutive shares	-	122
Effect of conversion of preferred securities - EPPICS	-	347
Total weighted average shares outstanding - diluted	310,095	321,307
Net income per share available for common shareholders of Frontier	\$ 0.09	\$ 0.17



## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

### Stock Options

-----

For the three and six months ended June 30, 2009, options to purchase 3,565,000 shares (at exercise prices ranging from \$8.19 to \$18.46) 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.

For the three and six months ended June 30, 2008, options to purchase 2,640,000 shares (at exercise prices ranging from \$11.15 to \$18.46) issuable under employee compensation plans were excluded from the computation of diluted 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 addition, for the three and six months ended June 30, 2009 and 2008, the impact of dividends paid on unvested restricted stock awards of 2,265,000 and 1,748,000 shares, respectively, have been deducted in accordance with FSP EITF No. 03-6-1, (ASC Topic 260) which we adopted in the first quarter of 2009 on a retrospective basis.

12

### EPPICS

-----

As of December 31, 2008, we fully redeemed the 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (EPPICS) related debt outstanding to third parties. As of June 30, 2008, approximately 99% of the originally issued EPPICS, or about \$197.3 million aggregate principal amount of EPPICS, had converted into 15,925,159 shares of our common stock, including shares issued from treasury.

We had 78,707 shares of potentially dilutive EPPICS at June 30, 2008, which were convertible into our common stock at a 4.3615 to 1 ratio at an exercise price of \$11.46 per share. If all remaining EPPICS had been converted, we would have issued approximately 343,281 shares of our common stock as of June 30, 2008. These securities have been included in the diluted income per common share calculation for the three and six months ended June 30, 2008.

### Stock Units

-----

At June 30, 2009 and 2008, we had 411,889 and 279,645 stock units, respectively, issued under our Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan), our Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan) and the Non-Employee Directors' Retirement Plan. These securities have not been included in the diluted income per share of common stock calculation because their inclusion would have had an antidilutive effect.

### Share Repurchase Programs

-----

In February 2008, our Board of Directors authorized us to repurchase up to \$200.0 million of our common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 4, 2008. As of June 30, 2008, we had repurchased approximately 10,383,000 shares of our common stock at an aggregate cost of approximately \$112.7 million. The \$200.0 million share repurchase program was completed on October 3, 2008 through the repurchase of 17,778,000 shares of our

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

common stock during the full year of 2008.

(10) Stock Plans:

-----  
 At June 30, 2009, we had six stock-based compensation plans under which grants have been made and awards remained outstanding. At June 30, 2009, there were 26,058,182 shares authorized for grant under these plans and 12,122,294 shares available for grant under two of the plans. No further awards may be granted under four of the plans: the Management Equity Incentive Plan, the 1996 Equity Incentive Plan, the Amended and Restated 2000 Equity Incentive Plan (collectively, together with the 2009 Equity Incentive Plan that was adopted on May 14, 2009, the EIPs) or the Deferred Fee Plan.

The following summary presents information regarding outstanding stock options as of June 30, 2009 and changes during the six months then ended with regard to options under the EIPs:

	Shares Subject to Option	Weighted Average Option Price Per Share	Li
-----			
Balance at January 1, 2009	3,713,000	\$ 13.46	
Options granted	-	\$ -	
Options exercised	(105,000)	\$ 6.45	
Options canceled, forfeited or lapsed	(43,000)	\$ 9.08	
-----			
Balance at June 30, 2009	3,565,000	\$ 13.72	
=====			
Exercisable at June 30, 2009	3,559,000	\$ 13.72	
=====			

There were no options granted during the first six months of 2009. Cash received upon the exercise of options during the first six months of 2009 totaled \$0.7 million.

The total intrinsic value of stock options exercised during the first six months of 2008 was \$0.5 million. The total intrinsic value of stock options outstanding and exercisable at June 30, 2008 was \$2.6 million. There were no options granted during the first six months of 2008. Cash received upon the exercise of options during the first six months of 2008 totaled \$1.0 million.

13

The following summary presents information regarding unvested restricted stock as of June 30, 2009 and changes during the six months then ended with regard to restricted stock under the EIPs:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggre Fair
-----			
Balance at January 1, 2009	1,702,000	\$ 12.52	\$ 14
Restricted stock granted	1,098,000	\$ 8.44	\$ 7

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Restricted stock vested	(514,000)	\$	12.74	\$ 3
Restricted stock forfeited	(21,000)	\$	12.25	
-----				
Balance at June 30, 2009	2,265,000	\$	10.50	\$ 16
=====				

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 June 30, 2009 was \$19.8 million and the weighted average period over which this cost is expected to be recognized is approximately two years.

The total fair value of shares granted and vested during the six months ended June 30, 2008 was approximately \$10.0 million and \$3.7 million, respectively. The total fair value of unvested restricted stock at June 30, 2008 was \$19.8 million. The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2008 was \$11.02. Shares granted during the first six months of 2008 totaled 883,000.

(11) 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 SFAS No. 131 (ASC Topic 280), we have utilized the aggregation criteria in combining 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.

(12) Derivative Instruments and Hedging Activities:

-----  
On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet and is being amortized into interest expense over the term of the associated debt. We recognized \$3.2 million and \$3.4 million of deferred gain during the first six months of 2009 and 2008, respectively, and anticipate recognizing \$1.4 million during the remainder of 2009. At June 30, 2009 and 2008, we did not have any derivative instruments.

(13) Investment and Other Income, Net:

-----  
The components of investment and other income, net are as follows:

(\$ in thousands)	For the three months ended June 30,		For the si
	2009	2008	2009
-----	-----	-----	-----
Interest and dividend income	\$ 912	\$ 1,424	\$ 4
Gain on debt repurchases	3,664	-	3

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Premium on debt repurchases	-	-	
Litigation settlement proceeds	(17)	-	2
Gains on expiration/settlement of customer advances	-	2,883	2
Equity earnings	351	2,853	
Other, net	(292)	(319)	
	-----	-----	-----
Total investment and other income, net	\$ 4,618	\$ 6,841	\$ 12
	=====	=====	=====

14

(14) Retirement Plans:

The following tables provide the components of net periodic benefit cost:

	Pension Benefits	
	For the three months ended June 30,	For
	2009	2008
	-----	-----
(\$ in thousands)		
-----		
Components of net periodic benefit cost		
-----		
Service cost	\$ 1,435	\$ 1,619
Interest cost on projected benefit obligation	12,964	12,875
Expected return on plan assets (1)	(11,096)	(16,354)
Amortization of prior service cost /(credit)	(64)	(64)
Amortization of unrecognized loss	6,920	1,272
	-----	-----
Net periodic benefit cost/(income)	\$ 10,159	\$ (652)
	=====	=====

	Postretirement Benefits Other	
	For the three months ended June 30,	For
	2009	2008
	-----	-----
(\$ in thousands)		
-----		
Components of net periodic benefit cost		
-----		
Service cost	\$ 113	\$ 149
Interest cost on projected benefit obligation	2,857	2,742
Expected return on plan assets	(109)	(122)
Amortization of prior service cost	(1,938)	(1,934)
Amortization of unrecognized loss	1,481	1,404
	-----	-----
Net periodic benefit cost	\$ 2,404	\$ 2,239

=====

(1) In 2008, our expected long-term rate of return on plan assets was 8.25%, and for 2009 we have assumed a rate of 8.0%.

During the first six months of 2009 and 2008, we capitalized \$3.9 million and \$(0.2) million, respectively, of pension expenses into the cost of our capital expenditures. We expect that our 2009 pension and other postretirement benefit expenses will be between \$50.0 million and \$55.0 million, as compared to \$11.2 million in 2008.

The Company's pension plan assets have declined from \$589.8 million at December 31, 2008 to \$578.1 million at June 30, 2009, a decrease of \$11.7 million, or 2%. This decrease is a result of ongoing benefit payments of \$26.6 million, offset by positive investment returns of \$14.9 million during the first six months of 2009. No contributions are expected to be made by us to our pension plan until 2011, although pension asset volatility could require us to make a contribution in 2010, at the earliest.

(15) Commitments and Contingencies:

-----  
We anticipate capital expenditures of approximately \$250.0 million to \$270.0 million for 2009 related to our currently owned properties. Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into firm, written contracts for such activities.

In connection with the pending acquisition of approximately 4.8 million access lines (as of December 31, 2008) from Verizon, the Company has commenced activities to obtain the necessary regulatory approvals, plan and implement systems conversions and other initiatives necessary to effectuate the closing, which is expected to occur during the second quarter of 2010, and enable the Company to implement its "go to market" strategy at closing. As a result, the Company expects to incur operating expenses and capital expenditures of approximately \$35.0 million and \$25.0 million, respectively, in 2009 related to the pending transaction. The Company incurred \$10.8 million of acquisition related costs in the second quarter of 2009.

We are party to various legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the State of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec, then the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then the remaining

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). Paragraph 13 of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" No. (FIN) 45 (ASC Topic 460-10-50) requires that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 of FIN No. 45 (ASC Topic 460-10-50) also states that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2009 and remained in default for the duration of the contract (another 7 years), we estimate that our undiscounted purchase obligation for 2009 through 2015 would be approximately \$0.8 billion. In such a scenario the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

16

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

#### Item 2. Management's Discussion and Analysis of Financial Condition and ----- Results of Operations -----

#### Forward-Looking Statements -----

This quarterly report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, and our future results may be materially affected by, any of the following possibilities:

- \* Our ability to complete the acquisition of access lines from Verizon;
- \* The failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals for the Verizon

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

transaction;

- \* The failure to receive the IRS ruling approving the tax-free status of the Verizon transaction;
- \* The failure of our stockholders to approve the Verizon transaction;
- \* The ability to successfully integrate the Verizon operations into Frontier's existing operations;
- \* The effects of increased expenses due to activities related to the Verizon transaction;
- \* The ability to migrate Verizon's West Virginia operations from Verizon owned and operated systems and processes to Frontier owned and operated systems and processes successfully;
- \* The risk that the growth opportunities and cost synergies from the Verizon transaction may not be fully realized or may take longer to realize than expected;
- \* The sufficiency of the assets to be acquired from Verizon to enable us to operate the acquired business;
- \* Disruption from the Verizon transaction making it more difficult to maintain relationships with customers, employees or suppliers;
- \* The effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that we will not respond on a timely or profitable basis;
- \* Reductions in the number of our access lines and High-Speed Internet subscribers;
- \* Our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, switched access services and subsidies;
- \* The effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation;
- \* The effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VOIP) or otherwise);
- \* Our ability to adjust successfully to changes in the communications industry and to implement strategies for improving growth;

17

- \* Adverse changes in the credit markets or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;
- \* Reductions in switched access revenues as a result of regulation, competition and/or technology substitutions;
- \* The effects of changes in both general and local economic conditions on the markets we serve, which can impact demand for our products and services, customer purchasing decisions, collectability of revenue and required levels of capital expenditures related to new construction of

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

residences and businesses;

- \* Our ability to effectively manage service quality;
- \* Our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to our customers;
- \* Changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators;
- \* Our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to repay, reduce or refinance our debt;
- \* The effects of bankruptcies and home foreclosures, which could result in increased bad debts;
- \* The effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;
- \* The effects of increased medical, retiree and pension expenses and related funding requirements;
- \* Changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments;
- \* The effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company;
- \* Our ability to successfully renegotiate union contracts expiring in 2009 and thereafter;
- \* Further declines in the value of our pension plan assets, which could require us to make contributions to the pension plan beginning no earlier than 2010;
- \* Our ability to pay dividends in respect of our common shares, which may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in 2009) and our liquidity;
- \* The effects of increased cash taxes in 2009 and thereafter;
- \* The effects of any unfavorable outcome with respect to any of our current or future legal, governmental or regulatory proceedings, audits or disputes;
- \* The possible impact of adverse changes in political or other external factors over which we have no control; and
- \* The effects of hurricanes, ice storms or other severe weather.

Any of the foregoing events, or other events, could cause financial information to vary from management's forward-looking statements included in this report. You should consider these important factors, as well as the risks set forth under Item 1A. "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2008, in evaluating any statement in this report on Form 10-Q or otherwise made by us or on our behalf. The following information is unaudited



## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

and should be read in conjunction with the consolidated financial statements and related notes included in this report. We have no obligation to update or revise these forward-looking statements.

18

### Overview

-----  
We are a full-service communications provider and one of the largest exchange telephone carriers in the country. As of June 30, 2009, we operated in 24 states with approximately 5,400 employees.

On May 13, 2009, we entered into a definitive agreement with Verizon Communications Inc. under which Frontier will acquire approximately 4.8 million access lines (as of December 31, 2008) from Verizon. The \$8.6 billion transaction represents approximately \$5.3 billion of common stock plus the assumption of approximately \$3.33 billion in debt. Completion of the transaction is subject to approval by Frontier's shareholders, the receipt of regulatory approvals, including approvals from the Federal Communications Commission (FCC) and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction during the second quarter of 2010.

Competition in the communications industry is intense and increasing. We experience competition from many communications service providers. These providers include cable operators offering video and VOIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and other wireline carriers. We believe that as of June 30, 2009, approximately 68% of the households in our territories had VOIP as an available service option from cable operators. We also believe that competition will continue to intensify in 2009 and may result in reduced revenues. Our business experienced a decline in access lines and switched access minutes in 2008 and in the first six months of 2009 primarily as a result of competition and business downsizing. We also experienced a reduction in revenue for the first six months of 2009 as compared to the same period in 2008.

The recent severe contraction in the global financial markets and ongoing recession is impacting customer behavior to reduce expenditures by not purchasing our services or by discontinuing some or all of our services. The ongoing recession and downturn in the economy has also affected our business customers, resulting in a decline in revenues for the first six months of 2009 as compared to the same period of 2008. These trends are likely to continue and may result in a challenging revenue environment. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect our ability to collect money owed to us by residential and business customers.

We employ a number of strategies to combat the competitive pressures and changes to consumer behavior noted above. Our strategies are focused on customer retention, upgrading and up-selling services to our existing customer base, new customer growth, win backs of former customers, new product deployment, and operating expense and capital expenditure reductions.

We seek to achieve our customer retention goals by bundling services around the local access line and providing exemplary customer service. Bundled services include High-Speed Internet, unlimited long distance calling, enhanced telephone features and video offerings. We tailor these services to the needs of our residential and business customers in the markets we serve and continually evaluate the introduction of new and complementary products and services, which can also be purchased separately. Customer retention is also enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing or promotional offers.

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Additionally, we are focused on enhancing the customer experience as we believe exceptional customer service will differentiate us from our competition. Our commitment to providing exemplary customer service is demonstrated by the expansion of our customer services hours, shorter scheduling windows for in-home appointments and the implementation of call reminders and follow-up calls for service appointments. In addition, our 70 local area markets are operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets.

We utilize targeted and innovative promotions to attract new customers, including those moving into our territory, win back previously lost customers, upgrade and up-sell existing customers a variety of service offerings including High-Speed Internet, video, and enhanced long distance and feature packages in order to maximize the average revenue per access line (wallet share) paid to Frontier. Depending upon market and economic conditions, we may offer such promotions to drive sales in the future.

We have restructured and augmented our sales distribution channels to improve coverage of all segments of the commercial customer base. This included adding new sales teams dedicated to small business customers and enhancing the skills in our customer sales and service centers. In addition, we are introducing new products utilizing wireless and Internet technologies. We believe the combination of new products and distribution channel improvements will help us improve commercial customer acquisition and retention efforts.

19

We are also focused on introducing a number of new products, including unlimited long distance minutes, bundles of long distance minutes, wireless data, Internet portal advertising and the "Frontier Peace of Mind" product suite. This last category is a suite of products aimed at managing the total communications and personal computing experience for our customers. The Peace of Mind products and services are designed to provide value and simplicity to meet our customers' ever-changing needs. The Peace of Mind products and services suite includes services such as an in-home, full installation of our High-Speed Internet product, two hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance. Although we are optimistic about the opportunities provided by each of these initiatives, we can provide no assurance about their long term profitability or impact on revenue.

We believe that the combination of offering multiple products and services to our customers pursuant to price protection programs, billing them on a single bill, providing superior customer service, and being active in our local communities will make our customers more loyal, and will help us generate new, and retain existing, customer revenue.

Revenues from data and internet services such as High-Speed Internet continue to increase as a percentage of our total revenues and revenues from services such as local line and access charges (including federal and state subsidies) are decreasing as a percentage of our total revenues. Federal and state subsidy revenue, including surcharges billed to customers which are remitted to the FCC, was \$51.7 million for the six months ended June 30, 2009, or 5% of our revenues, down from \$58.2 million for the six months ended June 30, 2008, or 5% of our revenues. We expect this trend to continue during the remainder of 2009. The decreasing revenue from traditional sources, along with the potential for increasing operating costs, could cause our profitability and our cash generated by operations to decrease.

20

a) Liquidity and Capital Resources

-----

As of June 30, 2009, we had cash and cash equivalents aggregating \$454.1 million, including a portion of the net proceeds from a registered debt offering completed on April 9, 2009. Our primary source of funds continued to be cash generated from operations. For the six months ended June 30, 2009, we used cash flow from operations, incremental borrowing and cash on hand to fund all of our investing and financing activities, including debt repayments.

We believe our operating cash flows, existing cash balances, and revolving credit facility will be adequate to finance our working capital requirements, fund capital expenditures, make required debt payments through 2009, pay taxes, pay dividends to our stockholders in accordance with our dividend policy, pay our acquisition related costs and capital expenditures and support our short-term and long-term operating strategies. However, a number of factors, including but not limited to, increased cash taxes, loss of access lines, increases in competition, lower subsidy and access revenues and the impact of the current economic environment are expected to reduce our cash generated by operations. In addition, although we believe, based on information available to us, that the financial institutions syndicated under our revolving credit facility would be able to fulfill their commitments to us, given the current economic environment and the recent severe contraction in the global financial markets, this could change in the future. The current credit market turmoil and our below-investment grade credit ratings may also make it more difficult and expensive to refinance our maturing debt, although we do not have any significant maturities until 2011. We have approximately \$1.9 million of debt maturing during the last six months of 2009 and approximately \$7.2 million and \$869.5 million of debt maturing in 2010 and 2011, respectively.

Cash Flow provided by Operating Activities

-----

Cash provided by operating activities declined \$8.5 million, or 3%, for the six months ended June 30, 2009 as compared with the prior year period. Our operating income decreased during the first six months of 2009 as compared to 2008, and was mostly offset by our reduced cash needs for working capital items during the first six months of 2009 as compared to 2008.

We have in recent years paid relatively low amounts of cash taxes. We expect that in 2009 and beyond our cash taxes will increase substantially, as our federal net operating loss carryforwards and AMT tax credit carryforwards have been fully utilized. We paid \$40.5 million in cash taxes during the first six months of 2009 and expect to pay approximately \$90.0 million to \$100.0 million for the full year of 2009. Our 2009 cash tax estimate reflects the anticipated favorable impact of bonus depreciation that is part of the economic stimulus package signed into law by President Obama.

Cash Flow used by Investing Activities

-----

Capital Expenditures

-----

For the six months ended June 30, 2009 and 2008, our capital expenditures were \$110.4 million and \$123.7 million, respectively. We continue to closely scrutinize all of our capital projects, emphasize return on investment and focus our capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. We anticipate capital expenditures of approximately \$250.0 million to \$270.0 million for 2009 related to our currently owned properties.

In connection with the pending acquisition of approximately 4.8 million access lines (as of December 31, 2008) from Verizon, the Company has commenced

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

activities to obtain the necessary regulatory approvals, plan and implement systems conversions and other initiatives necessary to effectuate the closing, which is expected to occur during the second quarter of 2010, and enable the Company to implement its "go to market" strategy at closing. As a result, the Company expects to incur operating expenses and capital expenditures of approximately \$35.0 million and \$25.0 million, respectively, in 2009 related to the pending transaction. The Company incurred \$10.8 million of acquisition related costs in the second quarter of 2009.

### Cash Flow used by and provided from Financing Activities

-----

#### Debt Reduction

-----

During the first six months of 2009, we retired an aggregate principal amount of \$313.6 million of debt, consisting of \$313.1 million of senior unsecured debt, as described in more detail below, and \$0.5 million of rural utilities service loan contracts.

For the six months ended June 30, 2008, we retired an aggregate principal amount of \$130.4 million of debt, consisting of \$128.7 million principal amount of our 9.25% Senior Notes due 2011, \$1.6 million of other senior unsecured debt and rural utilities service loan contracts, and \$0.1 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (EPPICS) that were converted into our common stock.

21

We may from time to time repurchase our debt in the open market, through tender offers, exchanges of debt securities, by exercising rights to call or in privately negotiated transactions. We may also refinance existing debt or exchange existing debt for newly issued debt obligations.

#### Issuance of Debt Securities

-----

On April 9, 2009, we completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of our 9.25% Senior Notes due May 15, 2011, \$40.0 million of our 7.875% Senior Notes due January 15, 2027 and \$16.0 million of our 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in investment and other income, net in our consolidated statements of operations for the three and six months ended June 30, 2009. We intend to use the remaining net proceeds from the offering to reduce, repurchase or refinance our indebtedness or the indebtedness of our subsidiaries or for general corporate purposes.

On March 28, 2008, we borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.18% as of June 30, 2009. The interest rate is based on the prime rate or LIBOR, at our election, plus a margin which varies depending on our debt leverage ratio. We used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of our 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

#### Interest Rate Management

-----

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet and is being amortized into interest expense over the term of the associated debt. We recognized \$3.2 million and \$3.4 million of deferred gain during the first six months of 2009 and 2008, respectively, and anticipate recognizing \$1.4 million during the remainder of 2009.

### Credit Facilities

As of June 30, 2009, we had an available line of credit with seven financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of June 30, 2009. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments. Although we believe, based on information available to us, that the financial institutions syndicated under our revolving credit facility would be able to fulfill their commitments to us, given the current economic environment and the recent severe contraction in the global financial markets, this could change in the future.

### Covenants

The terms and conditions contained in our indentures and credit facility agreements include the timely payment of principal and interest when due, the maintenance of our corporate existence, keeping proper books and records in accordance with U.S. GAAP, restrictions on the allowance of liens on our assets, and restrictions on asset sales and transfers, mergers and other changes in corporate control. We currently have no restrictions on the payment of dividends either by contract, rule or regulation, other than those imposed by the Delaware General Corporation Law. However, we would be restricted under our credit facilities from declaring dividends if an event of default has occurred and is continuing at the time or will result from the dividend declaration. We are also restricted from increasing the amount of our dividend by the terms of our merger agreement with Verizon.

Our \$200.0 million term loan facility with the Rural Telephone Finance Cooperative (RTFC), which matures in 2011, contains a maximum leverage ratio covenant. On May 6, 2009, the Company and the RTFC amended the terms of the maximum leverage ratio covenant. Under the amended leverage ratio covenant, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreement) over the last four quarters no greater than 4.50 to 1.

22

Our \$250.0 million credit facility, and our \$150.0 million and \$135.0 million senior unsecured term loans, each contain a maximum leverage ratio covenant. Under the leverage ratio covenant, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters no greater than 4.50 to 1. Although all of these facilities are unsecured, they will be equally and ratably secured by certain liens and equally and ratably guaranteed by certain of our subsidiaries if we issue debt that is secured or guaranteed.

Our credit facilities and certain indentures for our senior unsecured debt obligations limit our ability to create liens or merge or consolidate with other

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

companies and our subsidiaries' ability to borrow funds, subject to important exceptions and qualifications.

As of June 30, 2009, we were in compliance with all of our debt and credit facility covenants.

### Proceeds from the Sale of Equity Securities

-----

We receive proceeds from the issuance of our common stock upon the exercise of options pursuant to our stock-based compensation plans. For the six months ended June 30, 2009 and 2008, we received approximately \$0.7 million and \$1.0 million, respectively, upon the exercise of outstanding stock options.

### Share Repurchase Programs

-----

In February 2008, our Board of Directors authorized us to repurchase up to \$200.0 million of our common stock in public or private transactions over the following twelve month period. This share repurchase program commenced on March 4, 2008. For the six months ended June 30, 2008, we had repurchased approximately 10,383,000 shares of our common stock at an aggregate cost of approximately \$112.7 million. The \$200.0 million share repurchase program was completed on October 3, 2008 through the repurchase of 17,778,000 shares of our common stock during the full year of 2008.

### Dividends

-----

We intend to pay regular quarterly dividends. Our ability to fund a regular quarterly dividend will be impacted by our ability to generate cash from operations. The declarations and payment of future dividends will be at the discretion of our Board of Directors, and will depend upon many factors, including our financial condition, results of operations, growth prospects, funding requirements, applicable law, restrictions in agreements governing our indebtedness and other factors our Board of Directors deems relevant. In connection with the acquisition of access lines from Verizon, we announced that after the closing of the acquisition we intend to reduce our annual cash dividend from \$1.00 per share to \$0.75 per share, subject to applicable law and agreements governing the combined company's indebtedness and within the discretion of our Board of Directors, as discussed above.

### Off-Balance Sheet Arrangements

-----

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial statements.

### Critical Accounting Policies and Estimates

-----

We review all significant estimates affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from those estimates and changes to estimates could occur in the near term. The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, pension and other postretirement benefits, income taxes, contingencies and purchase price allocations, among others.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and our Audit Committee has reviewed our disclosures relating to such estimates.

Other than as set forth below, there have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2008.

#### Intangibles - Goodwill

We reorganized our management and operating structure during the first quarter of 2009 incorporating our Rochester market with our existing New York State properties and the rest of the East Region. Our new structure is consistent with how our Chief Operating Decision Makers (CEO, CFO, COO) now reviews our results on a daily, weekly and monthly basis. As a result of the change, our operating segments (reporting units) have decreased from 4 (at December 31, 2008) to 3 (at June 30, 2009). After making the change in our operating segments, we reviewed our goodwill impairment test by comparing the EBITDA multiples for each reporting unit to their carrying values noting that no impairment indicator was present. We also compared the Company's market capitalization to the Company's shareholders equity. Market capitalization at June 30, 2009 of \$2.2 billion (\$7.14/share x 312,363,000 shares) exceeded shareholders equity of Frontier of \$438.0 million by \$1.8 billion. Further, we determined that no impairment was indicated at December 31, 2008 or June 30, 2009 for either the East or Rochester reporting units and combining them would not alter the conclusion at either date. No potential impairment was indicated and no further analysis was deemed necessary.

#### New Accounting Pronouncements

-----  
The following new accounting standards were adopted by the Company during the first six months of 2009 without any material financial statement impact. All of these standards are more fully described in Note 2 to the consolidated financial statements.

- \* Fair Value Measurements (SFAS No. 157, ASC Topic 820), as amended
- \* Business Combinations (SFAS No. 141R, ASC Topic 805), as amended
- \* Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160, ASC Topic 810)
- \* Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF No. 03-6-1, ASC Topic 260)
- \* Subsequent Events (SFAS No. 165, ASC Topic 855)

The following new accounting standards will be adopted by the Company in the second half of 2009, but we do not expect their adoption to have a material impact on our financial position, results of operations or cash flows.

- \* Employers' Disclosures about Postretirement Benefit Plan Assets (FSP SFAS No. 132(R)-1, ASC Topic 715)

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

- \* The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168, ASC Topic 105)

24

### (b) Results of Operations

-----

#### REVENUE

Revenue is generated primarily through the provision of local, network access, long distance, and data and internet services. Such revenues are generated through either a monthly recurring fee or a fee based on usage at a tariffed rate and revenue recognition is not dependent upon significant judgments by management, with the exception of a determination of a provision for uncollectible amounts.

Revenue for the three months ended June 30, 2009 decreased \$30.4 million, or 5%, as compared with the prior year period. Revenue for the six months ended June 30, 2009 decreased \$61.7 million, or 5%, as compared with the prior year period. This decline during the first half of 2009 is a result of lower local services revenue, switched access revenue, long distance services revenue and subsidy revenue, partially offset by a \$19.3 million, or 6%, increase in data and internet services revenue, each as described in more detail below.

Change in the number of our access lines is one factor that is important to our revenue and profitability. We have lost access lines primarily because of changing consumer behavior (including wireless substitution), economic conditions, changing technology, competition, and by some customers disconnecting second lines when they add High-Speed Internet or cable modem service. We lost approximately 65,200 access lines (net), including 5,900 second lines, during the six months ended June 30, 2009, but added approximately 33,900 High-Speed Internet subscribers during this same period. We expect to continue to lose access lines but to increase High-Speed Internet subscribers and wireless internet customers during the remainder of 2009 (although not enough to offset access line losses).

While the number of access lines are an important metric to gauge certain revenue trends, it is not necessarily the best or only measure to evaluate our business. Management believes that understanding different components of revenue is most important. For this reason, presented on page 28 is a breakdown that categorizes revenue into customer revenue and regulatory revenue (switched access and subsidy revenue). Despite the decline in access lines, our customer revenue, which is all revenue except switched access and subsidy revenue, has declined in the second quarter and first six months of 2009 by less than 3 percent as compared to the prior year periods. The average monthly customer revenue per access line has improved and resulted in an increased wallet share, primarily from residential customers. A substantial further loss of access lines, combined with increased competition and the other factors discussed herein may cause our revenue, profitability and cash flows to decrease in 2009.

The financial tables below include a comparative analysis of our results of operations on a historical basis for the three and six months ended June 30, 2009 and 2008.

#### REVENUE



Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

(\$ in thousands)	For the three months ended June 30,				For the	
	2009	2008	\$ Change	% Change	2009	
Local services	\$ 198,296	\$ 214,703	\$ (16,407)	-8%	\$ 399,192	\$
Data and internet services	160,551	151,655	8,896	6%	316,944	
Access services	87,427	101,003	(13,576)	-13%	177,492	
Long distance services	40,560	46,912	(6,352)	-14%	81,972	
Directory services	27,211	29,070	(1,859)	-6%	54,916	
Other	18,097	19,207	(1,110)	-6%	39,582	
	\$ 532,142	\$ 562,550	\$ (30,408)	-5%	\$1,070,098	\$

Local Services

Local services revenue for the three months ended June 30, 2009 decreased \$16.4 million, or 8%, to \$198.3 million, as compared with the three months ended June 30, 2008. The loss of access lines accounted for \$12.2 million of the decline in local services revenue.

25

Local services revenue for the six months ended June 30, 2009 decreased \$32.7 million, or 8%, to \$399.2 million, as compared with the six months ended June 30, 2008, primarily due to the continued loss of access lines which accounted for \$23.8 million of the decline and a reduction in all other related services of \$8.9 million. Enhanced services revenue in the first six months of 2009 decreased \$7.0 million, as compared with the first six months of 2008, primarily due to a decline in access lines and a shift in customers purchasing our unlimited voice communications packages with features included in the bundle instead of purchasing individual features.

Economic conditions and/or increasing competition could make it more difficult to sell our packages and bundles, and cause us to increase our promotions and/or lower our prices for those products and services, which would adversely affect our revenue, profitability and cash flow.

Data and Internet Services

Data and internet services revenue for the three months ended June 30, 2009 increased \$8.9 million, or 6%, to \$160.6 million, as compared with the three months ended June 30, 2008, primarily due to growth in data and High-Speed Internet services.

Data and internet services revenue for the six months ended June 30, 2009 increased \$19.3 million, or 6%, to \$316.9 million, as compared with the six months ended June 30, 2008, primarily due to the overall growth in the number of data and High-Speed Internet customers. As of June 30, 2009, the number of the Company's High-Speed Internet subscribers had increased by approximately 54,500, or 10%, since June 30, 2008. Data and internet services also includes revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity Internet and ethernet circuits. Revenue from these dedicated high-capacity circuits increased \$6.1 million in 2009, as compared with 2008, primarily due to growth in the number of those circuits.

In February 2009, President Obama signed into law an economic stimulus package that includes \$7.2 billion in funding, through grants and loans, for new broadband investment and adoption in unserved and underserved communities. The

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

federal agencies responsible for administering the programs released rules and evaluation criteria for the first round of funding on July 9, 2009. The Company is evaluating projects that we would apply for by the August 14th deadline. These funds, if received, would be used by us to expand broadband availability to customers in our markets to whom it is not currently available due to the high cost of providing the service to those areas.

### Access Services

Access services revenue for the three months ended June 30, 2009 decreased \$13.6 million, or 13%, to \$87.4 million, as compared with the three months ended June 30, 2008. Switched access revenue in 2009 of \$63.1 million decreased \$9.6 million, or 13%, as compared with 2008, primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, email and other communications services. Access services revenue includes subsidy payments we receive from federal and state agencies. Subsidy revenue of \$24.3 million decreased \$4.0 million, or 14%, primarily due to lower receipts under the Federal High Cost Fund program resulting from our reduced cost structure and an increase in the program's National Average Cost per Local Loop (NACPL) used by the FCC to allocate funds among all recipients.

Access services revenue for the six months ended June 30, 2009 decreased \$31.3 million, or 15%, to \$177.5 million, as compared with the six months ended June 30, 2008. Switched access revenue in 2009 of \$125.8 million decreased \$24.9 million, or 17%, as compared with 2008, primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, email and other communications services. Reserves established for disputed access charges also impacted access revenues in 2009 compared to 2008. Subsidy revenue in 2009 of \$51.7 million decreased \$6.4 million, or 11%, as compared with 2008, primarily due to lower receipts under the Federal High Cost Fund program resulting from our reduced cost structure and an increase in the program's NACPL.

Many factors may lead to further increases in the NACPL, thereby resulting in decreases in our federal subsidy revenue in the future. The FCC and state regulators are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. On May 1, 2008, the FCC issued an order to cap Competitive Eligible Telecommunications Companies (CETC) receipts from the high cost Federal Universal Service Fund.

26

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation and would revise the Federal Universal Service funding and disbursement mechanisms. When and how these proposed changes will be addressed are unknown and, accordingly, we are unable to predict the impact of future changes on our results of operations. However, future reductions in our subsidy and access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have associated variable expenses.

Certain states have open proceedings to address reform to intrastate access charges and other intercarrier compensation. We cannot predict when or how these matters will be decided or the effect on our subsidy or access revenues. In addition, we have been approached by, and/or are involved in formal state proceedings with, various carriers seeking reductions in intrastate access rates in certain states.

### Long Distance Services

Long distance services revenue for the three months ended June 30, 2009 decreased \$6.4 million, or 14%, to \$40.6 million, as compared with the three

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

months ended June 30, 2008.

Long distance services revenue for the six months ended June 30, 2009 decreased \$11.4 million, or 12%, to \$82.0 million, as compared with the six months ended June 30, 2008. Our long distance services revenue is trending downward due to a reduction in the overall average revenue per minute of use. We have actively marketed a package of unlimited long distance minutes with our digital phone and state unlimited bundled service offerings. While these package offerings have grown our long distance customer base, those customers who still pay on a per minute of use basis have significantly reduced their calling volumes, resulting in a decrease in our overall average revenue per minute of use.

Our long distance minutes of use decreased by 5% during the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. Average revenue per minute of use has also declined. Our long distance services revenue may decrease in the future due to further declines in rates and/or minutes of use. Competing services such as wireless, VOIP and cable telephony are resulting in a loss of customers, minutes of use and further declines in the rates we charge our customers. We expect these factors will continue to adversely affect our long distance revenue in the future.

### Directory Services

Directory services revenue for the three months ended June 30, 2009 decreased \$1.9 million, or 6%, to \$27.2 million, as compared with the three months ended June 30, 2008. Directory services revenue for the six months ended June 30, 2009 decreased \$2.8 million, or 5%, to \$54.9 million, as compared with the six months ended June 30, 2008, primarily due to lower revenues from yellow pages advertising.

### Other

Other revenue for the three months ended June 30, 2009 decreased \$1.1 million, or 6%, to \$18.1 million, as compared with the three months ended June 30, 2008, primarily due to DISH video promotional discounts that are charged against revenue. Reduced service activation fee revenue also contributed to the decline.

Other revenue for the six months ended June 30, 2009 decreased \$2.8 million, or 7%, to \$39.6 million, as compared with the six months ended June 30, 2008, primarily due to a decrease in service activation fee revenue, lower collocation and rental revenue and decreased "bill and collect" fee revenue, partially offset by higher wireless revenues and lower bad debt expenses.

27

### OTHER FINANCIAL AND OPERATING DATA

	As of June 30, 2009	As of June 30, 2008	% Change
Access lines:			
Residential	1,405,258	1,516,402	-7%
Business	783,869	824,310	-5%
Total access lines	2,189,127	2,340,712	-6%
High-Speed Internet subscribers	613,810	559,345	10%
Video subscribers	157,353	107,596	46%

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

	For the three months ended June 30,				For the
	2009	2008	\$ Change	% Change	2009
Revenue:					
Residential	\$ 227,580	\$ 239,633	\$ (12,053)	-5%	\$ 458,046
Business	217,135	221,914	(4,779)	-2%	434,560
Total customer revenue	444,715	461,547	(16,832)	-4%	892,606
Regulatory (Access Services)	87,427	101,003	(13,576)	-13%	177,492
Total revenue	\$ 532,142	\$ 562,550	\$ (30,408)	-5%	\$ 1,070,098
Switched access minutes of use (in millions)	2,213	2,538		-13%	4,589
Average monthly total revenue per access line	\$ 80.52	\$ 79.34		2%	\$ 80.33
Average monthly customer revenue per access line	\$ 67.29	\$ 65.10		3%	\$ 67.01

OPERATING EXPENSES

NETWORK ACCESS EXPENSES

(\$ in thousands)	For the three months ended June 30,				For the six	
	2009	2008	\$ Change	% Change	2009	2008
Network access	\$ 59,203	\$ 53,998	\$ 5,205	10%	\$ 119,887	\$ 114,

Network access expenses for the three months ended June 30, 2009 increased \$5.2 million, or 10%, to \$59.2 million, as compared with the three months ended June 30, 2008 primarily due to higher long distance carriage costs and costs for new personal computers, as described in more detail below.

Network access expenses for the six months ended June 30, 2009 increased \$5.3 million, or 5%, to \$119.9 million, as compared with the six months ended June 30, 2008. In the first half of 2009, we expensed \$9.9 million for the cost of new personal computers provided to customers in connection with our "Rolling Thunder" promotion which resulted in additional DISH video and High-Speed Internet subscribers. The first half of 2008 included costs of \$3.0 million associated with High-Speed Internet promotions that subsidized the cost of a flat screen television provided to customers.

As we continue to increase our sales of data products such as High-Speed Internet and expand the availability of our unlimited long distance calling plans, our network access expense may increase in the future. A decline in expenses associated with access line losses, has offset some of the increase.

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

OTHER OPERATING EXPENSES

(\$ in thousands)	For the three months ended June 30,				For the
	2009	2008	\$ Change	% Change	2009
Wage and benefit expenses	\$ 86,206	\$ 95,847	\$ (9,641)	-10%	\$ 179,073
Pension costs	8,208	(530)	8,738	NM	16,454
Severance and early retirement costs	11	480	(469)	-98%	2,567
Stock based compensation	2,439	3,145	(706)	-22%	4,561
All other operating expenses	95,890	103,391	(7,501)	-7%	190,303
	\$192,754	\$202,333	\$ (9,579)	-5%	\$ 392,958

Wage and benefit expenses

Wage and benefit expenses for the three months ended June 30, 2009 decreased \$9.6 million, or 10%, to \$86.2 million, as compared to the three months ended June 30, 2008. Wage and benefit expenses for the six months ended June 30, 2009 decreased \$17.5 million, or 9%, to \$179.1 million, as compared to the six months ended June 30, 2008, primarily due to headcount reductions and associated decreases in compensation and benefit expenses.

Pension costs

The decline in the value of our pension plan assets during 2008 has resulted in an increase in our pension expense in 2009. Pension costs for the three months ended June 30, 2009 and 2008 were approximately \$8.2 million and \$(0.5) million, respectively. The second quarter of 2009 pension costs represent an increase of \$8.7 million over the prior year period. Pension costs include pension expense of \$10.2 million and \$(0.7) million, less amounts capitalized into the cost of capital expenditures of \$2.0 million and \$(0.2) million for the three months ended June 30, 2009 and 2008, respectively.

Pension costs for the six months ended June 30, 2009 and 2008 were approximately \$16.5 million and \$(1.1) million, respectively. The first six months of 2009 pension costs represent an increase of \$17.5 million over the prior year period. Pension costs include pension expense of \$20.4 million and \$(1.3) million, less amounts capitalized into the cost of capital expenditures of \$3.9 million and \$(0.2) million for the six months ended June 30, 2009 and 2008, respectively.

The Company's pension plan assets have declined from \$589.8 million at December 31, 2008 to \$578.1 million at June 30, 2009, a decrease of \$11.7 million, or 2%. This decrease is a result of ongoing benefit payments of \$26.6 million, partially offset by positive investment returns of \$14.9 million during the first six months of 2009.

Based on current assumptions and plan asset values, we estimate that our 2009 pension and other postretirement benefit expenses (which were \$11.2 million in 2008) will be approximately \$50.0 million to \$55.0 million. No contributions are expected to be made by us to our pension plan until 2011, although pension asset volatility could require us to make a contribution in 2010, at the earliest.

Severance and early retirement costs

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Severance and early retirement costs for the three months ended June 30, 2009 decreased \$0.5 million as compared with the prior year period.

Severance and early retirement costs for the six months ended June 30, 2009 decreased \$0.8 million to \$2.6 million as compared with the prior year period, primarily due to charges recorded in the first half of 2008 related to employee early retirements and terminations.

### Stock based compensation

Stock based compensation for the three months ended June 30, 2009 decreased \$0.7 million, or 22%, to \$2.4 million as compared with the prior year period, primarily due to costs recorded in 2008 for a long-term incentive program that is no longer in effect.

Stock based compensation for the six months ended June 30, 2009 decreased \$1.6 million, or 26%, to \$4.6 million as compared with the prior year period, due to costs recorded in 2008 for a long-term incentive program that is no longer in effect and reduced costs associated with stock units, partially offset by increased costs for unvested restricted stock awards.

29

### All other operating expenses

All other operating expenses for the three months ended June 30, 2009 decreased \$7.5 million, or 7%, to \$95.9 million, as compared with the three months ended June 30, 2008. All other operating expenses for the six months ended June 30, 2009 decreased \$10.3 million, or 5%, to \$190.3 million, as compared to the six months ended June 30, 2008, due to reduced costs for consulting fees and other outside services, partially offset by higher marketing expenses.

### DEPRECIATION AND AMORTIZATION EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six	
	2009	2008	\$ Change	% Change	2009	
Depreciation expense	\$ 91,430	\$ 98,367	\$ (6,937)	-7%	\$ 184,318	\$ 1
Amortization expense	41,388	45,883	(4,495)	-10%	86,058	
	\$132,818	\$144,250	\$ (11,432)	-8%	\$ 270,376	\$ 2

Depreciation and amortization expense for the three months ended June 30, 2009 decreased \$11.4 million, or 8%, to \$132.8 million, as compared to the three months ended June 30, 2008. Depreciation and amortization expense for the six months ended June 30, 2009 decreased \$15.0 million, or 5%, to \$270.4 million, as compared to the six months ended June 30, 2008, primarily due to reduced amortization expense, as discussed below, and a declining net asset base, partially offset by changes in the remaining useful lives of certain assets. An independent study updating the estimated remaining useful lives of our plant assets is performed annually. We adopted the remaining useful lives proposed in the last study effective October 1, 2008. Our "composite depreciation rate" increased from 5.5% to 5.6% as a result of the study. We anticipate depreciation expense of approximately \$350.0 million to \$370.0 million and amortization

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

expense of approximately \$115.0 million for 2009. Amortization expense for the six months ended June 30, 2009 is comprised of \$57.9 million for amortization associated with our legacy properties, which were fully amortized in June 2009, and \$28.2 million for intangible assets (customer base and trade name) that were acquired in the Commonwealth and Global Valley acquisitions.

### ACQUISITION RELATED COSTS

(\$ in thousands)	For the three months ended June 30,				For the six	
	2009	2008	\$ Change	% Change	2009	2008
Acquisition related costs	\$ 10,751	\$ -	\$ 10,751	100%	\$ 10,751	\$ -

Acquisition related costs primarily represent fees paid to our advisers for services rendered in connection with our proposed acquisition of access lines from Verizon. We expect to incur acquisition costs of approximately \$35.0 million in 2009 related to the pending transaction.

### INVESTMENT AND OTHER INCOME, NET / INTEREST EXPENSE / INCOME TAX EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six	
	2009	2008	\$ Change	% Change	2009	2008
Investment and other income, net	\$ 4,618	\$ 6,841	\$ (2,223)	-32%	\$ 12,865	\$ 10,642
Interest expense	\$ 98,670	\$ 90,710	\$ 7,960	9%	\$ 187,419	\$ 184,459
Income tax expense	\$ 14,254	\$ 21,874	\$ (7,620)	-35%	\$ 36,307	\$ 55,927
Income attributable to the noncontrolling interest in a partnership	\$ 392	\$ 448	\$ (56)	-13%	\$ 1,044	\$ 1,492

30

#### Investment and other income, net

Investment and other income, net for the three months ended June 30, 2009 decreased \$2.2 million, or 32%, to \$4.6 million, as compared with the three months ended June 30, 2008, primarily due to a decline of \$2.9 million in income recognized on the termination of construction advances, reduced equity earnings of \$2.5 million and \$0.5 million in lower income from short-term investments of cash, partially offset by an increase of \$3.6 million in gain on debt repurchases.

Investment and other income, net for the six months ended June 30, 2009 improved \$6.9 million, or 117%, as compared with the six months ended June 30, 2008, primarily due to the loss on retirement of debt of \$6.3 million recognized during the first quarter of 2008, combined with litigation settlement proceeds of \$2.2 million and gain on debt repurchases of \$3.7 million in 2009. These improvements were partially offset by reduced equity earnings of \$2.3 million and a decrease of \$2.3 million in income from short-term investments of cash and

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

cash equivalents due to lower interest rates in 2009.

Our average cash balance was \$265.1 million and \$211.0 million for the six months ended June 30, 2009 and 2008, respectively.

### Interest expense

Interest expense for the three months ended June 30, 2009 increased \$8.0 million, or 9%, to \$98.7 million, as compared with the three months ended June 30, 2008, primarily due to higher average debt levels and interest rates in 2009. Our average debt outstanding was \$4,875.2 million and \$4,757.9 million for the three months ended June 30, 2009 and 2008, respectively. Our debt levels have risen due to our \$600 million debt offering on April 9, 2009. We intend to use the net proceeds from the offering to reduce, repurchase, or refinance our indebtedness or for general corporate purposes. We used \$308.0 million of the proceeds to retire \$311.7 million principal amount of debt including \$255.7 million of debt maturing in 2011. Excess proceeds from this offering are invested in cash equivalents.

Interest expense for the six months ended June 30, 2009 increased \$5.8 million, or 3%, to \$187.4 million, as compared with the six months ended June 30, 2008, primarily due to higher average debt levels and interest rates in 2009, as discussed above. Our average debt outstanding was \$4,827.6 million and \$4,758.8 million for the six months ended June 30, 2009 and 2008, respectively. Our composite average borrowing rate as of June 30, 2009 as compared with the prior year was 24 basis points higher, increasing from 7.63% to 7.87%.

### Income tax expense

Income tax expense for the three and six months ended June 30, 2009 decreased \$7.6 million, or 35%, to \$14.3 million, and \$12.2 million, or 25% to \$36.3 million, respectively, as compared with the three and six months ended June 30, 2008, primarily due to lower taxable income. The second quarter of 2008 includes a reduction in income tax expense of \$7.5 million that resulted from the expiration of certain statute of limitations on April 15, 2008. The effective tax rate for the first six months of 2009 and 2008 was 35.7% and 32.2%, respectively. Our cash taxes paid for the six months ended June 30, 2009 were \$40.5 million, a decrease of \$9.1 million from the first six months of 2008. We expect to pay approximately \$90.0 million to \$100.0 million for the full year of 2009. Our 2009 cash tax estimate reflects the anticipated favorable impact of bonus depreciation that is part of the economic stimulus package signed into law by President Obama.

There were no material changes to the liabilities on our books as of December 31, 2008 related to uncertain tax positions recorded under FASB Interpretation No. (FIN) 48 (ASC Topic 740) for the six months ended June 30, 2009.

31

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

-----

#### Disclosure of primary market risks and how they are managed

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with our pension assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading purposes. As a result, we do not undertake any specific actions to cover our exposure to market risks, and we are not party to any market risk management agreements other than in the



## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

normal course of business. Our primary market risk exposures are interest rate risk and equity price risk as follows:

### Interest Rate Exposure

Our exposure to market risk for changes in interest rates relates primarily to the interest-bearing portion of our investment portfolio. Our long-term debt as of June 30, 2009 was approximately 94% fixed rate debt with minimal exposure to interest rate changes after the termination of our remaining interest rate swap agreements on January 15, 2008.

Our objectives in managing our interest rate risk are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, all but \$279.6 million of our borrowings at June 30, 2009 have fixed interest rates. Consequently, we have limited material future earnings or cash flow exposures from changes in interest rates on our long-term debt. An adverse change in interest rates would increase the amount that we pay on our variable obligations and could result in fluctuations in the fair value of our fixed rate obligations. Based upon our overall interest rate exposure at June 30, 2009, a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt.

### Sensitivity analysis of interest rate exposure

At June 30, 2009, the fair value of our long-term debt was estimated to be approximately \$4.3 billion, based on our overall weighted average borrowing rate of 7.87% and our overall weighted average maturity of approximately 11 years. There has been no material change in the weighted average maturity applicable to our obligations since December 31, 2008.

### Equity Price Exposure

Our exposure to market risks for changes in security prices as of June 30, 2009 is limited to our pension assets. We have no other security investments of any material amount.

During 2008 and 2009, the diminished availability of credit and liquidity in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had an adverse impact on investment portfolios.

The decline in the value of our pension plan assets during 2008 has resulted in an increase in our pension expense in 2009. The Company's pension plan assets have declined from \$589.8 million at December 31, 2008 to \$578.1 million at June 30, 2009, a decrease of \$11.7 million, or 2%. This decrease is a result of ongoing benefit payments of \$26.6 million, partially offset by positive investment returns of \$14.9 million during the first six months of 2009. No contributions are expected to be made by us to our pension plan until 2011, although pension asset volatility could require us to make a contribution in 2010, at the earliest.

-----  
(a) Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, June 30, 2009, that our disclosure controls and procedures were effective.

(b) Changes in internal control over financial reporting

We reviewed our internal control over financial reporting at June 30, 2009. There has been no change in our internal control over financial reporting identified in an evaluation thereof that occurred during the second fiscal quarter of 2009 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

33

PART II. OTHER INFORMATION  
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings  
-----

There have been no material changes to our legal proceedings from the information provided in Item 3. "Legal Proceedings" included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We are party to various legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

Item 1A. Risk Factors  
-----

Other than as set forth below, there have been no other material changes to our risk factors from the information provided in Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Risks Relating to the Acquisition of Access Lines from Verizon

Our efforts to combine our business and the acquired business may not be successful.

The acquisition of access lines from Verizon is the largest and most significant acquisition we have undertaken. Our management will be required to devote a significant amount of time and attention to the process of integrating our operations and the operations of the acquired business. This may decrease the time our management will have to serve existing customers, attract new customers and develop new services. We expect that the acquired business will be operating on an independent basis, separate from Verizon's other businesses and operations, immediately before the closing of the transaction (other than the portion operated in West Virginia, which is expected to be ready for integration into our business at the closing of the transaction) and will not require significant post-closing integration for us to continue the operations of the

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

acquired business immediately after the transaction. However, the size and complexity of the acquired business and the process of using our existing common support functions and systems to manage the acquired business after the transaction, if not managed successfully by our management, may result in interruptions of business activities that could have a material adverse effect on our business, financial condition and/or results of operations. In addition, our management will be required to devote significant time and attention before completion of the transaction to the process of migrating the systems and processes supporting the operations of the acquired business in West Virginia from systems owned and operated by Verizon to those owned and operated by us. The size, complexity and timing of this migration, if not managed successfully by our management, may result in interruptions of business activities.

We may not realize the growth opportunities and cost synergies that are anticipated from the transaction.

The success of the transaction will depend, in part, on our ability to realize anticipated growth opportunities and cost synergies. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of our business and operations and the acquired business's business and operations. Even if we are able to integrate our business and operations and the acquired business's business and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration within the anticipated time frame or at all.

After the close of the transaction, sales of our common stock may negatively affect its market price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after the completion of the transaction or the perception that these sales could occur. To the extent permitted under the transaction agreements, any effort by us to obtain additional capital by selling equity securities in the future will be made more difficult by such sales, or the possibility that such sales may occur.

Depending on the trading prices of our common stock prior to the closing of the transaction and before accounting for (1) the elimination of fractional shares and (2) any additional shares that may be issued as a result of amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the territories in which the acquired business operates that are required to complete the transaction (with the number of additional shares that may be issued under clause (2) above being restricted by certain regulatory and other covenants and conditions to the transaction as agreed to by the parties), Verizon stockholders will collectively own between approximately 66% and 71% of our outstanding equity immediately following the closing of the transaction.

34

If the assets contributed by Verizon to the acquired business are insufficient to operate the acquired business, it could adversely affect our business, financial condition and results of operations following the closing of the transaction.

Pursuant to the transaction agreements, Verizon will contribute to the acquired business defined assets and liabilities of its local exchange business and related landline activities in the territories in which the acquired business operates, including Internet access and long distance services and broadband video provided to designated customers by Verizon in those territories. The

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

transaction agreements provide that all the contributions will be made so that the acquired business (other than the portion conducted in West Virginia) is segregated from Verizon's other businesses at least 60 days prior to the closing of the transaction. However, the contributed assets may not be sufficient to operate all aspects of the acquired business and we may have to use assets or resources from our existing business or acquire additional assets in order to operate the acquired business, which could adversely affect our business, financial condition and results of operations following the closing of the transaction.

Pursuant to the transaction agreements, we have certain rights to cause Verizon to transfer to us any assets required to be contributed by Verizon that were not contributed as required. If Verizon was unable or unwilling to transfer those assets to us, or if we were to disagree with Verizon about whether those assets were required to be contributed to the acquired business, we might not be able to obtain those assets or similar assets from others without significant costs or at all.

Our business, financial condition and results of operations may be adversely affected following the transaction if we are not able to obtain consents to assign certain Verizon contracts to the acquired business.

Certain wholesale, large business, Internet service provider and other customer contracts that are required to be assigned to the acquired business by Verizon require the consent of the customer party to the contract to effect this assignment. Verizon and Frontier may be unable to obtain these consents on terms favorable to us or at all, which could have a material adverse impact on our business, financial condition and results of operations following the transaction.

The pendency of the transaction could adversely affect the business and operations of our Company and of the acquired business.

In connection with the pending transaction, some of our customers and some customers of the acquired business may delay or defer decisions or may end their relationships with the relevant company, which could negatively affect our revenues, earnings and cash flows, and the revenues, earnings and cash flows of the acquired business, regardless of whether the transaction is completed. Similarly, our current and prospective employees and the current and prospective employees of the acquired business may experience uncertainty about their future roles with our company following the transaction, which may materially adversely affect our ability and the ability of the acquired business to attract and retain key personnel during the pendency of the transaction.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

-----

There were no unregistered sales of equity securities during the quarter ended June 30, 2009.

35

### ISSUER PURCHASES OF EQUITY SECURITIES

-----

Period	Total Number of Shares Purchased	Average Price Paid per Share
-----	-----	-----

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

April 1, 2009 to April 30, 2009		
Employee Transactions (1)	4,494	\$ 7.21
May 1, 2009 to May 31, 2009		
Employee Transactions (1)	-	\$ -
June 1, 2009 to June 30, 2009		
Employee Transactions (1)	236	\$ 7.10
Totals April 1, 2009 to June 30, 2009		
Employee Transactions (1)	4,730	\$ 7.21

(1) Includes restricted shares withheld (under the terms of grants under employee stock compensation plans) to offset minimum tax withholding obligations that occur upon the vesting of restricted shares. The Company's stock compensation plans provide that the value of shares withheld shall be the average of the high and low price of the Company's common stock on the date the relevant transaction occurs.

36

Item 4. Submission of Matters to a Vote of Security Holders

- 
- (a) The registrant held its 2009 Annual Meeting of the Stockholders on May 14, 2009 (the "Meeting").
- (b) Election of directors. At the Meeting, all nominees were elected pursuant to the following votes:

Director	Number of Votes	
	FOR	WITHHELD
-----	---	-----
Kathleen Q. Abernathy	267,539,970	12,198,975
Leroy T. Barnes, Jr.	272,733,585	7,005,360
Peter C.B. Bynoe	267,601,147	12,137,798
Michael T. Dugan	272,885,475	6,853,470
Jeri B. Finard	267,577,310	12,161,635
Lawton W. Fitt	265,301,054	14,437,891
William M. Kraus	272,014,989	7,723,956
Howard L. Schrott	272,876,750	6,862,195
Lorraine D. Segil	272,593,081	7,145,864
David H. Ward	271,868,391	7,870,554
Myron A. Wick III	266,988,957	12,749,988
Mary Agnes Wilderotter	269,109,450	10,629,495

- (c) Other matters submitted to stockholders at the Meeting:

(1) Adoption of the 2009 Equity Incentive Plan. The matter passed with the following vote:

Number of votes FOR	168,394,349
Number of votes AGAINST	24,592,185
Number of votes ABSTAINING	2,531,211

## Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Number of BROKER NON-VOTES 84,221,200

- (2) Stockholder proposal related to executive compensation. The matter was not approved with the following vote:

Number of votes FOR	94,945,414
Number of votes AGAINST	96,407,257
Number of votes ABSTAINING	4,165,074
Number of BROKER NON-VOTES	84,221,200

- (3) Ratification of appointment of KPMG LLP as the Company's independent registered public accounting firm for 2009. The matter passed with the following vote:

Number of votes FOR	270,331,054
Number of votes AGAINST	7,786,247
Number of votes ABSTAINING	1,621,644

37

### Item 5. Other Information

-----

As disclosed in our Proxy Statement for the 2009 Annual Meeting, proposals that stockholders wish to include in our Proxy Statement and form of proxy for our 2010 annual Stockholders meeting must be received by the Secretary of the Company no later than December 7, 2009. For a stockholder proposal that is not intended to be included in our Proxy Statement for our 2010 Annual Meeting, the proposal must be received by the Secretary of the Company not earlier than January 14, 2010 nor later than February 13, 2010 in order to be properly presented at the 2010 Annual Meeting. Furthermore, in accordance with the proxy rules and regulations of the Securities and Exchange Commission, if a stockholder does not notify us of a proposal by February 13, 2010, then our proxies would be able to use their discretionary voting authority if a stockholder's proposal is raised at the meeting.

### Item 6. Exhibits

-----

a) Exhibits:

- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

38

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

SIGNATURE

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRONTIER COMMUNICATIONS CORPORATION

-----

(Registrant)

By: /s/ Robert J. Larson

-----

Robert J. Larson  
Senior Vice President and  
Chief Accounting Officer

Date: August 4, 2009