

FRONTIER COMMUNICATIONS CORP

Form 10-Q

November 05, 2015

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, 2015

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

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(State or other jurisdiction of
incorporation or organization)

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

401 Merritt 7

Norwalk, Connecticut

(Address of principal executive offices)

06851

(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

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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 26, 2015 was 1,168,212,000.

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 millions and shares in thousands, except for per-share amounts)

	(Unaudited)	
	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,011	\$ 682
Accounts receivable, less allowances of \$55 and \$72, respectively	554	614
Restricted cash	8,440	-
Prepaid expenses	86	61
Income taxes and other current assets	104	129
Total current assets	10,195	1,486
Property, plant and equipment, net	8,439	8,566
Goodwill	7,166	7,205
Other intangibles, net	1,220	1,500
Other assets	345	217
Total assets	\$ 27,365	\$ 18,974
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 97	\$ 298
Accounts payable	335	379
Advanced billings	165	179
Accrued taxes	106	80
Accrued interest	215	214
Pension and other postretirement benefits	97	124
Other current liabilities	413	238
Total current liabilities	1,428	1,512

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Deferred income taxes	2,704	2,939
Pension and other postretirement benefits	1,146	1,141
Other liabilities	216	238
Long-term debt	16,016	9,486

Equity:

Preferred stock, \$0.01 par value (50,000 authorized shares, 11.125%, Series A, 19,250 shares issued and outstanding at September 30, 2015)	-	-
Common stock, \$0.25 par value (1,750,000 authorized shares, 1,192,986 and 1,027,986 issued and 1,168,218 and 1,002,469 outstanding, respectively, at September 30, 2015 and December 31, 2014)	298	257
Additional paid-in capital	6,210	3,990
Retained earnings	16	109
Accumulated other comprehensive loss, net of tax	(391)	(404)
Treasury stock	(278)	(294)
Total equity	5,855	3,658
Total liabilities and equity	\$ 27,365	\$ 18,974

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, 2015 AND 2014

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

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 1,424	\$ 1,141	\$ 4,163	\$ 3,442
Operating expenses:				
Network access expenses	159	108	475	321
Network related expenses	331	276	969	798
Selling, general and administrative expenses	344	257	1,005	788
Depreciation and amortization	325	261	1,001	816
Acquisition and integration costs	58	42	150	72
Total operating expenses	1,217	944	3,600	2,795
Operating income	207	197	563	647
Investment and other income, net	1	25	3	26
Interest expense	246	170	751	508
Income (loss) before income taxes	(38)	52	(185)	165
Income tax expense (benefit)	(24)	10	(92)	46
Net income (loss)	(14)	42	(93)	119
Less: Dividends on preferred stock	67	-	67	-
Net income (loss) attributable to Frontier common shareholders	\$ (81)	\$ 42	\$ (160)	\$ 119

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Basic and diluted net income (loss) per share attributable to Frontier common shareholders	\$ (0.07)	\$ 0.04	\$ (0.15)	\$ 0.12
Total weighted average shares outstanding - basic	1,161,207	994,647	1,061,644	994,393
Total weighted average shares outstanding - diluted	1,161,207	997,855	1,061,644	997,744

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(\$ in millions)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (14)	\$ 42	\$ (93)	\$ 119
Other comprehensive income, net of tax (see Note 13)	5	2	13	8
Comprehensive income (loss)	\$ (9)	\$ 44	\$ (80)	\$ 127

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

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(\$ in millions and shares in thousands)

(Unaudited)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Common Stock Shares	Amount	Total Equity
Balance January 1, 2015	-	\$ -	1,027,986	\$ 257	\$ 3,990	\$ 109	\$ (404)	(25,517)	\$ (294)	\$ 3,658
Issuance of common stock	-	-	165,000	41	758	-	-	-	-	799
Issuance of preferred stock	19,250	-	-	-	1,866	-	-	-	-	1,866
Stock plans	-	-	-	-	(4)	-	-	749	16	12
Dividends on common stock	-	-	-	-	(333)	-	-	-	-	(333)
Dividends on preferred stock	-	-	-	-	(67)	-	-	-	-	(67)
Net loss	-	-	-	-	-	(93)	-	-	-	(93)
Other comprehensive income, net of tax	-	-	-	-	-	-	13	-	-	13
Balance September 30, 2015	19,250	\$ -	1,192,986	\$ 298	\$ 6,210	\$ 16	\$ (391)	(24,768)	\$ (278)	\$ 5,855

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

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(\$ in millions)

(Unaudited)

	2015	2014
Cash flows provided from (used by) operating activities:		
Net income (loss)	\$ (93)	\$ 119
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,001	816
Pension/OPEB costs	(3)	(21)
Stock based compensation expense	19	18
Gains on sale of assets	-	(25)
Amortization of deferred financing costs	194	30
Deferred income taxes	(163)	(125)
Change in accounts receivable	59	17
Change in accounts payable and other liabilities	(46)	53
Change in prepaid expenses, income taxes and other current assets	(7)	60
Net cash provided from operating activities	961	942
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(525)	(413)
Capital expenditures - Integration activities	(101)	(82)
Network expansion funded by Connect America Fund - Phase I	(22)	(41)
Grant funds received for network expansion from Connect America Fund - Phase I	-	4
Proceeds on sale of assets	-	25
Cash transferred (to)/from escrow	(8,440)	(1,508)
Cash paid for an acquisition, net of cash acquired	(17)	-
Other	(2)	27
Net cash used by investing activities	(9,107)	(1,988)
Cash flows provided from (used by) financing activities:		
Proceeds from long-term debt borrowings	6,603	1,561
Financing costs paid	(119)	(39)

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Long-term debt payments	(274)	(245)
Proceeds from issuance of common stock, net	799	-
Proceeds from issuance of preferred stock, net	1,866	-
Dividends paid on common stock	(333)	(301)
Dividends paid on preferred stock	(67)	-
Other	-	(2)
Net cash provided from (used by) financing activities	8,475	974
Increase/(Decrease) in cash and cash equivalents	329	(72)
Cash and cash equivalents at January 1,	682	880
Cash and cash equivalents at September 30,	\$ 1,011	\$ 808
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 553	\$ 464
Income taxes, net	\$ 27	\$ 36

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

(Unaudited)

(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 (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, 2014. Reclassifications of amounts previously reported in our consolidated statement of operations as “Other operating expenses” have been made to conform to the current presentation of “Network related expenses” and “Selling, general and administrative expenses”. 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 (loss) 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, 2015, we evaluated subsequent events and transactions for potential recognition or disclosure through the date that we filed this Form 10-Q with the Securities and Exchange Commission (SEC).

Effective October 24, 2014, Frontier’s scope of operations and balance sheet capitalization changed materially as a result of the completion of the Connecticut Acquisition, as described in Note 3 - Acquisitions. Financial data presented for Frontier for periods prior to that date is not indicative of the future financial position or operating results for Frontier.

The preparation of our interim financial statements in conformity with 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 the allowance for doubtful accounts, asset impairments, indefinite-lived intangibles, depreciation and amortization, income taxes, business combinations, and pension and other postretirement benefits, among others.

We operate in one reportable segment. Frontier provides both regulated and unregulated voice, data and video services to residential, business and wholesale customers and is typically the incumbent voice services provider in its service areas. We have combined our six geographic operating regions because all of these regional operations share similar 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 significantly impact the economic characteristics or operating results of a particular region.

(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 "Advanced billings" 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 and 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" on our consolidated balance sheet 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.

Frontier 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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 "Network related expenses" of \$38 million and \$30 million, and \$114 million and \$90 million, for the three and nine months ended September 30, 2015 and 2014, respectively.

In 2015 we accepted the FCC's Connect America Fund (CAF) Phase II offer of support, which replaces the USF frozen high-cost support that we had been receiving pursuant to a 2011 FCC order. CAF Phase II funding as well as USF frozen high-cost support are programs intended to subsidize the high-cost of delivering communications services to certain high-cost unserved or underserved areas. We are recognizing these subsidies into revenue consistent with how the costs related to these subsidies are being and are expected to be incurred, which is on a straight line basis.

We categorize our products, services and other revenues among the following four categories:

- Voice services include traditional local and long distance wireline services, Voice over Internet Protocol (VoIP) services, as well as a number of unified messaging services offered to our residential and business customers. Voice services also include the long distance voice origination and termination services that we provide to our business customers and other carriers;
- Data and Internet services include broadband services for residential and business customers. We provide data transmission services to high volume business customers and other carriers with dedicated high capacity circuits ("nonswitched access") including services to wireless providers ("wireless backhaul");
- Other customer revenue includes residential video services, our provision for bad debts, sales of customer premise equipment to our business customers and directory services; and

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Switched Access and Subsidy revenues include revenues derived from allowing other carriers to use our network to originate and/or terminate their local and long distance voice traffic (“switched access”). These services are primarily billed on a minutes- of-use basis applying tariffed rates filed with the FCC or state agencies. We also receive cost subsidies from state and federal authorities, including the Connect America Fund.

The following table provides a summary of revenues from external customers by the categories of Frontier’s products and services:

(\$ in millions)	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Voice services	\$ 500	\$ 472	\$ 1,540	\$ 1,426
Data and Internet services	589	469	1,748	1,393
Other	134	76	404	232
Customer revenue	1,223			