

FRONTIER COMMUNICATIONS CORP

Form 10-Q

November 07, 2013

FRONTIER COMMUNICATIONS CORPORATION

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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 September 30, 2013

or

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

For the transition period from _____ to _____

Commission file number: 001-11001

FRONTIER COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3 High Ridge Park
Stamford, Connecticut

06-0619596
(I.R.S. Employer Identification No.)

06905

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(Address of principal executive offices) (Zip Code)

(203) 614-5600

(Registrant's telephone number, including area code)

N/A

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

The number of shares outstanding of the registrant's Common Stock as of October 25, 2013 was 999,547,000.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(\$ in thousands)

	(Unaudited) September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 660,997	\$ 1,326,532
Accounts receivable, less allowances of \$85,663 and \$93,267, respectively	472,223	533,704
Restricted cash	9,260	15,408
Prepaid expenses	64,492	66,972
Income taxes and other current assets	116,564	144,587
Total current assets	1,323,536	2,087,203
Restricted cash	11,612	27,252
Property, plant and equipment, net	7,289,567	7,504,896
Goodwill	6,337,719	6,337,719
Other intangibles, net	1,291,954	1,542,739
Other assets	239,026	233,822
Total assets	\$ 16,493,414	\$ 17,733,631
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 257,910	\$ 560,550
Accounts payable	231,451	338,148
Advanced billings	139,504	146,317
Accrued other taxes	73,409	66,342
Accrued interest	203,383	209,327
Other current liabilities	219,234	232,836
Total current liabilities	1,124,891	1,553,520
Deferred income taxes	2,297,447	2,357,210
Pension and other postretirement benefits	1,022,765	1,055,058

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Other liabilities	254,953	266,625
Long-term debt	7,887,296	8,381,947
Equity:		
Shareholders' equity of Frontier:		
Common stock, \$0.25 par value (1,750,000,000 authorized shares, 999,517,000 and 998,410,000 outstanding, respectively, and 1,027,986,000 issued, at September 30, 2013 and December 31, 2012)	256,997	256,997
Additional paid-in capital	4,317,473	4,639,563
Retained earnings	108,285	63,205
Accumulated other comprehensive loss, net of tax	(438,779)	(483,576)
Treasury stock	(337,914)	(368,593)
Total shareholders' equity of Frontier	3,906,062	4,107,596
Noncontrolling interest in a partnership	-	11,675
Total equity	3,906,062	4,119,271
Total liabilities and equity	\$ 16,493,414	\$ 17,733,631

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(\$ in thousands, except for per-share amounts)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 1,185,278	\$ 1,252,469	\$ 3,581,207	\$ 3,779,300
Operating expenses:				
Network access expenses	103,955	102,051	320,467	333,053
Other operating expenses	549,141	572,348	1,624,655	1,663,842
Depreciation and amortization	285,701	298,416	887,225	962,763
Pension settlement costs	40,309	-	40,309	-
Integration costs	-	4,458	-	68,204
Total operating expenses	979,106	977,273	2,872,656	3,027,862
Gain on sale of Mohave partnership interest	-	-	14,601	-
Operating income	206,172	275,196	723,152	751,438
Investment income	382	323	3,675	12,417
Losses on early extinguishment of debt	-	(245)	(159,780)	(71,063)
Other income, net	1,142	4,279	5,459	6,577
Interest expense	163,835	172,188	501,802	509,104
Income before income taxes	43,861	107,365	70,704	190,265
Income tax expense	8,461	35,739	22,981	66,150
Net income	35,400	71,626	47,723	124,115
Less: Income attributable to the noncontrolling interest in a partnership	-	4,626	2,643	12,358

Net income attributable to common shareholders of Frontier	\$ 35,400	\$ 67,000	\$ 45,080	\$ 111,757
Basic and diluted net income per common share attributable to common shareholders of Frontier	\$ 0.04	\$ 0.07	\$ 0.04	\$ 0.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(\$ in thousands)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 35,400	\$ 71,626	\$ 47,723	\$ 124,115
Pension settlement costs, net of tax (see Notes 15 and 16)	24,992	-	24,992	-
Other comprehensive income, net of tax (see Note 15)	6,313	2,308	19,805	12,142
Comprehensive income	66,705	73,934	92,520	136,257
Less: Income attributable to the noncontrolling interest in a partnership	-	(4,626)	(2,643)	(12,358)
Comprehensive income attributable to the common shareholders of Frontier	\$ 66,705	\$ 69,308	\$ 89,877	\$ 123,899

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012, THE THREE MONTHS ENDED DECEMBER 31, 2012 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(\$ and shares in thousands)

(Unaudited)

	Shareholders' Equity of Frontier								
	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Noncontrolling	Total
	Shares	Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Shares	Amount	Interest	Equity
Balance									
January 1, 2012	1,027,986	\$ 256,997	\$ 4,773,383	\$ 226,721	\$ (386,963)	(32,858)	\$ (415,001)	\$ 13,997	\$ 4,4
Stock plans	-	-	(37,867)	-	-	3,325	46,423	-	8,5
Dividends on common stock	-	-	-	(299,547)	-	-	-	-	(29
Net income	-	-	-	111,757	-	-	-	12,358	124
Other comprehensive income, net of tax	-	-	-	-	12,142	-	-	-	12,
Distributions	-	-	-	-	-	-	-	(11,000)	(11
Balance September 30, 2012	1,027,986	256,997	4,735,516	38,931	(374,821)	(29,533)	(368,578)	15,355	4,3
Stock plans	-	-	3,285	-	-	(43)	(15)	-	3,2
Dividends on common stock	-	-	(99,238)	(605)	-	-	-	-	(99
Net income	-	-	-	24,879	-	-	-	4,320	29,

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Other comprehensive income, net of tax	-	-	-	-	(108,755)	-	-	-	(10,000)
Distributions	-	-	-	-	-	-	-	(8,000)	(8,000)
Balance December 31, 2012	1,027,986	256,997	4,639,563	63,205	(483,576)	(29,576)	(368,593)	11,675	4,111,675
Stock plans	-	-	(22,268)	-	-	1,107	30,679	-	8,417
Dividends on common stock	-	-	(299,822)	-	-	-	-	-	(299,822)
Net income	-	-	-	45,080	-	-	-	2,643	47,723
Pension settlement costs, net of tax	-	-	-	-	24,992	-	-	-	24,992
Other comprehensive income, net of tax	-	-	-	-	19,805	-	-	-	19,805
Distributions	-	-	-	-	-	-	-	(6,400)	(6,400)
Sale of Mohave partnership interest	-	-	-	-	-	-	-	(7,918)	(7,918)
Balance September 30, 2013	1,027,986	\$ 256,997	\$ 4,317,473	\$ 108,285	\$ (438,779)	(28,469)	\$ (337,914)	\$ -	\$ 3,911,675

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(\$ in thousands)

(Unaudited)

	2013	2012
Cash flows provided by (used in) operating activities:		
Net income	\$ 47,723	\$ 124,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	887,225	962,763
Losses on early extinguishment of debt	159,780	71,063
Pension settlement costs	40,309	-
Pension/OPEB costs	22,558	24,220
Stock based compensation expense	12,561	12,950
Gain on sale of assets	(14,601)	-
Other non-cash adjustments	7,353	7,040
Deferred income taxes	(43,310)	59,794
Change in accounts receivable	57,474	19,941
Change in accounts payable and other liabilities	(91,322)	(131,027)
Change in prepaid expenses, income taxes and other current assets	(10,409)	9,426
Net cash provided by operating activities	1,075,341	1,160,285
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(484,082)	(571,107)
Capital expenditures - Integration activities	-	(38,768)
Network expansion funded by Connect America Fund	(21,042)	(854)
Grant funds received for network expansion from Connect America Fund	5,998	47,986
Proceeds on sale of Mohave partnership interest	17,755	-
Cash transferred from escrow	21,788	47,356
Other assets purchased and distributions received, net	3,536	(12,251)
Net cash used by investing activities	(456,047)	(527,638)

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Cash flows provided from (used by) financing activities:		
Long-term debt borrowing	750,000	1,100,000
Financing costs paid	(19,360)	(22,754)
Long-term debt payments	(1,548,548)	(571,472)
Premium paid to retire debt	(159,429)	(52,560)
Dividends paid	(299,822)	(299,547)
Repayment of customer advances for construction, distributions to noncontrolling interests and other	(7,670)	(12,919)
Net cash provided from (used by) financing activities	(1,284,829)	140,748
 (Decrease)/Increase in cash and cash equivalents	 (665,535)	 773,395
Cash and cash equivalents at January 1,	1,326,532	326,094
 Cash and cash equivalents at September 30,	 \$ 660,997	 \$ 1,099,489
 Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 493,427	\$ 445,121
Income taxes	\$ 82,675	\$ 4,093
 Non-cash investing and financing activities:		
Financing obligation for contribution of real property to pension plan	\$ 18,216	\$ -
Reduction of pension obligation	\$ (18,216)	\$ -

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

(a) Basis of Presentation and Use of Estimates:

Frontier Communications Corporation and its subsidiaries are referred to as “we,” “us,” “our,” “Frontier,” or the “Company” in this report. Our interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2012. All significant intercompany balances and transactions have been eliminated in consolidation. These interim unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary, in the opinion of Frontier’s management, to present fairly the results for the interim periods shown. Revenues, net income and cash flows for any interim periods are not necessarily indicative of results that may be expected for the full year. For our interim financial statements as of and for the period ended September 30, 2013, we evaluated subsequent events and transactions for potential recognition or disclosure through the date that we filed this quarterly report on Form 10-Q with the Securities and Exchange Commission (SEC).

Frontier had a 33 % controlling general partner interest in a partnership entity, the Mohave Cellular Limited Partnership (Mohave). Mohave’s results of operations and balance sheet were included in our consolidated financial statements through its date of disposal on April 1, 2013. The minority interest of the limited partners was reflected in the consolidated balance sheet as “Noncontrolling interest in a partnership” and in the consolidated statements of operations as “Income attributable to the noncontrolling interest in a partnership.” On April 1, 2013, the Company sold its partnership interest in Mohave. The Company recognized a gain on sale of approximately \$14.6 million before taxes in the second quarter of 2013.

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

(b) Revenue Recognition:

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

As required by law, the Company collects various taxes from its customers and subsequently remits these taxes to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) that we have recorded on a gross basis in our consolidated statements of operations and included within "Revenue" and "Other operating expenses" of \$28.6 million and \$29.0 million, and \$86.6 million and \$87.5 million, for the three and nine months ended September 30, 2013 and 2012, respectively.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) or more frequently, if appropriate, examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for goodwill impairment at the “operating segment” level, as that term is defined in U.S. GAAP. During the first quarter of 2013, the Company reorganized into four regional operating segments. Our operating segments consist of the following regions: Central, East, National and West. Our regional operating segments are aggregated into one reportable segment. In conjunction with the reorganization of our operating segments effective with the first quarter of 2013, we reassigned goodwill to our reporting units using a relative fair value allocation approach.

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

(2) Recent Accounting Literature:

Presentation of Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02 (ASU 2013-02), “Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,” (Accounting Standards Codification (ASC) Topic 220). ASU 2013-02 requires disclosing the effect of reclassifications out of accumulated other comprehensive income on the respective line items in the components of net income in circumstances when U.S. GAAP requires the item to be reclassified in its entirety to net income. This new guidance is to be applied prospectively. The Company adopted ASU 2013-02 during the fourth quarter of 2012 with no impact on our financial position, results of operations or cash flows.

(3) The Transaction:

On July 1, 2010, we acquired the defined assets and liabilities of the local exchange business and related landline activities of Verizon Communications Inc. (Verizon) in certain states (the Acquired Territories), including Internet access and long distance services and broadband video provided to designated customers in the Acquired Territories (the Acquired Business). Frontier was considered the acquirer of the Acquired Business for accounting purposes.

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

(4) Accounts Receivable:

The components of accounts receivable, net are as follows:

(\$ in thousands)	September 30, 2013	December 31, 2012
Retail and Wholesale	\$ 515,743	\$ 581,152
Other	42,143	45,819
Less: Allowance for doubtful accounts	(85,663)	(93,267)
Accounts receivable, net	\$ 472,223	\$ 533,704

We maintain an allowance for bad debts based on our estimate of our ability to collect accounts receivable. Bad debt expense, which is recorded as a reduction to revenue, was \$20.6 million and \$20.8 million, and \$52.9 million and \$61.5 million for the three and nine months ended September 30, 2013 and 2012, respectively.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Property, Plant and Equipment:

Property, plant and equipment, net is as follows:

(\$ in thousands)	September 30, 2013	December 31, 2012
Property, plant and equipment	\$ 14,710,342	\$ 14,353,763
Less: Accumulated depreciation	(7,420,775)	(6,848,867)
Property, plant and equipment, net	\$ 7,289,567	\$ 7,504,896

Depreciation expense is principally based on the composite group method. Depreciation expense was \$208.7 million and \$209.9 million, and \$636.2 million and \$628.8 million for the three and nine months ended September 30, 2013 and 2012, respectively. As a result of an independent study of the estimated remaining useful lives of our plant assets, we adopted new estimated remaining useful lives for certain plant assets as of October 1, 2012, with an immaterial impact to depreciation expense.

(6) Goodwill and Other Intangibles:

The components of goodwill by the reporting units in effect as of September 30, 2013 are as follows:

(\$ in thousands)

Central	\$ 1,815,498
East	2,003,574
National	1,218,113
West	1,300,534
Total Goodwill	\$ 6,337,719

The components of other intangibles are as follows:

(\$ in thousands)	September 30, 2013	December 31, 2012
Other Intangibles:		
Customer base	\$ 2,427,648	\$ 2,427,648
Software licenses	105,019	105,019
Trade name and license	124,136	124,419
Other intangibles	2,656,803	2,657,086
Less: Accumulated amortization	(1,364,849)	(1,114,347)
Total other intangibles, net	\$ 1,291,954	\$ 1,542,739

Amortization expense was \$77.0 million and \$88.5 million, and \$251.0 million and \$333.9 million for the three and nine months ended September 30, 2013 and 2012, respectively. Amortization expense primarily represents the amortization of intangible assets (primarily customer base) that were acquired in the Transaction based on a useful life of nine years for the residential customer base and 12 years for the business customer base, amortized on an accelerated method. Amortization expense included \$38.3 million for the nine months ended September 30, 2012 for amortization associated with certain software licenses no longer required for operations as a result of the completed systems conversions and \$11.3 million for the nine months ended September 30, 2012 for amortization associated with certain Frontier legacy properties, each of which were fully amortized in 2012.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for long-term debt at September 30, 2013 and December 31, 2012. For the other financial instruments including cash, accounts receivable, long-term debt due within one year, accounts payable and other current liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments, for which market values are not readily available, are carried at cost, which approximates fair value.

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

(\$ in thousands)	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 7,887,296	\$ 8,136,170	\$ 8,381,947	\$ 9,091,416

(8) Long-Term Debt:

The activity in our long-term debt from December 31, 2012 to September 30, 2013 is summarized as follows:

(\$ in thousands)	December 31, 2012	Nine months ended September 30, 2013		September 30, 2013	Interest Rate at September 30, 2013 *
		Payments and Retirements	New Borrowings		
Senior Unsecured Debt	\$ 8,919,696	\$ (1,548,255)	\$ 750,000	\$ 8,121,441	7.96%
Industrial Development Revenue Bonds	13,550	-	-	13,550	6.33%
Rural Utilities Service Loan Contracts	9,322	(293)	-	9,029	6.15%
Total Long-Term Debt	\$ 8,942,568	\$ (1,548,548)	\$ 750,000	\$ 8,144,020	7.96%
Less: Debt (Discount)/Premium	(71)			1,186	
Less: Current Portion	(560,550)			(257,910)	
	\$ 8,381,947			\$ 7,887,296	

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at September 30, 2013 represent a weighted average of multiple issuances.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information regarding our Senior Unsecured Debt is as follows:

(\$ in thousands)	September 30, 2013		December 31, 2012	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes and Debentures Due:				
1/15/2013	\$ -	-	\$ 502,658	6.250%
5/1/2014	200,000	8.250%	200,000	8.250%
3/15/2015	105,026	6.625%	300,000	6.625%
4/15/2015	96,872	7.875%	374,803	7.875%
10/14/2016 *	474,375	3.055% (Variable)	517,500	3.095% (Variable)
4/15/2017	606,874	8.250%	1,040,685	8.250%
10/1/2018	582,739	8.125%	600,000	8.125%
3/15/2019	434,000	7.125%	434,000	7.125%
4/15/2020	1,021,505	8.500%	1,100,000	8.500%
7/1/2021	500,000	9.250%	500,000	9.250%
4/15/2022	500,000	8.750%	500,000	8.750%
1/15/2023	850,000	7.125%	850,000	7.125%
4/15/2024	750,000	7.625%	-	-
11/1/2025	138,000	7.000%	138,000	7.000%
8/15/2026	1,739	6.800%	1,739	6.800%
1/15/2027	345,858	7.875%	345,858	7.875%
8/15/2031	945,325	9.000%	945,325	9.000%
10/1/2034	628	7.680%	628	7.680%
7/1/2035	125,000	7.450%	125,000	7.450%
10/1/2046	193,500	7.050%	193,500	7.050%
	7,871,441		8,669,696	
Subsidiary Senior Notes and Debentures Due:				
2/15/2028	200,000	6.730%	200,000	6.730%

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10/15/2029	50,000	8.400%	50,000	8.400%
Total	\$ 8,121,441	7.77% **	\$	