

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

FRONTIER COMMUNICATIONS CORP  
Form 10-Q  
August 05, 2008

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, 2008

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, 2008  
-----

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)

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

(203) 614-5600

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

Citizens Communications Company

-----  
(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 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 company

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

Yes No X  
--- ---

The number of shares outstanding of the registrant's Common Stock as of July 25, 2008 was 315,956,718.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Index

Part I. Financial Information (Unaudited)

Financial Statements

Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007

Consolidated Statements of Operations for the three months ended June 30, 2008 and 2007

Consolidated Statements of Operations for the six months ended June 30, 2008 and 2007

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

Consolidated Statements of Shareholders' Equity for the year ended December 31, 2007 and the six months ended June 30, 2008

Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2008 and 2007

Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007

Notes to Consolidated Financial Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations

Quantitative and Qualitative Disclosures about Market Risk

Controls and Procedures

## Part II. Other Information

Legal Proceedings

Risk Factors

Unregistered Sales of Equity Securities and Use of Proceeds

Submission of Matters to a Vote of Security Holders

Other Information

Exhibits

Signature

1

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

#### ASSETS

##### Current assets:

Cash and cash equivalents	\$	178
Accounts receivable, less allowances of \$32,965 and \$32,748, respectively		224
Other current assets		45
Total current assets		448

(Unaudited  
June 30, 2008)

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Property, plant and equipment, net	3,265
Goodwill, net	2,633
Other intangibles, net	455
Investments	21
Other assets	188
	-----
Total assets	\$ 7,013
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
-----	
Current liabilities:	
Long-term debt due within one year	\$ 3
Accounts payable and other current liabilities	368
	-----
Total current liabilities	372
Deferred income taxes	712
Other liabilities	351
Long-term debt	4,746
Shareholders' equity:	
Common stock, \$0.25 par value (600,000,000 authorized shares; 318,421,000 and 327,749,000 outstanding, respectively, and 349,456,000 issued at June 30, 2008 and December 31, 2007)	87
Additional paid-in capital	1,188
Retained earnings	35
Accumulated other comprehensive loss, net of tax	(77)
Treasury stock	(403)
	-----
Total shareholders' equity	830
	-----
Total liabilities and shareholders' equity	\$ 7,013
	=====

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, 2008 AND 2007  
(\$ in thousands, except for per-share amounts)  
(Unaudited)

	2008	2007
	-----	-----
Revenue	\$562,550	\$578,826
Operating expenses:		
Network access expenses	53,998	53,678
Other operating expenses	202,333	213,388

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Depreciation and amortization	144,250	140,462
Total operating expenses	400,581	407,528
Operating income	161,969	171,298
Investment and other income (loss), net	6,393	(6,517)
Interest expense	90,710	98,649
Income before income taxes	77,652	66,132
Income tax expense	21,874	25,573
Net income available for common shareholders	\$ 55,778	\$ 40,559
Basic income per common share	\$ 0.17	\$ 0.12
Diluted income per common share	\$ 0.17	\$ 0.12

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, 2008 AND 2007  
(\$ in thousands, except for per-share amounts)  
(Unaudited)

	2008	2007
Revenue	\$ 1,131,755	\$ 1,134,973
Operating expenses:		
Network access expenses	114,547	105,075
Other operating expenses	405,597	402,655
Depreciation and amortization	285,330	262,643
Total operating expenses	805,474	770,373
Operating income	326,281	364,600
Investment and other income (loss), net	5,158	3,500
Interest expense	181,570	192,613
Income before income taxes	149,869	175,487
Income tax expense	48,502	67,261
Net income available for common shareholders	\$ 101,367	\$ 108,226

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Basic income per common share	\$ 0.31	\$ 0.33
Diluted income per common share	\$ 0.31	\$ 0.32

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 SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2007 AND THE SIX MONTHS ENDED JUNE 30, 2008  
(\$ and shares in thousands, except for per-share amounts)  
(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Tr
	Shares	Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Share
Balance January 1, 2007	343,956	\$85,989	\$1,207,399	\$ 134,705	\$ (81,899)	(21,6
Stock plans	-	-	(6,237)	667	-	1,8
Acquisition of Commonwealth	5,500	1,375	77,939	-	-	12,6
Conversion of EPPICS	-	-	(549)	-	-	2
Conversion of Commonwealth Notes	-	-	1,956	-	-	2,5
Dividends on common stock of \$1.00 per share	-	-	-	(336,025)	-	
Shares repurchased	-	-	-	-	-	(17,2
Net income	-	-	-	214,654	-	
Other comprehensive income, net of tax and reclassifications adjustments	-	-	-	-	3,904	
Balance December 31, 2007	349,456	87,364	1,280,508	14,001	(77,995)	(21,7
Stock plans	-	-	(9,883)	-	-	1,0
Conversion of EPPICS	-	-	(13)	-	-	
Acquisition of Commonwealth	-	-	-	-	-	
Dividends on common stock of \$0.50 per share	-	-	(82,103)	(80,221)	-	
Shares repurchased	-	-	-	-	-	(10,3
Net income	-	-	-	101,367	-	
Other comprehensive income, net of tax and reclassifications adjustments	-	-	-	-	834	
Balance June 30, 2008	349,456	\$87,364	\$1,188,509	\$ 35,147	\$ (77,161)	(31,0

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007  
(\$ in thousands)  
(Unaudited)

	For the three months ended June 30,		For the six
	2008	2007	2008
Net income	\$ 55,778	\$ 40,559	\$ 101,367
Other comprehensive income, net of tax and reclassifications adjustments	417	3,164	
Total comprehensive income	\$ 56,195	\$ 43,723	\$ 102,000

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

5

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007  
(\$ in thousands)  
(Unaudited)

	2008
Cash flows provided by (used in) operating activities:	
Net income	\$ 101,367
Adjustments to reconcile income to net cash provided by operating activities:	
Depreciation and amortization expense	285,330
Stock based compensation expense	6,164
Loss on extinguishment of debt	6,290
Other non-cash adjustments	(7,303)
Deferred income taxes (including FIN 48)	(8,996)
Change in accounts receivable	8,039
Change in accounts payable and other liabilities	(58,597)
Change in other current assets	6,561
Net cash provided by operating activities	338,855
Cash flows provided from (used by) investing activities:	
Capital expenditures	(123,723)
Cash paid for Commonwealth (net of cash acquired)	-
Other assets (purchased) distributions received, net	(1,277)
Net cash used by investing activities	(125,000)

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

Cash flows provided from (used by) financing activities:	
Long-term debt borrowings	135,000
Long-term debt payments	(130,281)
Settlement of interest rate swaps	15,521
Financing costs paid	(857)
Premium paid to retire debt	(6,290)
Issuance of common stock	955
Common stock repurchased	(112,659)
Dividends paid	(162,324)
Repayment of customer advances for construction	(512)
	-----
Net cash used by financing activities	(261,447)
Decrease in cash and cash equivalents	(47,592)
Cash and cash equivalents at January 1,	226,466
	-----
Cash and cash equivalents at June 30,	\$ 178,874
	=====
Cash paid during the period for:	
Interest	\$ 184,552
Income taxes	\$ 49,585
Non-cash investing and financing activities:	
Change in fair value of interest rate swaps	\$ 7,909
Conversion of EPPICS	\$ 80
Conversion of Commonwealth Notes	\$ -
Shares issued for Commonwealth acquisition	\$ 23
Acquired debt	\$ -
Other acquired liabilities	\$ -

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

6

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, 2007. 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 financial statements in conformity with U.S. GAAP



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

requires management to make estimates and assumptions which 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, the long-term incentive program, 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 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 have been recorded on a gross basis in our consolidated statements of operations and have been included in revenue and other operating expenses at \$9.9 million and \$9.9 million for the three months ended June 30, 2008 and 2007, respectively, and at \$18.5 million and \$17.2 million for the six months ended June 30, 2008 and 2007, respectively.

### (c) Derivative Instruments and Hedging Activities:

-----  
We account for derivative instruments and hedging activities in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, requires that all derivative instruments, such as interest rate swaps, be recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them.

As of December 31, 2007, we had interest rate swap arrangements related to a portion of our fixed rate debt. These arrangements were all terminated on January 15, 2008. These hedge strategies satisfied the fair value hedging requirements of SFAS No. 133, as amended. As a

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

result, the appreciation in value of the swaps through the time of

7

termination is included in the consolidated balance sheet and is recognized as lower interest expense over the duration of the remaining life of the underlying debt.

(d) 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 SFAS No. 142, "Goodwill and Other Intangibles Assets." The Company currently has four "operating segments" which are aggregated into one reportable segment.

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

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

Accounting for Endorsement Split-Dollar Life Insurance Arrangements  
-----

In September 2006, the Financial Accounting Standards Board (FASB) reached consensus on the guidance provided by Emerging Issues Task Force (EITF) No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policies, that are associated with a postretirement benefit. EITF No. 06-4 requires that for a split-dollar life insurance arrangement within the scope of the issue, an employer should recognize a liability for future benefits in accordance with SFAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion (APB) No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF No. 06-4 is effective for fiscal years beginning after December 15, 2007. Our adoption of the accounting requirements of EITF No. 06-4 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows.

Fair Value Measurements  
-----

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," 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 to defer the application of this standard to nonfinancial assets and liabilities until 2009. The provisions of SFAS No. 157 related to financial assets and liabilities were effective as of the

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

beginning of our 2008 fiscal year. Our adoption of SFAS No. 157, as amended, in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows. We are still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption in 2009. Nonfinancial assets and liabilities for which we have not applied the provisions of SFAS No. 157 include those measured at fair value in impairment testing and those initially measured at fair value in a business combination.

### Fair Value Option for Financial Assets and Financial Liabilities

---

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities -Including an Amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective as of the beginning of our 2008 fiscal year. Our adoption of SFAS No. 159 in the first quarter of 2008 had no impact (not applicable) on our financial position, results of operations or cash flows.

### Accounting for Collateral Assignment Split-Dollar Life Insurance

---

#### Arrangements

---

In March 2007, the FASB ratified the consensus reached by the EITF on Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF No. 06-10 provides guidance on an employers' recognition of a liability and related compensation costs for collateral

8

assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods, and the asset in collateral assignment split-dollar life insurance arrangements. EITF No. 06-10 is effective for fiscal years beginning after December 15, 2007. Our adoption of the accounting requirements of EITF No. 06-10 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows.

### Accounting for the Income Tax Benefits of Dividends on Share-Based

---

#### Payment Awards

---

In June 2007, the FASB ratified EITF No. 06-11 "Accounting for the Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF No. 06-11 provides that tax benefits associated with dividends on share-based payment awards be recorded as a component of additional paid-in capital. EITF No. 06-11 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The implementation of this standard in the first quarter of 2008 had no material impact on our financial position, results of operations or cash flows.

### Business Combinations

---

In December 2007, the FASB revised SFAS No. 141, "Business Combinations." The revised statement, SFAS No. 141R, requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period

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

and to expense all acquisition related costs. The effective date of SFAS No. 141R is for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard does not impact our currently reported results.

### Noncontrolling Interests in Consolidated Financial Statements

-----

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS No. 160 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 is 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 Company is currently assessing the impact of SFAS No. 160 on its financial position, results of operations and cash flows.

### (3) Acquisition of Commonwealth Telephone and Global Valley Networks:

-----

On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (Commonwealth or CTE) in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. We paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued common stock with a value of \$247.4 million.

On October 31, 2007, we acquired Global Valley Networks, Inc. (GVN) and GVN Services (GVS) through the purchase from Country Road Communications, LLC of 100% of the outstanding common stock of Evans Telephone Holdings, Inc., the parent Company of GVN and GVS. The purchase price of \$62.0 million was paid with cash on hand.

We have accounted for the acquisitions of Commonwealth and GVN as purchases under U.S. GAAP. Under the purchase method of accounting, the assets and liabilities of Commonwealth and GVN are recorded as of their respective acquisition dates, at their respective fair values, and consolidated with those of Frontier. The reported consolidated financial condition of Frontier as of June 30, 2008 reflects the final allocation of these fair values for Commonwealth and a preliminary allocation of these fair values for GVN.

The following unaudited pro forma financial information presents the combined results of operations of Frontier, Commonwealth and GVN as if the acquisitions had occurred at the beginning of 2007. The historical results of the Company include the results of Commonwealth from the date of its acquisition on March 8, 2007, and GVN from the date of its acquisition on October 31, 2007. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisitions been completed at the beginning of 2007. In addition, the unaudited pro forma financial information does not purport to project the future financial position or operating results of Frontier after completion of the acquisitions.

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

	For the three months ended June 30, 2007	For the six months ended June 30, 2007
(\$ in thousands, except per share amounts)		
Revenue	\$ 582,556	\$ 1,204,633
Operating income	\$ 171,555	\$ 378,748
Net income available for common shareholders	\$ 38,479	\$ 115,491
Basic and Diluted income per common share	\$ 0.11	\$ 0.34

(4) Accounts Receivable:

The components of accounts receivable, net at June 30, 2008 and December 31, 2007 are as follows:

(\$ in thousands)	June 30, 2008	December 31, 2007
End user	\$ 240,577	\$ 244,592
Other	16,851	22,918
Less: Allowance for doubtful accounts	(32,965)	(32,748)
Accounts receivable, net	\$ 224,463	\$ 234,762

The Company maintains an allowance for estimated bad debts based on its estimate of collectibility of its accounts receivable. Bad debt expense, which is recorded as a reduction of revenue, was \$8.4 million and \$6.7 million for the three months ended June 30, 2008 and 2007, respectively, and \$15.6 million and \$11.6 million for the six months ended June 30, 2008 and 2007, respectively.

(5) Property, Plant and Equipment, Net:

Property, plant and equipment at June 30, 2008 and December 31, 2007 are as follows:

(\$ in thousands)	June 30, 2008	December 31, 2007
Property, plant and equipment	\$ 7,482,934	\$ 7,375,297
Less: Accumulated depreciation	(4,217,674)	(4,040,053)
Property, plant and equipment, net	\$ 3,265,260	\$ 3,335,244

Depreciation expense is principally based on the composite group method. Depreciation expense was \$98.3 million and \$93.3 million for the three months ended June 30, 2008 and 2007, respectively, and \$193.5 million and \$179.9 million for the six months ended June 30, 2008 and 2007, respectively.

(6) Other Intangibles:

Other intangibles at June 30, 2008 and December 31, 2007 are as follows:

(\$ in thousands)	June 30, 2008	December 31, 2007
-------------------	---------------	-------------------

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Customer base	\$ 1,271,085	\$ 1,271,085
Trade name	132,381	132,381
Other intangibles	1,403,466	1,403,466
Less: Accumulated amortization	(947,549)	(855,731)
Total other intangibles, net	\$ 455,917	\$ 547,735

Amortization expense was \$45.9 million and \$47.2 million for the three months ended June 30, 2008 and 2007, respectively, and \$91.8 million and \$82.7 million for the six months ended June 30, 2008 and 2007, respectively. Amortization expense for the three and six months ended June

10

30, 2008 is comprised of \$31.6 million and \$63.2 million, respectively, for amortization associated with our "legacy" properties and \$14.3 million and \$28.6 million, respectively, for intangible assets (customer base and trade name) that were acquired in the Commonwealth and GVN acquisitions.

(7) Long-Term Debt:

The activity in our long-term debt from December 31, 2007 to June 30, 2008 is as follows:

(\$ in thousands)	December 31, 2007	Six months ended June 30, 2008			
		Payments	New Borrowings	Interest Rate Swap	Conversion Common
Rural Utilities Service					
Loan Contracts	\$ 17,555	\$ (470)	\$ -	\$ -	
Senior Unsecured Debt	4,715,013	(129,811)	135,000	(7,909)	
EPPICS	14,521	-	-	-	
Industrial Development Revenue Bonds	13,550	-	-	-	
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 4,760,639</b>	<b>\$ (130,281)</b>	<b>\$ 135,000</b>	<b>\$ (7,909)</b>	
Less: Debt Discount	(21,294)				
Less: Current Portion	(2,448)				
	<b>\$ 4,736,897</b>				

\* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates for Rural Utilities Service Loan Contracts, Senior Unsecured Debt, and Industrial Development Revenue Bonds represent a weighted average of multiple issuances.

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

During the first six months of 2008, we retired an aggregate principal amount of \$130.4 million of debt, including \$128.7 million of 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 due 2036 (EPPICS).

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 4.37% as of June 30, 2008 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.

During the first quarter of 2007, we incurred and expensed approximately \$4.0 million of fees associated with the bridge loan facility established to temporarily fund our acquisition of Commonwealth. On April 26, 2007, we redeemed \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. The debt retirement generated a pre-tax loss on the early extinguishment of debt at a premium of approximately \$16.3 million in the second quarter of 2007 and is included in investment and other income (loss), net. As a result of this debt redemption, we also terminated three interest rate swap agreements hedging an aggregate \$150.0 million notional amount of indebtedness. Payments on the swap terminations of approximately \$1.0 million were made in the second quarter of 2007.

As of June 30, 2008, EPPICS representing a total principal amount of \$197.3 million have been converted into 15,925,159 shares of our common stock. Approximately \$3.9 million of EPPICS, which are convertible into 343,281 shares of our common stock, were outstanding at June 30, 2008. The above table indicates \$14.4 million of EPPICS outstanding at June 30, 2008, of which \$10.5 million is debt of related parties for which the Company has an offsetting receivable.

As of June 30, 2008, we had an available line of credit with financial institutions in the aggregate amount of \$250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of June 30, 2008. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of

11

the credit facility we may borrow, repay and reborrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

We are in compliance with all of our debt and credit facility covenants.

(8) Net Income Per Common Share:

-----  
 The reconciliation of the net income per common share calculation for the three and six months ended June 30, 2008 and 2007, respectively, is as follows:

(\$ in thousands, except per share amounts)

For the three months ended June 30, For the s

-----  
 2008

2007

2008

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Net income used for basic and diluted earnings			
-----			
per common share:			
-----			
Total basic net income available for common			
shareholders	\$ 55,778	\$ 40,559	\$ 1
Effect of conversion of preferred securities -			
EPPICS	31	32	
-----			
Total diluted net income available for common			
shareholders	\$ 55,809	\$ 40,591	\$ 1
=====			
Basic earnings per common share:			
-----			
Weighted average shares outstanding - basic	320,838	340,469	3
-----			
Net income per share available for common			
shareholders	\$ 0.17	\$ 0.12	\$
=====			
Diluted earnings per common share:			
-----			
Weighted average shares outstanding - basic	320,838	340,469	3
Effect of dilutive shares	122	760	
Effect of conversion of preferred securities -			
EPPICS	347	359	
-----			
Weighted average shares outstanding - diluted	321,307	341,588	3
=====			
Net income per share available for common			
shareholders	\$ 0.17	\$ 0.12	\$
=====			

Stock Options

-----

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 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, 2007, options to purchase 1,221,150 shares (at exercise prices ranging from \$15.94 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 common shares and, therefore, the effect would be antidilutive.

In addition, for the three and six months ended June 30, 2008 and 2007, restricted stock awards of 1,748,000 and 1,389,000 shares, respectively, are excluded from our basic weighted average shares outstanding and included in our dilutive shares until the shares are no longer subject to restriction after the satisfaction of all specified conditions.

EPPICS

-----

As a result of our July 2004 dividend announcement with respect to our



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

common stock, our EPPICS began to convert into shares of our common stock. As of June 30, 2008, approximately 99% of the EPPICS outstanding, or about \$197.3 million aggregate principal amount of EPPICS, have converted into 15,925,159 shares of our common stock, including shares issued from treasury.

12

We had 78,707 and 81,507 shares of potentially dilutive EPPICS at June 30, 2008 and 2007, respectively, 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 and 355,493 shares of our common stock as of June 30, 2008 and 2007, respectively. These securities have been included in the diluted income per common share calculation for the periods ended June 30, 2008 and 2007.

### Stock Units

At June 30, 2008 and 2007, we had 279,645 and 191,450 stock units, respectively, issued under our Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan) and our Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan). These securities have not been included in the diluted income per share of common stock calculation 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.

### (9) Stock Plans:

At June 30, 2008, we had five stock-based compensation plans under which grants have been made and awards remained outstanding. At June 30, 2008, there were 16,058,182 shares authorized for grant under these plans and 4,246,415 shares available for grant. No further awards may be granted under the Management Equity Incentive Plan (MEIP), the 1996 Equity Incentive Plan (EIP) or the Deferred Fee Plan.

On March 17, 2008, the Company adopted the Long-Term Incentive Program (LTIP). The LTIP will be offered under the Company's Amended and Restated 2000 Equity Incentive Plan and covers the named executive officers and certain other officers. The LTIP is designed to incent and reward the Company's senior executives in the form of common stock if they achieve aggressive growth goals for revenue and free cash flow over a three-year period (the Measurement Period). For purposes of the LTIP, revenue is defined as the Company's total revenues less regulatory revenues, and free cash flow is defined as the Company's publicly reported free cash flow, adjusted to reflect the Company as a full cash taxpayer during the Measurement Period. The growth in these numbers will be measured from a 2007 base, which in the case of free cash flow was also adjusted to reflect the Company as a full cash taxpayer and for certain other items.

The following summary presents information regarding outstanding stock options as of June 30, 2008 and changes during the six months then ended with regard to options under the MEIP and the EIPs:

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

	Shares Subject to Option	Weighted Average Option Price Per Share	Weighted Average Remain- ing Life in
Balance at January 1, 2008	3,955,000	\$ 13.13	
Options granted	-	\$ -	
Options exercised	(131,000)	\$ 7.29	
Options canceled, forfeited or lapsed	(53,000)	\$ 10.11	
Balance at June 30, 2008	3,771,000	\$ 13.38	
Exercisable at June 30, 2008	3,756,000	\$ 13.38	

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.

The total intrinsic value of stock options exercised during the first six months of 2007 was \$4.9 million. The total intrinsic value of stock options outstanding and exercisable at June 30, 2007 was \$12.6 million. There were no options granted during the first six months of 2007. Cash received upon the exercise of options during the first six months of 2007 totaled \$11.5 million.

13

The following summary presents information regarding unvested restricted stock as of June 30, 2008 and changes during the six months then ended with regard to restricted stock under the MEIP and the EIPs:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Fair Value
Balance at January 1, 2008	1,209,000	\$ 14.06	\$ 15,390,000
Restricted stock granted	883,000	\$ 11.02	\$ 10,007,000
Restricted stock vested	(326,000)	\$ 13.96	\$ 3,699,000
Restricted stock forfeited	(18,000)	\$ 13.55	\$ 200,000
Balance at June 30, 2008	1,748,000	\$ 12.55	\$ 19,818,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at June 30, 2008 was \$18.8 million and the weighted average period over which this cost is expected to be recognized is approximately three years.

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

The total fair value of shares granted and vested during the six months ended June 30, 2007 was approximately \$10.6 million and \$7.2 million, respectively. The total fair value of unvested restricted stock at June 30, 2007 was \$21.2 million. The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2007 was \$15.08. Shares granted during the first six months of 2007 totaled 696,000.

(10) 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, 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.

(11) 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 \$3.4 million of deferred gain during the first six months of 2008 and anticipate recognizing \$1.6 million during the second half of 2008.

As of January 16, 2008, we no longer have any derivative instruments. For the six months ended June 30, 2007, the interest expense resulting from these interest rate swaps totaled approximately \$2.0 million.

14

(12) Investment and Other Income (Loss), Net:

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

(\$ in thousands)	For the three months ended June 30,		For the six months
	2008	2007	2008
Interest and dividend income	\$ 1,424	\$ 8,444	\$ 6,528
Bridge loan fee	-	-	-
Premium on debt repurchases	-	(17,092)	(6,290)
Gains on expiration/settlement of customer advances, net	2,883	-	2,883
Equity earnings/minority interest in joint ventures, net	2,405	1,575	2,108
Other, net	(319)	556	(71)

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Total investment and other income (loss), net	\$ 6,393	\$ (6,517)	\$ 5,158
--	----------	------------	----------

(13) Retirement Plans:

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

	Pension Benefits		
	For the three months ended June 30,		For the six months ended June 30,
	2008	2007	2008
(\$ in thousands)			
Components of net periodic benefit cost			
Service cost	\$ 1,619	\$ 2,754	\$ 3,238
Interest cost on projected benefit obligation	12,875	13,115	25,750
Expected return on plan assets	(16,354)	(17,106)	(32,708)
Amortization of prior service cost and unrecognized net obligation	(64)	81	(128)
Amortization of unrecognized loss	1,272	2,906	2,544
Net periodic benefit cost/(income)	\$ (652)	\$ 1,750	\$ (1,304)

	Other Postretirement Benefits		
	For the three months ended June 30,		For the six months ended June 30,
	2008	2007	2008
(\$ in thousands)			
Components of net periodic benefit cost			
Service cost	\$ 149	\$ 175	\$ 298
Interest cost on projected benefit obligation	2,742	2,218	5,484
Expected return on plan assets	(122)	(254)	(244)
Amortization of prior service cost and transition obligation	(1,934)	(1,447)	(3,868)
Amortization of unrecognized loss	1,404	1,171	2,808
Net periodic benefit cost	\$ 2,239	\$ 1,863	\$ 4,478

We expect that our 2008 pension and other postretirement benefit expenses will be between \$5.0 million and \$10.0 million, and that no contribution will be required to be made by us to the pension plan in 2008.

(14) Commitments and Contingencies:

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

We anticipate capital expenditures of approximately \$300.0 million - \$310.0 million for 2008. 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.

Ronald A. Katz Technology Licensing LP, filed suit against us for patent infringement on June 8, 2007 in the U.S. District Court for the District of Delaware. Katz Technology alleges that, by operating automated telephone systems, including customer service systems, that allow our customers to utilize telephone calling cards, order internet, DSL, and dial-up services, and perform a variety of account related tasks such as billing and payments, we have infringed thirteen of Katz Technology's patents and continue to infringe three of Katz Technology's patents. Katz Technology seeks unspecified damages resulting from our alleged infringement, as well as a permanent injunction enjoining us from continuing the alleged infringement. Katz Technology subsequently filed a tag-along notice with the Judicial Panel on Multi-District Litigation, notifying them of this action and its relatedness to In re Katz Interactive Dial Processing Patent Litigation (MDL No. 1816), pending in the Central District of California before Judge R. Gary Klausner. The Judicial Panel on Multi-District Litigation has transferred the case to the Central District of California. In January 2008, we received notice of the accused services and 40 asserted claims from Katz Technology. The case is now in the discovery phase and interrogatories have been served and answered. The parties have engaged in settlement discussions but have not reached agreement. In the event that we are not able to settle, we intend to vigorously defend against this lawsuit.

We are party to various other 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 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 FIN No. 45 requires that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 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

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

the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2008 and remained in default for the duration of the contract (another 8 years), we estimate that our undiscounted purchase obligation for 2008 through 2015 would be approximately \$1.1 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.

(15) Subsequent Event:

Effective July 31, 2008, Citizens Communications Company (CZN) changed its name and stock symbol to Frontier Communications Corporation (FTR).

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:

- \* Reductions in the number of our access lines and high-speed internet subscribers;
- \* The effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VOIP) or otherwise);
- \* The effects of greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis;
- \* The effects of general and local economic, business, industry and employment conditions on our revenues;
- \* 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;

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

- \* Our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, switched access services and subsidies;
- \* Changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators;
- \* The effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, including potential changes in state rate of return limitations on our earnings, access charges and subsidy payments, and regulatory network upgrade and reliability requirements;
- \* Our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to reduce or refinance our debt;
- \* Adverse changes in the credit markets and/or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability and/or increase the cost of financing;
- \* The effects of bankruptcies in the telecommunications industry, which could result in potential 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;

17

- \* 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 2008 and thereafter;
- \* Our ability to pay a \$1.00 per common share dividend annually, 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 the future) and our liquidity;
- \* The effects of significantly increased cash taxes in 2008 and future years; and
- \* The effects of any unfavorable outcome with respect to any of our current or future legal, governmental or regulatory proceedings, audits or disputes.

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

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

ended December 31, 2007, 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 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.

### Overview

-----  
We are a full-service communications provider and one of the largest exchange telephone carriers in the country. We offer our incumbent local exchange carrier (ILEC) services under the "Frontier" name. On March 8, 2007, we completed the acquisition of Commonwealth Telephone Enterprises, Inc., which includes a small competitive local exchange carrier (CLEC) component. This acquisition expands our presence in Pennsylvania and strengthens our position as a leading full-service communications provider to rural markets. On October 31, 2007, we completed the acquisition of Global Valley Networks, Inc. and GVN Services which expands our presence in California and also strengthens our rural position. As of June 30, 2008, we operated in 24 states with approximately 5,700 employees.

Competition in the telecommunications industry is intense and increasing. We experience competition from many telecommunications service providers, including cable operators, wireless carriers, voice over internet protocol (VOIP) providers, long distance providers, competitive local exchange carriers, internet providers and other wireline carriers. We believe that as of June 30, 2008, approximately 58% of the households in our territories are able to be served VOIP service by cable operators. We also believe that competition will continue to intensify in 2008 and 2009 and may result in reduced revenues in those years. Our business experienced erosion in access lines and switched access minutes in the first half of 2008 primarily as a result of competition. Competition in our markets may result in reduced revenues in 2008 and 2009.

The communications industry is undergoing significant changes. The market is extremely competitive, resulting in lower prices. In addition, the slowing economic environment in 2008 may be impacting consumer behavior to reduce household expenditures by disconnecting wireline services. These trends are likely to continue and result in a challenging revenue environment. These factors could also result in more bankruptcies and, therefore, affect our ability to collect money owed to us by customers.

We employ a number of strategies to combat the competitive pressures noted above. Our strategies are focused in three areas: customer retention, upgrading and up-selling services to our existing customer base, and new product deployment.

18

We hope 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 1, 2 and 3 year price protection plans where customers commit to a term in exchange for predictable pricing and/or promotional offers. 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, due to a recent realignment and restructuring of



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

approximately 70 local area markets, those markets are now operated by local managers with responsibility for the customer experience in those markets as well as the financial results.

We utilize targeted and innovative promotions to upgrade and up-sell 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. We intend to continue to evaluate the need and effectiveness of offering such promotions to drive sales and may offer additional promotions during 2008.

Lastly, we are focused on introducing a number of new products that our customers desire including wireless data, internet portal advertising and the "Frontier Peace of Mind" product suite. This last category is a suite of products aimed at managing our customers' computer environment and protecting residential and business customers against loss of data as a result of computer failure. It includes one or a combination of hard drive back-up, access to an enhanced level of help desk support and inside wire maintenance. We offer our Peace of Mind services both to our customers and to other users inside and outside of our service territories. 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 and providing superior customer service will make our customers more loyal to us, 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. The decreasing revenue from historical sources, along with the potential for increasing operating costs, could cause our profitability and our cash generated by operations to decrease.

19

### a) Liquidity and Capital Resources

As of June 30, 2008, we had cash and cash equivalents aggregating \$178.9 million. Our primary source of funds continued to be cash generated from operations. For the six months ended June 30, 2008, we used cash flow from operations, incremental borrowing and cash and cash equivalents to fund capital expenditures, dividends, interest payments, debt repayments and stock repurchases.

#### Cash Flow from Operating Activities

We believe our operating cash flows, existing cash balances, and 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 and support our short-term and long-term operating strategies. However, a number of factors, including but not limited to, increased cash taxes, losses of access lines, increases in competition and lower subsidy and access revenues are expected to reduce our cash generated by operations. Our below-investment grade credit ratings may make it more difficult and expensive to refinance our maturing debt, although we do not have any significant maturities until 2011. We have

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

approximately \$1.9 million of debt maturing during the last six months of 2008 and approximately \$3.9 million and \$7.2 million of debt maturing in 2009 and 2010, respectively.

We paid \$49.6 million in cash taxes during the first six months of 2008 and expect to pay approximately \$100 million to \$110 million for the full year of 2008. Our cash tax estimate reflects the currently estimated impact of the "Economic Stimulus Act of 2008." We expect that our cash taxes will increase further in 2009.

### Cash Flow used by Investing Activities

-----

#### Acquisitions

-----

On March 8, 2007, we acquired Commonwealth in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. We paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued common stock with a value of \$247.4 million.

On October 31, 2007, we completed the acquisition of Global Valley Networks, Inc. and GVN Services for a total cash consideration of \$62.0 million.

#### Capital Expenditures

-----

For the six months ended June 30, 2008, our capital expenditures were \$123.7 million. 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 \$300.0 million to \$310.0 million for 2008.

### Cash Flow used by Financing Activities

-----

#### Debt Reduction and Debt Exchanges

-----

For the six months ended June 30, 2008, we retired an aggregate principal amount of \$130.4 million of debt, including \$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.

For the six months ended June 30, 2007, we retired an aggregate principal amount of \$935.6 million of debt, including \$3.3 million of EPPICS and \$17.8 million of 3.25% Commonwealth convertible notes that were converted into our common stock. On April 26, 2007, we redeemed \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. During the first quarter of 2007, we temporarily borrowed and repaid \$200.0 million utilized to temporarily fund the acquisition of Commonwealth, and we paid down the \$35.0 million Commonwealth credit facility. Through June 30, 2007 we retired \$183.3 million face amount of Commonwealth convertible notes for which we paid \$165.4 million in cash and \$36.7 million in common stock. We also paid down \$14.2 million of industrial development revenue bonds and \$3.9 million of rural utilities service loan contracts.

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

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

privately negotiated transactions. We may also exchange existing debt for newly issued debt obligations.

### Issuance of Debt Securities

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 4.37% as of June 30, 2008 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.

On March 23, 2007, we issued in a private placement an aggregate \$300.0 million principal amount of 6.625% Senior Notes due 2015 and \$450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down \$200.0 million principal amount of indebtedness incurred on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth and redeem, on April 26, 2007, \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. In the second quarter of 2007, we completed an exchange offer (to publicly register the debt) for the \$750.0 million in total of private placement notes described above, in addition to the \$400.0 million principal amount of 7.875% Senior Notes due 2027 issued in a private placement on December 22, 2006, for registered notes.

### EPPICS

As of June 30, 2008, EPPICS representing a total principal amount of \$197.3 million have been converted into 15,925,159 shares of our common stock, and a total of \$3.9 million remains outstanding to third parties. Our long-term debt footnote indicates \$14.4 million of EPPICS outstanding at June 30, 2008, of which \$10.5 million is debt of related parties for which we have an offsetting receivable.

### Interest Rate Management

In order to manage our interest expense, we had entered into interest rate swap agreements. Under the terms of these agreements, we made semi-annual, floating rate interest payments based on six month LIBOR and received a fixed rate on the notional amount. The underlying variable rate on these swaps was set either in advance or in arrears.

The notional amounts of fixed-rate indebtedness hedged as of December 31, 2007 were \$400.0 million. Such contracts required us to pay variable rates of interest (estimated average pay rates of approximately 8.54% as of December 31, 2007) and receive fixed rates of interest (average receive rate of 8.50% as of December 31, 2007). All swaps were accounted for under SFAS No. 133 (as amended) as fair value hedges. For the six months ended June 30, 2007, the interest expense resulting from these interest rate swaps totaled approximately \$2.0 million.

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.

### Credit Facilities

As of June 30, 2008, we had available lines of credit with financial

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

institutions in the aggregate amount of \$250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of June 30, 2008. 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. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

### 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 Corporate 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.

21

Our \$200.0 million term loan facility with the Rural Telephone Finance Cooperative (RTFC), that matures in 2011, contains 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 agreement) over the last four quarters no greater than 4.00 to 1.

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

We are 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, 2008 and 2007, we received approximately \$1.0 million and \$11.5 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. As of June 30, 2008, we had repurchased approximately 10,383,000 shares

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

of our common stock at an aggregate cost of approximately \$112.7 million.

In February 2007, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock in public or private transactions over the following twelve month period. This share repurchase program commenced on March 19, 2007 and was completed on October 15, 2007. During 2007, we repurchased 17,279,600 shares of our common stock at an aggregate cost of \$250.0 million.

### Dividends

-----  
We expect 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 our credit facilities and other factors our Board of Directors deems relevant.

### 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 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 the 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, the long-term incentive program, income taxes, contingencies and purchase price allocations, among others.

22

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.

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, 2007.

### New Accounting Pronouncements

-----  
The following new accounting standards were adopted by the Company in the first quarter of 2008 without any material financial statement impact. All of these standards are more fully described in Note 2 to the consolidated financial statements.

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

- \* Accounting for Endorsement Split-Dollar Life Insurance Arrangements  
-----  
(EITF No. 06-4)  
-----
- \* Fair Value Measurements (SFAS No. 157), as amended  
-----
- \* The Fair Value Option for Financial Assets and Financial Liabilities -  
-----  
Including an Amendment of FASB Statement No. 115 (SFAS No. 159)  
-----
- \* Accounting for Collateral Assignment Split-Dollar Life Insurance  
-----  
Arrangements (EITF No. 06-10)  
-----
- \* Accounting for the Income Tax Benefits of Dividends on Share-Based  
-----  
Payment Awards (EITF No. 06-11)  
-----

The following new accounting standards that will be adopted by the Company in 2008 and 2009 are currently being evaluated by the Company.

- \* Business Combinations (SFAS No. 141R)  
-----
- \* Noncontrolling Interests in Consolidated Financial Statements (SFAS  
-----  
No. 160)  
-----

23

### (b) Results of Operations -----

#### REVENUE

Revenue is generated primarily through the provision of local, network access, long distance, and data and internet services. Such services are provided 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.

Consolidated revenue for the three months ended June 30, 2008 decreased \$16.3 million, or 3%, as compared with the prior year period. Consolidated revenue for the six months ended June 30, 2008 decreased \$3.2 million as compared with the prior year period. Excluding the additional revenue due to the CTE and GVN acquisitions, revenue decreased \$63.7 million during the first half of 2008, or 6%, as compared with the prior period. During the first quarter of 2007, we had a significant favorable settlement of a carrier dispute that resulted in a favorable one-time impact to our revenue of \$38.7 million. Excluding the additional revenue due to the one-time favorable settlement in the first quarter of 2007 and the additional revenue due to the CTE and GVN acquisitions, our revenue for the six months ended June 30, 2008 would have declined \$25.0 million, or 3%, as compared to the first six months of 2007. This decline is a result of lower local services revenue, subsidy revenue and switched access

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

revenue, partially offset by a \$22.6 million increase in data and internet services revenue.

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 competition, changing consumer behavior, economic conditions, changing technology and by some customers disconnecting second lines when they add high-speed internet or cable modem service. We lost approximately 88,400 access lines during the six months ended June 30, 2008, but added approximately 36,500 high-speed internet subscribers during this same period. The loss of lines during the first six months of 2008 was primarily among residential customers throughout our markets. The non-residential line losses were principally in our eastern and central regions and Rochester, New York.

While access lines is an important metric to gauge some revenue trends, it is not necessarily the best or only measure to evaluate the business. Management believes that understanding the different components of revenue is most important. For this reason, presented on page 26 is a revenue breakdown that categorizes revenue into customer revenue and regulatory revenue (switched and subsidy revenue). Despite the decline in access lines, our customer revenue, which is all revenue except switched access and subsidy, has remained relatively flat overall. The average monthly customer revenue per access line has improved and resulted in an increased wallet share, primarily from residential customers. We expect to continue to lose access lines but to increase high-speed internet subscribers during the remainder of 2008. A continued loss of access lines, combined with increased competition and the other factors discussed herein may cause our revenues, profitability and cash flows to decrease in the second half of 2008.

Our historical results include the results of operations of Commonwealth from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. 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, 2008 and 2007, including the results of our acquisitions.

### REVENUE

(\$ in thousands)	For the three months ended June 30,				For the six months ended	
	2008	2007	\$ Change	% Change	2008	2007
Local services	\$ 214,703	\$226,363	\$ (11,660)	-5%	\$ 431,861	\$ 430,807
Data and internet services	151,655	138,243	13,412	10%	297,637	256,267
Access services	101,003	113,429	(12,426)	-11%	208,821	252,453
Long distance services	46,912	47,053	(141)	0%	93,365	87,481
Directory services	29,070	28,664	406	1%	57,698	57,334
Other	19,207	25,074	(5,867)	-23%	42,373	50,631
	<u>\$ 562,550</u>	<u>\$578,826</u>	<u>\$ (16,276)</u>	<u>-3%</u>	<u>\$ 1,131,755</u>	<u>\$1,134,973</u>

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

Local services revenue for the three months ended June 30, 2008 decreased \$11.7 million, or 5%, as compared with the prior year period. The loss of access lines accounted for \$8.7 million of the decline in local services revenue.

Local services revenue for the six months ended June 30, 2008 increased \$1.1 million, as compared with the prior year period. Local services revenue increased \$21.7 million as a result of the CTE and GVN acquisitions and decreased \$18.4 million for our legacy Frontier operations, primarily due to the continued loss of access lines. Enhanced services revenue decreased \$2.2 million, as compared with the prior year period, primarily due to a decline in access lines and a shift in customers purchasing our unlimited voice communications packages.

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 revenues, profitability and cash flow.

### Data and Internet Services

Data and internet services revenue for the three months ended June 30, 2008 increased \$13.4 million, or 10%, as compared with the prior year period, primarily due to growth in data and high-speed internet services.

Data and internet services revenue for the six months ended June 30, 2008 increased \$41.4 million, or 16%, as compared with the prior year period. Data and internet services revenue increased \$18.8 million as a result of the CTE and GVN acquisitions and another \$15.6 million due to the overall growth in data and high-speed internet customers. The number of the Company's high-speed internet subscribers has increased by more than 80,000, or 17%, since June 30, 2007. Data and internet services also includes revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits like DS-1's and DS-3's. Revenue from these dedicated high-capacity circuits increased \$8.5 million, as compared with the prior year period, primarily due to growth in the number of those circuits.

### Access Services

Access services revenue for the three months ended June 30, 2008 decreased \$12.4 million, or 11%, as compared with the prior year period. Switched access revenue of \$72.7 million decreased \$10.1 million, as compared with the prior year period, primarily due to the impact of a decline in minutes of use related to access line losses. Access services revenue includes subsidy payments we receive from federal and state agencies. Subsidy revenue of \$28.3 million decreased \$2.3 million, 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).

Access services revenue for the six months ended June 30, 2008 decreased \$43.6 million, or 17%, as compared with the prior year period. Access services revenue increased \$11.3 million as a result of the CTE and GVN acquisitions. Switched access revenue, excluding the impact of the CTE and GVN acquisitions, of \$116.7 million decreased \$45.6 million, primarily due to the first quarter 2007 settlement of a carrier dispute resulting in a favorable impact on our revenue of \$38.7 million (a one-time event) and the impact of a decline in minutes of use related to access line losses. Excluding the impact of that one-time favorable settlement in the first six months of 2007, our switched access revenue for the first half of 2008 would have declined by \$6.9 million, or 6%, from the comparable period in 2007. Subsidy revenue, excluding the impact of the CTE and GVN acquisitions, of \$52.5 million decreased \$9.3 million, 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



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

decreases in our federal subsidy revenue in the future. The Federal Communications Commission (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. While this order will have no impact on our current receipt levels, we believe this is a positive first step to limit the rapid growth of the fund. The CETC cap will remain in place until the FCC takes additional steps towards needed reform. The FCC is also reviewing the mechanism by which subsidies are funded. Additionally, the FCC and certain states have open proceedings to address reform to access charges and other intercarrier compensation. We cannot predict when or how these matters will be decided nor 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. 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.

25

### Long Distance Services

Long distance services revenue for the three months ended June 30, 2008 was relatively unchanged as compared with the prior year period.

Long distance services revenue for the six months ended June 30, 2008 increased \$5.9 million, or 7%, as compared with the prior year period, as a result of \$6.9 million in additional long distance services revenue from the CTE and GVN acquisitions. We have actively marketed a package of unlimited long distance minutes with our digital phone and state unlimited bundled service offerings. The sale of our digital phone and state unlimited products, and its associated unlimited minutes, has resulted in an increase in long distance customers, and the minutes used by these customers. This has lowered our overall average rate per minute billed.

Our long distance minutes of use increased by 23% during the six months ended June 30, 2008 compared to the six months of 2007. Our long distance services revenues have remained relatively unchanged, but may decrease in the future due to lower 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 revenues during the remainder of 2008.

### Directory Services

Directory services revenue for the three and six months ended June 30, 2008 was relatively unchanged as compared with the prior year periods.

### Other

Other revenue for the three and six months ended June 30, 2008 decreased \$5.9 million, or 23%, and \$8.3 million, or 16%, as compared with the prior year periods, primarily due to higher bad debt expenses, fewer equipment sales and decreased "bill and collect" fee revenue.

### OTHER FINANCIAL AND OPERATING DATA

	As of June 30, 2008	As of June 30, 2007	%
	-----	-----	-----
Access lines:			
Residential	1,516,402	1,654,854	-8%

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Business	825,345	848,864	-3%
Total access lines	2,341,747	2,503,718	-6%
High-speed internet (HSI) subscribers	559,345	479,317	17%
Video subscribers	107,596	81,092	33%

	For the three months ended June 30,				For the six months ended June 30,	
	2008	2007	\$ Change	% Change	2008	2007
<b>Revenue:</b>						
Residential	\$ 239,633	\$ 248,550	\$ (8,917)	-4%	\$ 480,995	\$ 480,995
Business	221,914	216,847	5,067	2%	441,939	441,939
Total customer revenue	461,547	465,397	(3,850)	-1%	922,934	922,934
Regulatory (Access Services)	101,003	113,429	(12,426)	-11%	208,821	208,821
Total revenue	\$ 562,550	\$ 578,826	\$ (16,276)	-3%	\$1,131,755	\$1,131,755
Switched access minutes of use (in millions)	2,538	2,748		-8%	5,141	5,141
Average monthly total revenue per access line	\$ 79.31	\$ 76.53		4%	\$ 79.04	\$ 79.04
Average monthly customer revenue per access line	\$ 65.07	\$ 61.53		6%	\$ 64.46	\$ 64.46

(1) For the six months ended June 30, 2007, the calculation excludes CTE and GVN data and excludes the \$38.7 million favorable one-time impact from the first quarter 2007 settlement of a switched access dispute. The amount is \$81.82 with the \$38.7 million favorable one-time impact from the settlement.

(2) For the six months ended June 30, 2007, the calculation excludes CTE and GVN data.

26

NETWORK ACCESS EXPENSES

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,	
	2008	2007	\$ Change	% Change	2008	2007
Network access	\$ 53,998	\$ 53,678	\$ 320	1%	\$ 114,547	\$ 105,075

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

Network access expenses for the three months ended June 30, 2008 increased \$0.3 million, or 1%, as compared with the prior year period.

Network access expenses for the six months ended June 30, 2008 increased \$9.5 million, or 9%, as compared with the prior year period, as a result of \$9.8 million in additional network access expenses due to the CTE and GVN acquisitions.

### OTHER OPERATING EXPENSES

(\$ in thousands) -----	For the three months ended June 30,				-----
	2008	2007	\$ Change	% Change	2008
Wage and benefit expenses	\$ 95,317	\$100,500	\$ (5,183)	-5%	\$195,463
Severance and early retirement costs	480	1,594	(1,114)	-70%	3,371
Stock based compensation	3,145	2,038	1,107	54%	6,164
All other operating expenses	103,391	109,256	(5,865)	-5%	200,599
	-----	-----	-----	-----	-----
	\$202,333	\$213,388	\$ (11,055)	-5%	\$405,597
	=====	=====	=====		=====

#### Wage and benefit expenses

Wage and benefit expenses for the three months ended June 30, 2008 decreased \$5.2 million, or 5%, as compared to the prior year period, primarily due to headcount reductions and associated decreases in compensation and benefit expenses attributable to the integration of the back office, customer service and administrative support functions of the CTE and GVN operations acquired in 2007.

Wage and benefit expenses for the six months ended June 30, 2008 decreased \$4.9 million, or 2%, as compared with the prior year period. Wage and benefit expenses increased \$1.9 million as a result of the CTE and GVN acquisitions. All other wage and benefit expenses decreased \$6.8 million for the six months ended June 30, 2008, as compared with the prior year period, primarily due to headcount reductions and associated decreases in compensation and benefit expenses from the integration of functions, as described above.

Included in wage and benefit expenses is pension and other postretirement benefit expenses. These costs for the six months ended June 30, 2008 and 2007 were approximately \$3.2 million and \$6.6 million, respectively. Based on current assumptions and plan asset values, we estimate that our 2008 pension and other postretirement benefit expenses will be approximately \$5.0 million to \$10.0 million and that no contribution will be made by us to our pension plan in 2008. In future periods, if the value of our pension plan assets decline and/or projected pension and/or postretirement benefit costs increase, we may have increased pension and/or other postretirement benefit expenses.

#### Severance and early retirement costs

Severance and early retirement costs for the three months ended June 30, 2008 decreased \$1.1 million as compared with the prior year period, primarily due to CTE related charges recorded in the second quarter of 2007.

Severance and early retirement costs for the six months ended June 30, 2008 increased \$1.6 million as compared with the prior year period, primarily due to

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

charges recorded in the first half of 2008 related to employee early retirements and terminations for 42 Rochester, New York employees.

27

### Stock based compensation

Stock based compensation for the three months ended June 30, 2008 increased \$1.1 million, or 54%, as compared with the prior year period, due to costs associated with the recently adopted long-term incentive program.

Stock based compensation for the six months ended June 30, 2008 increased \$0.7 million, or 13%, as compared with the prior year period, due to costs associated with the recently adopted long-term incentive program, partially offset by reduced costs associated with stock units and stock options, since we have fewer stock option grants that remain unvested compared to the prior year period.

### All other operating expenses

All other operating expenses for the three months ended June 30, 2008 decreased \$5.9 million, or 5%, as compared with the prior year period, primarily due to the expense savings realized by our acquisitions of Commonwealth and Global Valley. All other operating expenses for the six months ended June 30, 2008 increased \$5.5 million, or 3%, as compared with the prior year period, primarily due to the additional expenses of \$10.5 million resulting from the CTE and GVN acquisitions, as 2008 includes six months of expenses for CTE and GVN while 2007 includes approximately four months for CTE and no costs for GVN.

### DEPRECIATION AND AMORTIZATION EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six months	
	2008	2007	\$ Change	% Change	2008	2007
Depreciation expense	\$ 98,367	\$ 93,286	\$ 5,081	5%	\$ 193,512	\$ 179,933
Amortization expense	45,883	47,176	(1,293)	-3%	91,818	82,710
	\$144,250	\$140,462	\$ 3,788	3%	\$ 285,330	\$ 262,643

Depreciation and amortization expense for the three months ended June 30, 2008 increased \$3.8 million, or 3%, as compared to the prior year period. Depreciation and amortization expense for the six months ended June 30, 2008 increased \$22.7 million, or 9%, as compared with the prior year period. Depreciation and amortization expense for the six months ended June 30, 2008 increased \$25.3 million as a result of our 2007 acquisitions of CTE and GVN and includes amortization expense related to the customer base acquired in the CTE and GVN acquisitions and the Commonwealth trade name. Depreciation and amortization expense for the six months ended June 30, 2008 decreased \$2.6 million, as compared with the prior year period, primarily due to a declining net asset base for our legacy Frontier properties, 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 lives proposed in the study effective October 1, 2007. Our "composite depreciation rate" increased from 5.25% to 5.45% as a result of the study. We anticipate depreciation expense of approximately \$375.0 million to \$385.0 million and amortization expense of \$180.0 million to \$185.0 million for 2008.

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

### INVESTMENT AND OTHER INCOME (LOSS), NET/INTEREST EXPENSE/INCOME TAX EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six months e	
	2008	2007	\$ Change	% Change	2008	2007
Investment and other income (loss), net	\$ 6,393	\$ (6,517)	\$ 12,910	198%	\$ 5,158	\$ 3,500
Interest expense	\$ 90,710	\$ 98,649	\$ (7,939)	-8%	\$ 181,570	\$ 192,613
Income tax expense	\$ 21,874	\$ 25,573	\$ (3,699)	-14%	\$ 48,502	\$ 67,261

Investment and other income (loss), net for the three months ended June 30, 2008 increased \$12.9 million, or 198%, as compared with the prior year period, primarily due to the loss on retirement of debt of \$17.1 million during the second quarter of 2007, partially offset by a decrease of \$7.0 million in income from short-term investments of cash.

28

Investment and other income (loss), net for the six months ended June 30, 2008 increased \$1.7 million, or 47%, as compared with the prior year period, primarily due to a reduction in the loss on retirement of debt of \$11.9 million and the \$4.0 million expense of a bridge loan fee recorded during the first quarter of 2007, partially offset by a decrease of \$16.4 million in income from short-term investments of cash.

Our average cash balance was \$211.0 million and \$832.3 million for the six months ended June 30, 2008 and 2007, respectively.

#### Interest expense

Interest expense for the three months ended June 30, 2008 decreased \$7.9 million, or 8%, as compared with the prior year period, primarily due to the amortization of the deferred gain associated with the termination of our interest rate swap agreements and lower average debt levels. Our average debt outstanding was \$4,757.9 million and \$5,064.5 million for the three months ended June 30, 2008 and 2007, respectively.

Interest expense for the six months ended June 30, 2008 decreased \$11.0 million, or 6%, as compared with the prior year period, primarily due to the amortization of the deferred gain associated with the termination of our interest rate swap agreements and retirement of related debt during the first quarter of 2008, along with slightly lower average debt levels. Our average debt outstanding was \$4,758.8 million and \$4,887.3 million for the six months ended June 30, 2008 and 2007, respectively. Our composite average borrowing rate as of June 30, 2008 as compared with the prior year was 31 basis points lower, decreasing from 7.94% to 7.63%.

#### Income tax expense

Income tax expense for the three and six months ended June 30, 2008 decreased \$3.7 million, or 14%, and \$18.8 million, or 28%, respectively, as compared with the prior year periods, primarily due to changes in taxable income and the reduction in income tax expense of \$7.5 million recorded in the second quarter of 2008 that resulted from the expiration of certain statute of limitations on April 15, 2008. The effective tax rate for the first six months of 2008 was 32.4% as compared with 38.3% for the first six months of 2007. Our cash taxes paid for the six months ended June 30, 2008 were \$49.6 million, an increase of \$2.2 million from the first six months of 2007. We expect to pay approximately

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

\$100 million to \$110 million for the full year of 2008. Our 2008 cash tax estimate reflects the currently estimated impact of the "Economic Stimulus Act of 2008."

As a result of the expiration of certain statute of limitations on April 15, 2008, the liabilities on our books as of December 31, 2007 related to uncertain tax positions recorded under FASB Interpretation No. (FIN) 48 were reduced by \$16.2 million in the second quarter of 2008. This reduction lowered income tax expense by \$7.5 million, goodwill by \$3.0 million and deferred income tax assets by \$5.7 million during the second quarter of 2008.

### 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 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, 2008 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 \$282.4 million of our borrowings at June 30, 2008 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, 2008, a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

29

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, 2008, the fair value of our long-term debt was estimated to be approximately \$4.4 billion, based on our overall weighted average borrowing rate of 7.63% and our overall weighted average maturity of approximately 13 years. There has been no material change in the weighted average maturity applicable to our obligations since December 31, 2007.

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

### Equity Price Exposure

Our exposure to market risks for changes in security prices as of June 30, 2008 is limited to our pension assets. We have no other security investments of any material amount.

### Item 4. Controls and Procedures

-----

#### (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, 2008, that our disclosure controls and procedures are effective.

#### (b) Changes in internal control over financial reporting

We reviewed our internal control over financial reporting at June 30, 2008. 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 2008 that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

30

## 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, 2007, except as set forth below:

Ronald A. Katz Technology Licensing LP, filed suit against us for patent infringement on June 8, 2007 in the U.S. District Court for the District of Delaware. Katz Technology alleges that, by operating automated telephone systems, including customer service systems, that allow our customers to utilize telephone calling cards, order internet, DSL, and dial-up services, and perform a variety of account related tasks such as billing and payments, we have infringed thirteen of Katz Technology's patents and continue to infringe three of Katz Technology's patents. Katz Technology seeks unspecified damages resulting from our alleged infringement, as well as a permanent injunction enjoining us from continuing the alleged infringement. Katz Technology subsequently filed a tag-along notice with the Judicial Panel on Multi-District Litigation, notifying them of this action and its relatedness to In re Katz Interactive Dial Processing Patent Litigation (MDL No. 1816), pending in the Central District of California before Judge R. Gary Klausner. The Judicial Panel on Multi-District Litigation has transferred the case to the Central District of California. In January 2008, we received notice of the accused services and 40 asserted claims from Katz Technology. The case is now in the discovery phase and interrogatories have been served and answered. The parties have engaged in settlement discussions but have not reached agreement. In the event that we are not able to settle, we intend to vigorously defend against this lawsuit.

### Item 1A. Risk Factors

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

-----

There have been no 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, 2007.

### 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, 2008.

31

### ISSUER PURCHASES OF EQUITY SECURITIES

-----

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maxim Approxim Dollar Val Shares tha Yet Be Purc Under the or Progra millio
April 1, 2008 to April 30, 2008				
Share Repurchase Program (1)	2,410,812	\$ 10.51	4,727,580	\$ 149.9
Employee Transactions (2)	247	\$ 10.81	N/A	N/A
May 1, 2008 to May 31, 2008				
Share Repurchase Program (1)	2,582,411	\$ 10.84	7,309,991	\$ 121.9
Employee Transactions (2)	-	-	N/A	N/A
June 1, 2008 to June 30, 2008				
Share Repurchase Program (1)	3,073,533	\$ 11.24	10,383,524	\$ 87.4
Employee Transactions (2)	143	\$ 9.26	N/A	N/A
Totals April 1, 2008 to June 30, 2008				
Share Repurchase Program (1)	8,066,756	\$ 10.89	10,383,524	\$ 87.4
Employee Transactions (2)	390	\$ 10.24	N/A	N/A

(1) 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.

(2) 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.



Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

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

- (a) The registrant held its 2008 Annual Meeting of the Stockholders on May 15, 2008 (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	277,530,899	8,356,519
Leroy T. Barnes, Jr.	277,521,933	8,365,485
Peter C.B. Bynoe	277,598,311	8,289,107
Michael T. Dugan	277,636,905	8,250,513
Jeri B. Finard	277,574,695	8,312,723
Lawton W. Fitt	276,868,610	9,018,808
William M. Kraus	277,130,395	8,757,023
Howard L. Schrott	277,692,849	8,194,569
Larraine D. Segil	277,640,379	8,247,039
David H. Ward	277,383,897	8,503,521
Myron A. Wick III	277,129,109	8,758,309
Mary Agnes Wilderotter	274,948,439	10,938,979

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

(1) Adoption of an amendment to the Company's Restated Certificate of Incorporation to change the Company's name from Citizens Communications Company to Frontier Communications Corporation. The matter passed with the following vote:

Number of votes FOR	274,962,708
Number of votes AGAINST	6,180,244
Number of votes ABSTAINING	4,744,466

(2) Adoption of an amendment to the Company's Restated Certificate of Incorporation to replace the enumerated purposes clause with a general purposes clause. The matter passed with the following vote:

Number of votes FOR	274,765,633
Number of votes AGAINST	5,198,721
Number of votes ABSTAINING	5,923,064

(3) Stockholder proposal related to executive compensation. The matter did not pass with the following vote:

Number of votes FOR	89,901,631
Number of votes AGAINST	103,441,872
Number of votes ABSTAINING	8,801,979
Number of BROKER NON-VOTES	83,741,936

(4) Ratification of appointment of KPMG LLP as the Company's independent registered public accounting firm for 2008. The matter passed with the following vote:

Number of votes FOR	276,369,552
---------------------	-------------

Edgar Filing: FRONTIER COMMUNICATIONS CORP - Form 10-Q

Number of votes AGAINST	5,825,909
Number of votes ABSTAINING	3,691,957

33

Item 5. Other Information  
-----

As disclosed in our Proxy Statement for the 2008 Annual Meeting, proposals that stockholders wish to include in our Proxy Statement and form of proxy for our 2009 annual Stockholders meeting must be received by the Secretary of the Company no later than December 10, 2008. For a stockholder proposal that is not intended to be included in our Proxy Statement for our 2009 Annual Meeting, the proposal must be received by the Secretary of the Company not earlier than January 15, 2009 nor later than February 14, 2009 in order to be properly presented at the 2009 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 14, 2009, 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:

- 3.1 Certificate of Amendment of Restated Certificate of Incorporation effective July 31, 2008.
- 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.

34

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 5, 2008