

FRONTIER COMMUNICATIONS CORP  
Form 10-K  
February 25, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 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  
(State or other jurisdiction of  
incorporation or organization)

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

401 Merritt 7  
Norwalk, Connecticut  
(Address of principal executive offices)

06851  
(Zip Code)

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Registrant's telephone number, including area code: (203) 614-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.25 per share	The NASDAQ Stock Market LLC
Series A Participating Preferred Stock Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2015 was \$5,743,714,000 based on the closing price of \$4.95 per share on such date.

The number of shares outstanding of the registrant's common stock as of February 12, 2016 was 1,168,179,000.

#### DOCUMENT INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Frontier's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

PART I

Item 1. Business

Frontier Communications Corporation (Frontier) is the fourth largest Incumbent Local Exchange Carrier (ILEC) in the United States, with approximately 3.4 million customers, 2.5 million broadband subscribers and 19,200 employees, operating in 28 states.

We strive to be the leader in providing communications services to residential and business customers in our markets. We are committed to delivering innovative and reliable products and solutions with an emphasis on convenience, service and customer satisfaction. We offer a variety of voice, data, and video services and products on a standalone basis and as bundled or packaged solutions. We believe that our local engagement structure, 100% U.S. based employees in our workforce and innovative product positioning will continue to differentiate us from our competitors in the markets in which we compete.

We conduct business with both residential and business customers, and we provide the “last mile” of communications services to customers in our markets. During 2015, our customer revenue was \$4,899 million, including residential revenue of \$2,432 million and business revenue of \$2,467 million.

In 2015, we continued to improve our customer metrics and revenue trends while strengthening our financial profile:

The Connecticut Acquisition

On October 24, 2014, Frontier acquired the wireline properties of AT&T Inc. (AT&T) in Connecticut (the Connecticut Acquisition) for a purchase price of \$2.02 billion in cash. Following the Connecticut Acquisition, Frontier now owns and operates the wireline, broadband, voice and video business and statewide fiber network that provides services to residential, commercial and wholesale customers in Connecticut. We also acquired AT&T’s U-verse® video (Frontier TV®) and DISH Network Corporation (DISH®) satellite TV customers in Connecticut. Historical financial data presented for Frontier is not indicative of the future financial position or operating results for Frontier, and includes the results of the Connecticut operations from the date of acquisition.

## The Verizon Transaction

On February 5, 2015, Frontier entered into an agreement with Verizon Communications Inc. (Verizon) to acquire Verizon's wireline operations that provide service to residential, commercial and wholesale customers in California, Florida and Texas for a purchase price of \$10.54 billion in cash and assumed debt (the Verizon Transaction). As of December 31, 2015, these Verizon properties included 3.3 million voice connections, 2.1 million broadband connections, and 1.2 million FiOS® video connections. The transaction is currently expected to close on April 1, 2016 subject to the completion of operational matters and the satisfaction or waiver of customary closing conditions. During 2015, we completed the financing to fund the Verizon Transaction. In June we issued common and preferred stock for \$2,750 million through a registered equity offering. In August we entered into a \$1,500 million senior secured term loan facility which will be drawn at closing. In September we completed a \$6,600 million private debt offering. The net proceeds of these financing transactions will be sufficient to finance the Verizon Transaction and pay related fees and expenses. We have received all federal and state regulatory approvals required to close the Verizon Transaction.

## Broadband Net Additions

During 2015 we added approximately 102,000 net broadband subscribers (an increase of approximately 4%), bringing our total number of broadband subscribers to 2,462,100 as of December 31, 2015. Excluding 384,800 broadband subscribers attributable to the Connecticut Acquisition in 2014, we have added approximately 322,900 net broadband subscribers since 2012 when we adopted the strategy of increasing broadband penetration. The net increase in broadband subscribers contributed to our improved revenue performance for data and Internet services.

## Investment In Our Network

We continued to invest in network speed and capacity to support our goal of attracting additional customers and increasing broadband penetration. As of December 31, 2015, we are able to offer broadband to over 7.9 million households.

Since 2012, Frontier received a total of \$133 million from the Federal Communications Commission's (FCC) Connect America Fund (CAF) Phase I program to support broadband deployment in unserved and underserved high-cost areas. We completed our obligations under this program in 2015.

In June 2015, Frontier accepted the CAF Phase II offer, which provides for \$280 million in annual support from 2015 through 2020 to deliver 10Mbps downstream/1Mbps upstream broadband service to approximately 654,000 households across the 28

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states in which we operate. The \$280 million in CAF Phase II support is a successor to the \$156 million in annual USF frozen high-cost support that Frontier had been receiving pursuant to the FCC's November 18, 2011 Universal Service Fund (USF)/Intercarrier Compensation (ICC) Report & Order (the 2011 Order).

### Revenue Trajectory

During 2015, we generated total revenue of \$5,576 million, including residential and business customer revenue of \$4,899 million and regulatory revenue of \$677 million.

Total residential revenue for 2015 increased 16% as compared to 2014. Total residential revenue for 2015 and 2014 included \$531 million and \$116 million of revenues attributable to the Connecticut Acquisition for 2015 and the period from October 24, 2014 through December 31, 2014, respectively. Excluding the Connecticut operations, total residential revenue declined 4% as compared with 2014. Our average monthly residential revenue per customer during 2015 increased by 5% as compared to the prior year.

Total business revenue for 2015 increased 14% as compared to 2014. Total business revenue for 2015 and 2014 included \$475 million and \$91 million of revenues attributable to the Connecticut Acquisition for 2015 and the period from October 24, 2014 through December 31, 2014, respectively. Excluding the Connecticut operations, total business revenue declined 4% as compared with 2014. Our average monthly business revenue per customer during 2015 increased by 4% as compared to the prior year.

### Frontier Operating Strategies

During 2015, we continued to make progress on certain elements of our business, including:

**Grow Broadband and Invest in our Network.** A main component of our strategy is to enable and strengthen the broadband capabilities of our network. We focus on broadband as the core growth component of our service offering, either bundled with our voice and/or video services, or on a standalone basis. During 2015, we added approximately 102,000 net broadband subscribers, bringing our total number of broadband subscribers to 2,462,100 as of December 31, 2015. The increase in broadband subscribers contributed to our improved revenue performance for data and Internet services.

We continue to expand and improve broadband availability and speed in our markets and view this investment as an opportunity to attract and retain a greater number of customers and increase average revenue per residential and business customer. Total capital expenditures in 2015 were \$863 million, including expenditures related to integration



activities, as compared to \$688 million in 2014. These capital expenditures include enhancing the existing outside plant by expanding fiber-based infrastructure throughout our network, upgrading network hardware, expanding transport capacity of our middle-mile and data backbone, and growing our video capabilities.

In 2015, Frontier continued to expand the capacity and capability of our network. We continue to deploy next generation Broadband Remote Access Servers throughout our network to facilitate the expansion of broadband and video service offerings and increase broadband speeds. We also continued to expand and upgrade our premium Ethernet service offerings across our network. We upgraded our VoIP platform with next generation Call Control and VoIP Application Feature servers, which we intend to leverage across the entire footprint, and which also provides the capability to reach customers outside our existing markets.

As of December 31, 2015, approximately 93% of the households throughout our territories had access to our wireline broadband products. See “Network Architecture and Technology” for a table that summarizes our broadband availability to the residential households throughout Frontier’s territories. In addition, we have committed to federal and state regulatory authorities to increase broadband speeds across our network and to expand broadband availability in unserved, underserved and other areas. See “Regulatory Environment - Regulation of our business.”

**Improve Customer Experience and Retention.** We provide multiple service and product options in our residential and business offerings to the customer base in each of our markets. We believe this strategy results in a better customer experience and allows us to maximize retention of existing customers and to attract new customers. At December 31, 2015, 64% of our residential broadband customers subscribed to at least one other service offering.

We are focused on enhancing the customer experience to differentiate us from our competition. Our commitment to customer service is demonstrated by our “customer first” company philosophy, how we empower our technicians and call center employees to serve customers, our 100% U.S.-based employees in the workforce, our expanded customer service hours, shorter scheduling windows for in-home appointments, call reminders and follow-up calls for service appointments. Additionally, we seek to achieve our customer retention goals by offering attractive packages of value-added services. Our bundled services

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include broadband, voice, and video offerings, including simplified messaging services, higher speed products and digital security products.

We employ a balanced approach towards investment in customer acquisition and retention. We continue to invest to provide an optimal customer experience to enhance our customer service operations, efficiently provide service to new customers, and timely resolve service issues for existing customers. Our strategy also includes engaging our markets at the local level to ensure that we have a customer-driven sales and service focus that differentiates us from our competitors. Our markets are operated by local managers responsible for the customer experience and for the financial results in these markets. Our involvement in these communities helps to create a competitive advantage through long-term customer loyalty. We are committed to providing best-in-class service throughout our markets and, by doing so, we expect to maximize retention of current customers and gain new customers.

**Improve Productivity and Operational Efficiency.** We continue to engage in productivity initiatives in order to maintain and improve our profit margins. Our focus is on simplifying our processes, eliminating redundancies and further reducing our cost structure while improving our customer service capabilities.

Throughout 2015, we successfully delivered on our operating plans to reduce costs in our Connecticut operations that we acquired in October 2014. Based on current estimates and assumptions, we expect to achieve synergies with respect to the operations acquired in the Verizon Transaction, principally by: (1) leveraging the scalability of our existing corporate administrative functions, and information technology and network systems; (2) internally sourcing certain functions formerly provided by third-party service providers; and (3) operating the business more efficiently.

These future synergies are based on our current estimates and assumptions that, although we consider them reasonable, are inherently uncertain. Significant business, economic, competitive and regulatory uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control, may affect these expected synergies.

### Services

We offer a broad portfolio of high-quality communications services for residential and business customers in each of our markets. Our product portfolio includes Internet access, broadband-enabled services, video services and voice services. We offer these services both on a standalone basis and as bundled packages that are purposely designed to simplify customer purchasing decisions and to provide the customer with premium value. Periodically, we offer

selective incentives and promotions to influence customers to purchase or retain certain services. We are staffed locally with skilled technicians and supervisors, which enables us to provide an array of communications services to meet our customers' needs.

We generate revenue primarily by providing: (1) data and Internet services; (2) local and long distance wireline voice services to residential and business customers in our service areas; (3) network access to interexchange carriers for origination and termination of long distance voice and data traffic; (4) sales of our own and third party video services; and (5) sales of customer premise equipment.

Data and Internet services. We offer a wide range of broadband services to our residential, commercial and carrier customers. Residential services include fiber-to-the-home and fiber-to-the-node broadband products, as well as traditional copper-based broadband products. Commercial services include Ethernet, Dedicated Internet, Multiprotocol Label Switching (MPLS), Time Division Multiplexing (TDM) data transport services and optical transport services. These services are all supported by a 24/7 help desk and an advanced network operations center. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and Internet services are typically billed in advance.

We also offer our Frontier Secure suite of products aimed at managing the digital experience for our customers and designed to provide value and simplicity to meet customers' ever-changing needs. Frontier Secure offers products and services to protect key aspects of digital life, including computer security, cloud backup and sharing, identity protection, equipment insurance and 24/7 premium U.S.-based technical support. These products and services are sold nationwide directly to consumers and small businesses, and wholesale through strategic partnerships under either a private brand or the Frontier Secure brand. We also provide premium technical support and customer service to other companies on a contract basis.

Long-term contracts are generally billed in advance on an annual or semi-annual basis. End-user subscribers are generally billed in advance on a monthly recurring basis and businesses, colleges and universities are billed on a monthly recurring basis for a fixed number of users. Hourly, daily and weekly casual end-users are billed by credit card at the time of use. We offer wireless broadband services (using unlicensed WiFi spectrum) in select markets utilizing networks that we own or operate.

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Voice services. We provide basic wireline services to residential and business customers in our service areas. We also provide data-based VoIP services and enhanced services to our customers by offering a number of unified messaging services, including call forwarding, conference calling, caller identification, voicemail and call waiting, all of which are capable of being managed via an Internet portal. All of these local services are billed monthly in advance. Long distance network service to and from points outside our operating properties are provided by interconnection with the facilities of interexchange carriers. Our long distance services are billed in advanced for unlimited use service and on a per minute-of-use basis for a fixed number of minutes basis.

We also offer packages of communications services. These packages permit customers to bundle their products and services, including voice service with their choice of video and Internet services, and other product offerings.

Switched access services. Our switched access services allow other carriers to use our facilities to originate and terminate their local and long distance voice traffic. These services are generally offered on a month-to-month basis and the service is billed primarily on a minutes-of-use basis. Switched access charges have been based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. In the 2011 Order, the FCC required that, beginning in July 2012, we transition over time to terminating switched access rates to near zero by July 2017. The 2011 Order enables companies to recover part of the decline through increases in subscriber line fees charged to some residential and business wireline voice customers. While the FCC has asserted jurisdiction over these terminating access rates, during the transition the charges will continue to be based on tariffs filed with both the FCC and state regulatory agencies. Monthly recurring access service fees are billed in advance. We also receive subsidies from state and federal authorities based on the higher cost of providing wireline service to certain rural areas that are included in our access services revenue.

Video services. We have approximately 242,000 video customers, whose service is provided directly by Frontier through the Frontier TV and FiOS video brands, and 311,700 DISH satellite video customers as of December 31, 2015. We offer video services under the Frontier TV brand to our customers in Connecticut. We offer video services under the FiOS brand on a limited basis in the states of Indiana, Oregon and Washington pursuant to franchises, permits and similar authorizations issued by local franchising authorities. Upon completion of the Verizon Transaction, we will add an estimated 1.2 million video customers. We continue to offer satellite TV video service to our customers under an agency relationship with DISH in all of our markets. We receive from DISH, and recognize as revenue, activation fees, other residual fees and nominal management, billing and collection fees.

Customer Premise Equipment (CPE). We offer our small, medium and enterprise business customers a wide range of third-party communications equipment tailored to their specific business needs by partnering with Avaya, Cisco, Mitel and other equipment manufacturers. Equipment sales are most often made in conjunction with voice, data and Internet services, however, equipment may also be sold on a standalone basis. We recognize revenue for these equipment sales in accordance with the contracts, and separately from any related maintenance agreements, generally at time of installation and acceptance by our customers.



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### Our Customers

#### Frontier's Footprint

Our business and residential customers can be generally characterized as follows:

**Business.** Is comprised of commercial customers and carrier customers. Generally we refer to commercial customers as SME (small business, medium business and larger enterprise customers). Some of these services are regulated and tariffed, and many newer services such as Ethernet are typically unregulated.

- **Small Business:** The majority of these customers are single-location and the principal services they purchase are data connections, Customer Premise Equipment (CPE) and voice services and generally have purchase patterns similar to residential customers.
- **Medium Business:** Medium business customers can be single-location entities or multi-location and also include government entities, educational institutions and non-profits. Depending on their data needs, they buy broadband connections, CPE, Ethernet services or traditional circuit-based services (TDM services). They also purchase multi-line voice services as well.
- **Larger Enterprise:** Enterprise customers are typically those that are part of the Fortune 1000 and are almost always multi-location. Enterprise customers request a broad range of services from Frontier, including Ethernet service, traditional circuit-based services, CPE and voice services. Enterprises typically have complex needs and the sales process and services offered tend to be customized toward those needs. Large government entities, educational institutions and non-profits are also included in this category.
- **Carrier:** Carrier customers are often referred to as wholesale customers and include national operators such as AT&T and Verizon, other Local Exchange Companies that might need to access locations within Frontier's footprint, Competitive Local Exchange Companies (CLECs), wireless carriers, as well as a growing and broad range of other operators. Carrier customers buy both voice and data services, and typically are heavy consumers of non-switched services.



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Residential. Consists generally of providing products and services to residential customers including broadband service, video service, voice service and Internet security services. Some homes we serve receive these services over fiber-to-the-home networks; other homes receive these services over copper-based connections into the home; and others receive their services through a combination of fiber and copper.

### Network Architecture and Technology

Our local exchange carrier networks consist of host central office and remote sites, primarily equipped with digital and Internet Protocol switches. The outside plant consists of transport and distribution delivery networks connecting our host central office with remote central offices and ultimately with our customers. We own fiber optic and copper cable, which have been deployed in our networks and are the primary transport technologies between our host and remote central offices and interconnection points with other incumbent carriers.

Our fiber optic and copper transport system is capable of supporting increasing customer demand for high bandwidth transport services. We routinely enhance our network and are upgrading with the latest Internet Protocol Transport and routing equipment, Reconfigurable Optical Add/Drop Multiplexers (ROADM) transport systems, Very High Bit-Rate Digital Subscriber Line (VDSL) broadband equipment, and VoIP switches. These systems will support advanced services such as Ethernet, Dedicated Internet, Multiprotocol Label Switching (MPLS) transport, and VoIP. The network is designed with redundancy and auto-failover capability on our major circuits.

As of December 31, 2015 and 2014, we had expanded our broadband availability to the households throughout Frontier's territories as follows: