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

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Merritt 7	
Norwalk, Connecticut	06851
(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 X No ___

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

Yes X No ___

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

Large accelerated filer   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 October 26, 2015 was 1,168,212,000.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Index

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

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.

2

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

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.

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	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Common Stock Shares	Treasury Common Stock 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.

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)

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. Voices 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

·

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:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	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	1,017	3,692	3,051
Switched access and subsidy	201	124	471	391
Total revenue	$ 1,424	$ 1,141	$ 4,163	$ 3,442

7

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(c) Goodwill and Other Intangibles:

Goodwill represents the excess of purchase price over the fair value of identifiable tangible and intangible 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 examine the carrying value of our goodwill and trade name annually as of December 31, or more frequently, as circumstances warrant, to determine whether there are any impairment losses. We test for goodwill impairment at the "operating segment" level, as that term is defined in GAAP. During the second quarter of 2015, Frontier reorganized into six regional operating segments, which are aggregated into one reportable segment. In conjunction with the reorganization of our operating segments effective with the second quarter of 2015, we reassigned goodwill to our regional operating segments (reporting units) using a relative fair value allocation approach. We tested for the impairment of goodwill and there was no indication of impairment at June 30, 2015.

Frontier amortizes finite-lived intangible assets over their estimated useful lives on the accelerated method of sum of the years digits. We review such intangible assets at least annually as of December 31 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:

Debt Issuance Costs

In April, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". This standard permits an entity to defer and present debt issuance costs related to line-of-credit arrangements as an asset and to subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. These new standards are effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted and companies must apply the requirements retrospectively. At this time, Frontier has not elected the early adoption method for this standard. Debt issuance costs are included in “Other assets” and were $208 million at September 30, 2015.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” This standard requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017. Companies are also permitted to voluntarily adopt the new standard as of the original effective date that was for annual reporting periods beginning after December 15, 2016. Companies are permitted to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. Frontier is currently evaluating the impact of adopting the new standard, but has not yet selected a transition method or determined the impact of adoption on its consolidated financial statements.

(3) Acquisitions:

The Connecticut Acquisition

On October 24, 2014, pursuant to the stock purchase agreement dated December 16, 2013, as amended, Frontier acquired the wireline properties of AT&T Inc. (AT&T) in Connecticut (the Connecticut Acquisition) for a purchase price of $2,018 million in cash, including adjustments for working capital. Following the Connecticut Acquisition, Frontier now owns and operates the wireline business and fiber optic network servicing residential, commercial and wholesale customers in Connecticut. Frontier also acquired the AT&T U-verse® video and DISH® satellite TV customers in Connecticut.

In connection with the Connecticut Acquisition, Frontier incurred $38 million of operating expenses, consisting of $1 million and $37 million of acquisition and integration costs, respectively, and $23 million in capital expenditures during the nine months ended September 30, 2015. Frontier incurred $72 million of operating expenses, consisting of $3 million and $69

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

million of acquisition and integration costs, respectively, and $82 million in capital expenditures during the nine months ended September 30, 2014.

Our consolidated statement of operations for the nine months ended September 30, 2015 includes $792 million of revenue and $74 million of operating income related to the results of the Connecticut operations.

The final allocation of the purchase price presented below represents the effect of recording the fair value of assets acquired, liabilities assumed and related deferred income taxes as of the date of the Connecticut Acquisition, based on the total transaction consideration of $2,018 million. An adjustment to the allocation of the purchase price for the Connecticut Acquisition during the third quarter of 2015 resulted in a $71 million decrease to Deferred income taxes and Goodwill.

($ in millions)

Current assets	$	69
Property, plant & equipment		1,459
Goodwill		815
Other intangibles - customer list		570
Current liabilities		(94)
Deferred income taxes		(576)
Other liabilities		(225)
Total net assets acquired	$	2,018

The following unaudited pro forma financial information presents the combined results of operations of Frontier and the Connecticut operations as if the Connecticut Acquisition had occurred as of January 1, 2014. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the Connecticut Acquisition been completed as of January 1, 2014. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of Frontier. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that may result from the Connecticut Acquisition.

($ in millions, except per share amounts)	(Unaudited) For the three months ended September 30, 2014	(Unaudited) For the nine months ended September 30, 2014
Revenue	$ 1,448	$ 4,366
Operating income	$ 250	$ 744
Net income	$ 62	$ 135
Basic and diluted net income per share	$ 0.07	$ 0.14

The Verizon Transaction

On February 5, 2015, we entered into an agreement with Verizon Communications Inc. (Verizon) to acquire Verizon’s wireline operations that provide services to residential, commercial and wholesale customers in California, Florida and Texas for a purchase price of $10,540 million in cash and assumed debt (the Verizon Transaction), with adjustments for working capital. Upon completion of the pending Verizon Transaction, Frontier will operate Verizon properties that included 3.5 million voice connections, 2.2 million broadband connections, and 1.2 million FiOS® video connections as

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

of June 30, 2015. The transaction is expected to close at the end of the first quarter of 2016 subject to regulatory approval and the completion of operational matters.

In the third quarter of 2015, Frontier received regulatory approvals from the FCC and the Public Utilities Commission of Texas. The approval from the California Public Utilities Commission is pending. In the third quarter of 2015, Frontier reached agreement with the Communications Workers of America and the International Brotherhood of Electrical Workers, representing employees that support operations in California, Florida and Texas, to extend their existing collective bargaining agreements by two years. In addition, Verizon has conditionally accepted $49 million in annual support in California and Texas under the CAF Phase II program.

Acquisition costs include legal, financial advisory, accounting, regulatory and other related costs. Integration costs include expenses incurred to integrate the network and information technology platforms and to enable other integration initiatives. Frontier incurred $112 million of operating expenses, consisting of $37 million of acquisition costs and $75 million of integration costs, related to the pending Verizon Transaction during the nine months ended September 30, 2015. We also invested $78 million in capital expenditures related to the Verizon Transaction during the nine months ended September 30, 2015.

Frontier completed a private debt offering of $6,600 million of unsecured senior notes in September 2015 and entered into a credit agreement for a new $1,500 million senior secured delayed-draw term loan facility in August 2015, each for the purpose of financing the Verizon Transaction. Frontier issued $2,750 million in preferred and common stock in June 2015 for the purpose of financing the Verizon Transaction. Net proceeds from these debt and equity offerings in the amount of $8,440 million are included in “Restricted cash” in the consolidated balance sheet as of September 30, 2015. See Notes 8 and 9 for further discussion.

(4) Accounts Receivable:

The components of accounts receivable, net are as follows:

($ in millions)	September 30, 2015	December 31, 2014
Retail and Wholesale	$ 551	$ 630
Other	58	56
Less: Allowance for doubtful accounts	(55)	(72)
Accounts receivable, net	$ 554	$ 614

We maintain an allowance for doubtful accounts based on our estimate of our ability to collect accounts receivable. Bad debt expense, which is recorded as a reduction to revenue, was $20 million and $17 million for the three months ended September 30, 2015 and 2014, respectively, and $46 million and $41 million for the nine months ended September 30, 2015 and 2014, respectively. Our allowance for doubtful accounts declined in the first nine months of 2015, primarily as a result of the resolution of a principal carrier dispute during the first quarter.

(5) Property, Plant and Equipment:

Property, plant and equipment, net is as follows:

($ in millions)	September 30, 2015	December 31, 2014
Property, plant and equipment	$ 17,522	$ 16,946
Less: Accumulated depreciation	(9,083)	(8,380)
Property, plant and equipment, net	$ 8,439	$ 8,566

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Depreciation expense is principally based on the composite group method. Depreciation expense was $245 million and $195 million, and $741 million and $598 million, for the three and nine months ended September 30, 2015 and 2014, respectively. We adopted new estimated remaining useful lives for certain plant assets as of October 1, 2014, as a result of our annual independent study of the estimated remaining useful lives of our plant assets, with an insignificant impact to depreciation expense. In addition, we commissioned an independent study to determine the estimated useful lives for assets acquired during the Connecticut Acquisition. These new lives were adopted effective October 24, 2014.

(6) Goodwill and Other Intangibles:

The activity in our goodwill from January 1, 2015 through September 30, 2015 is as follows:

($ in millions)	Goodwill
Balance at January 1, 2015	$ 7,205
Connecticut Acquisition (Note 3)	(53)
Other Acquisition	14
Balance at September 30, 2015	$ 7,166

The components of other intangibles are as follows:

($ in millions)	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other Intangibles:						
Customer list	$ 2,998	$ (1,900)	$ 1,098	$ 3,018	$ (1,640)	$ 1,378
Trade name	122	-	122	122	-	122
Total other intangibles	$ 3,120	$ (1,900)	$ 1,220	$ 3,140	$ (1,640)	$ 1,500

Amortization expense was $80 million and $66 million, and $260 million and $218 million, for the three and nine months ended September 30, 2015 and 2014, respectively. Amortization expense represents the amortization of our customer lists acquired as a result of the Connecticut Acquisition and the acquisition of certain Verizon properties in 2010 (the 2010 Acquisition) with each based on a useful life of 9 to 12 years on an accelerated method.

(7) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for long-term debt at September 30, 2015 and December 31, 2014. 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.

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

($ in millions)	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 16,016			