

FRONTIER COMMUNICATIONS CORP

Form 10-Q

August 03, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

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

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incorporation or organization)

401 Merritt 7

Norwalk, Connecticut

06851

(Address of principal executive offices) (Zip Code)

(203) 614-5600

(Registrant's telephone number, including area code)

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, a smaller reporting company, or an emerging growth company. See definition of "accelerated filer," "large accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 July 27, 2018 was 105,810,000.

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)	
	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 384	\$ 362
Accounts receivable, less allowances of \$102 and \$69, respectively	751	819
Contract acquisition costs	97	-
Prepaid expenses	90	78
Income taxes and other current assets	106	64
Total current assets	1,428	1,323
Property, plant and equipment, net	14,282	14,377
Goodwill	7,024	7,024
Other intangibles, net	1,760	2,063
Other assets	236	97
Total assets	\$ 24,730	\$ 24,884
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 1,228	\$ 656
Accounts payable	513	564
Advanced billings	265	270

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Accrued content costs	88	102
Accrued other taxes	159	156
Accrued interest	387	401
Pension and other postretirement benefits	29	29
Other current liabilities	387	330
Total current liabilities	3,056	2,508
Deferred income taxes	1,219	1,139
Pension and other postretirement benefits	1,571	1,676
Other liabilities	274	317
Long-term debt	16,209	16,970
Equity:		
Preferred stock, \$0.01 par value (50,000 authorized shares, 11.125%, Series A, 0 and 19,250 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively)	-	-
Common stock, \$0.25 par value (175,000 authorized shares, 106,025 and 79,532 issued and 105,810 and 78,441 outstanding, at June 30, 2018 and December 31, 2017, respectively)	27	20
Additional paid-in capital	4,788	5,034
Accumulated deficit	(2,107)	(2,263)
Accumulated other comprehensive loss, net of tax	(296)	(366)
Treasury common stock	(11)	(151)
Total equity	2,401	2,274
Total liabilities and equity	\$ 24,730	\$ 24,884

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 SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 2,162	\$ 2,304	\$ 4,361	\$ 4,660
Operating expenses:				
Network access expenses	369	408	741	819
Network related expenses	478	477	961	970
Selling, general and administrative expenses	460	531	929	1,073
Depreciation and amortization	486	552	991	1,131
Goodwill impairment	-	670	-	670
Acquisition and integration costs	-	12	-	14
Restructuring costs and other charges	2	29	6	41
Total operating expenses	1,795	2,679	3,628	4,718
Operating income (loss)	367	(375)	733	(58)
Investment and other income, net	5	-	13	-
Pension settlement costs	25	19	25	62
Gain (loss) on extinguishment of debt	-	(90)	33	(90)
Interest expense	385	388	759	776
Loss before income taxes	(38)	(872)	(5)	(986)
Income tax benefit	(20)	(210)	(7)	(249)

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Net income (loss)	(18)	(662)	2	(737)
Less: Dividends on preferred stock	54	53	107	107
Net loss attributable to Frontier common shareholders	\$ (72)	\$ (715)	\$ (105)	\$ (844)
Basic net loss per share attributable to Frontier common shareholders	\$ (0.92)	\$ (9.20)	\$ (1.35)	\$ (10.88)
Diluted net loss per share attributable to Frontier common shareholders	\$ (0.92)	\$ (9.21)	\$ (1.35)	\$ (10.89)
Total weighted average shares outstanding - basic	78,026	77,795	77,685	77,679
Total weighted average shares outstanding - diluted	78,026	77,951	77,685	77,835

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

PART I. FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(\$ in millions)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (18)	\$ (662)	\$ 2	\$ (737)
Other comprehensive income (loss), net of tax	71	(3)	70	58
Comprehensive income (loss)	\$ 53	\$ (665)	\$ 72	\$ (679)

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 SIX MONTHS ENDED JUNE 30, 2018

(\$ in millions and shares in thousands)

(Unaudited)

	For the six months ended June 30, 2018									
	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Shares	Common Stock Amount	Total Equity
Balance at January 1, 2018	19,250	\$ -	79,532	\$ 20	\$ 5,034	\$ (2,263)	\$ (366)	(1,091)	\$ (151)	\$ 2,274
Impact of adoption of ASC 606	-	-	-	-	-	154	-	-	-	154
Conversion of preferred stock	(19,250)	-	25,529	7	(7)	-	-	-	-	-
Stock plans	-	-	964	-	(132)	-	-	876	140	8
Dividends on preferred stock	-	-	-	-	(107)	-	-	-	-	(107)
Net income	-	-	-	-	-	2	-	-	-	2
Other comprehensive income, net of tax	-	-	-	-	-	-	70	-	-	70
Balance June 30, 2018	-	\$ -	106,025	\$ 27	\$ 4,788	\$ (2,107)	\$ (296)	(215)	\$ (11)	\$ 2,401

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 SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(\$ in millions)

(Unaudited)

	For the six months ended June 30,	
	2018	2017
Cash flows provided from (used by) operating activities:		
Net income (loss)	\$ 2	\$ (737)
Adjustments to reconcile net income (loss) to net cash provided from (used by) operating activities:		
Depreciation and amortization	991	1,131
(Gain) loss on extinguishment of debt	(33)	90
Pension settlement costs	25	62
Stock-based compensation expense	9	6
Amortization of deferred financing costs	17	17
Other adjustments	(20)	(4)
Deferred income taxes	(9)	(254)
Goodwill impairment	-	670
Change in accounts receivable	37	151
Change in accounts payable and other liabilities	(72)	(253)
Change in prepaid expenses, income taxes and other current assets	(24)	(50)
Net cash provided from operating activities	923	829
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(618)	(578)

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Capital expenditures - Integration activities	-	(5)
Proceeds on sale of assets	11	94
Other	(10)	5
Net cash used by investing activities	(617)	(484)
Cash flows provided from (used by) financing activities:		
Proceeds from long-term debt borrowings	1,600	1,500
Long - term debt payments	(1,714)	(1,576)
Financing costs paid	(39)	(15)
Premium paid to retire debt	(17)	(80)
Dividends paid on common stock	-	(172)
Dividends paid on preferred stock	(53)	(107)
Capital lease obligation payments	(17)	(25)
Other	(8)	(5)
Net cash used by financing activities	(248)	(480)
Increase (decrease) in cash, cash equivalents, and restricted cash	58	(135)
Cash, cash equivalents, and restricted cash at January 1,	376	522
Cash, cash equivalents, and restricted cash at June 30,	\$ 434	\$ 387
Supplemental cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 716	\$ 797
Income tax payments (refunds), net	\$ 5	\$ (3)

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, 2017. Certain reclassifications of amounts previously reported have been made to conform to the current presentation. 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 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 June 30, 2018, 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).

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 consumer, commercial and wholesale customers and is typically the incumbent voice services provider in its service areas.

On July 10, 2017, we effected a one for fifteen reverse stock split of our common stock. The reverse stock split reduced the number of common shares issued (which includes outstanding shares and treasury shares) from approximately 1,193 million shares to 80 million shares, and reduced shares outstanding from approximately 1,178 million shares to 79 million shares. In addition, and at the same time, the total number of shares of common stock that

Frontier is authorized to issue changed from 1.75 billion shares to 175 million shares. There was no change in the par value of the common stock, and no fractional shares were issued. All share and per share amounts in the financial statements and footnotes have been retroactively adjusted for all periods presented to give effect to the reverse stock split. As a result of our reverse stock split the conversion rates of our Series A Preferred Stock were proportionately adjusted. See Note 3 for additional details.

b) Accounting Changes:

Except for the changes discussed below, Frontier has consistently applied the accounting policies to all periods presented in these unaudited consolidated financial statements.

Effective January 1, 2018, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers," as modified (ASC 606). Frontier applied ASC 606 using the modified retrospective method – i.e., by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of equity at January 1, 2018. The historical periods have not been adjusted and continue to be reported under ASC 605 "Revenue Recognition." See Note 3 for additional details.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The table below summarizes the impact of the adoption of ASC 606 on revenue, operating expenses, and operating income for the three and six months ended June 30, 2018:

(\$ in millions)	For the three months ended June 30, 2018		
	As Reported	Adjustments for ASC 606	Amounts without Adoption of ASC 606
Revenue	\$ 2,162	\$ (2)	\$ 2,160
Operating expenses	1,795	6	1,801
Operating income	\$ 367	\$ (8)	\$ 359

(\$ in millions)	For the six months ended June 30, 2018		
	As Reported	Adjustments for ASC 606	Amounts without Adoption of ASC 606
Revenue	\$ 4,361	\$ (8)	\$ 4,353
Operating expenses	3,628	7	3,635
Operating income	\$ 733	\$ (15)	\$ 718

c) Revenue Recognition:

Revenue for Voice services, Data & Internet services, Video services, Switched and non-switched access services will be recognized as the service is provided. Services that are billed in advance include 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. Services that are billed in arrears include 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 services are provided. Excise taxes are recognized as a liability when billed.

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 consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF), \$53 million and \$55 million, and \$110 million and \$108 million for the three and six months ended June 30, 2018 and 2017, respectively, and video franchise fees of \$12 million and \$13 million, and \$24 million and \$27 million for the three and six months ended June 30, 2018 and 2017, respectively, that we have recorded on a gross basis in our consolidated statements of operations and included within “Revenue” and “Network related expenses.”

In 2015, we accepted the FCC’s Connect America Fund (CAF) Phase II offer of support, which is a successor to and augments the USF frozen high cost support that we had been receiving pursuant to a 2011 FCC order. Upon completion of the 2016 acquisition of properties in California, Texas, and Florida with Verizon (CTF Acquisition), Frontier assumed the CAF Phase II support and related obligations that Verizon had previously accepted with regard to California and Texas. We are recognizing these subsidies into revenue on a straight-line basis.

For additional information about our revenue policies and other required disclosures in accordance with ASC 606, refer to Note 3.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

d) Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash of \$50 million is included within "Income taxes and other current assets" on our consolidated balance sheet as of June 30, 2018. This amount represents funds held as collateral by a bank against letters of credit issued predominately to insurance carriers.

e) Goodwill and Other Intangibles:

Goodwill represents the excess of purchase price over the fair value of identifiable tangible and intangible net assets acquired in a business combination. We have undertaken studies to determine the fair values of assets and liabilities acquired as well as to allocate the purchase price 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.

We determined that we have one operating segment based on a number of factors that our management uses to evaluate and run our business operations, including similarities of customers, products and technology. We tested goodwill for impairment as of June 30, 2018 as a result of the continued decline in share price of our common stock since December 31, 2017, the date of our last goodwill impairment test. There was no indication of impairment as a result of our testing. Changes in the assumptions or estimates used in our impairment analyses, such as a reduction in profitability and/or cash flows, could result in a non-cash goodwill and indefinite-lived intangible asset impairment charge and materially affect our operating results. Decrease in the assumptions for either of our EBITDA (defined as operating income, net of acquisition and integration costs, pension and OPEB expense, stock based compensation expense, and restructuring costs and other charges, plus depreciation and amortization) or EBITDA multiple could result in an impairment. Further declines in our stock price could also indicate impairment.

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.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(2) Recent Accounting Literature:

Recently Adopted Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." This standard, along with its related amendments, 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 they expect to be entitled in exchange for those goods or services. Frontier adopted the standard during the first quarter of 2018, using the modified retrospective method – i.e., by recognizing the cumulative effect of initially applying Accounting Standards Codification Topic (ASC) 606 as an adjustment to the opening balance of shareholders' equity at January 1, 2018. The comparative information for historical periods has not been adjusted and continues to be reported under ASC 605. See Note 3 for additional details and disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, we adopted FASB ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This standard was established to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by requiring that an employer disaggregate the service cost component of periodic benefit cost from the other components of net benefit cost. The amendments in the update also provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and allow only the service cost components of net benefit cost to be eligible for capitalization. For adoption, Frontier retrospectively applied changes to our presentation of pension settlement costs and certain other benefit costs.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the impacts of adopting ASU No. 2017-07.

(\$ in millions)	For the three months ended June 30, 2017		
	As Reported	Impact of Adoption of ASU 2017-07	As Restated
Operating expenses:			
Network related expenses	\$ 477	\$ -	\$ 477
Selling, general and administrative expenses	\$ 531	\$ -	\$ 531
Pension settlement costs	\$ 19	\$ (19)	\$ -
Non-operating income/expenses:			
Investment and other income, net	\$ -	\$ -	\$ -
Pension settlement costs	\$ -	\$ 19	\$ 19

(\$ in millions)	For the six months ended June 30, 2017		
	As Reported	Impact of Adoption of ASU 2017-07	As Restated
Operating expenses:			
Network related expenses	\$ 971	\$ (1)	\$ 970
Selling, general and administrative expenses	\$ 1,075	\$ (2)	\$ 1,073
Pension settlement costs	\$ 62	\$ (62)	\$ -
Non-operating income/expenses:			
Investment and other income, net	\$ 3	\$ (3)	\$ -

Pension settlement costs	\$ -	\$ 62	\$ 62
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Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU No. 2016 – 02, “Leases (Topic 842).” This standard establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Upon implementation, lessees will need to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee’s balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years using modified retrospective application. Early application is permitted. Frontier is in the initial stages of evaluating the potential impact this new standard, along with its related amendments, may have on the consolidated financial statements.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, FASB issued ASU 2018-02, which allows for the reclassification of certain income tax effects related to the Tax Cuts and Jobs Act (the “Tax Act”) between “Accumulated other comprehensive income” and “Retained earnings.” This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates to be included in “Income from continuing operations,” even in situations where the related items were originally recognized in “Other comprehensive income” (rather than in “Income from continuing operations”). The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

of the change in the tax laws or rates were recognized. We are still evaluating certain aspects of this ASU as well as the related impacts it may have on our financial statements.

(3) ASC 606 Adoption and Revenue Recognition:

Frontier applied ASC 606 using the modified retrospective method – i.e., by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of equity at January 1, 2018. The historical periods have not been adjusted and continue to be reported under ASC 605 “Revenue Recognition.”

The following table includes information for the transition adjustment recorded as of January 1, 2018 to record the cumulative impact of adoption of ASC 606 for prior periods.

(\$ in millions)	(Unaudited)		
	As Reported December 31, 2017	ASC 606 Transition Adjustment	Adjusted January 1, 2018
Assets			
Accounts receivable, net	\$ 819	\$ (32)	\$ 787
Contract acquisition costs	\$ -	\$ 87	\$ 87
Other current assets	\$ 64	\$ 4	\$ 68
Property, plant and equipment, net	\$ 14,377	\$ 15	\$ 14,392
Other assets	\$ 97	\$ 127	\$ 224
Liabilities and Equity			
Other current liabilities	\$ 330	\$ 5	\$ 335
Other liabilities	\$ 317	\$ (9)	\$ 308

Deferred income taxes	\$ 1,139	\$ 51	\$ 1,190
Accumulated deficit	\$ (2,263)	\$ 154	\$ (2,109)

The details of the significant changes are set out below.

Bundled Service and Allocation of Discounts

When customers purchase more than one service, the revenue allocable to each service under ASC 606 is determined based upon the relative stand-alone selling price of each service received. While this change results in different allocations to each of the services, it does not change total customer revenue. We frequently offer service discounts as an incentive to customers. Service discounts reduce the total transaction price allocated to the performance obligations that are satisfied over the term of the customer contract. We may also offer incentives which are considered cash equivalents (e.g. Visa gift cards) that similarly result in a reduction of the total transaction price as well as lower revenue over the term of the contract. A contract asset is often created during the beginning of the contract term when the term of the incentive is shorter than the contract term. These contract assets are realized over the term of the contract as our performance obligations are satisfied and customer consideration is received.

Customer Incentives

In the process of acquiring and/or retaining customers, we may issue a variety of incentives aside from service discounts or cash equivalent incentives. Those incentives that have stand-alone value (e.g gift cards not considered cash equivalents or free goods/services) are considered a separate performance obligation under ASC606. As a result, while these incentives are free to the customer, a portion of the consideration received from the customer over the contract term is ascribed to them based upon their relative stand-alone selling price. The revenue, reflected in “Other revenue” and costs, reflected in “Network access expense”, for these incentives are recognized when they are delivered to the customer and the performance obligation is satisfied. Similar to discounts, these types of incentives generally result in the creation of a contract asset during the beginning of the contract term. As part of the above transition adjustment, \$40 million and \$37 million of Short-term and Long-term contract assets were recorded, respectively. As of June 30, 2018, we have included \$42 million of Short-

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

term contract assets in Other current assets and \$41 million of Long-term contract assets in Other assets on our consolidated balance sheet.

Upfront Fees

All non-refundable upfront fees provide our customers with a material right to renew and therefore must be deferred and amortized into revenue over the expected period for which related services are provided. With upfront fees assessed at the beginning of a contract, a contract liability is often created, which is reduced over the term of the contract as the performance obligations are satisfied. As part of the transition adjustment above, \$13 million and \$9 million of Short-term and Long-term contract liabilities were recorded, respectively, for carrier upfront fees. As of June 30, 2018, we have included \$13 million of Short-term contract liabilities in Other current liabilities and \$9 million of Long-term contract liabilities in Other liabilities on our consolidated balance sheet related to carrier upfront fees.

Contract Acquisition Costs

Under ASC 606, certain costs to acquire customers must be deferred and amortized over the related contract period or expected customer life (average of 3.8 years). For Frontier, this includes certain commissions paid to acquire new customers. Beginning January 1, 2018, commissions attributable to new customer contracts are being deferred and amortized into expense. Historically these acquisition costs were expensed as incurred. Frontier expects that the incremental commissions paid as a result of acquiring customers are recoverable and therefore, as part of the transition adjustment above, short-term acquisition costs of \$87 million and long-term contract acquisition costs of \$117 million were deferred. For the six months ended June 30, 2018, Frontier deferred \$72 million of costs and amortized deferred costs of \$53 million to Selling, general and administrative expense. As of June 30, 2018, we have recorded short-term contract acquisition costs of \$97 million and included \$126 million of long-term contract acquisition costs in Other assets on our consolidated balance sheet.

Reserves and Disputes

For carrier disputes, Frontier previously recorded a reserve as a reduction of commercial revenue on a case by case basis once the carrier claim was validated by Frontier. Under ASC 606, credits issued for disputes are variable consideration and an estimate for the credits to be issued is now being recorded at the time of customer billing and the related contract liability is reflected in our Allowance for doubtful accounts (see Note 4). Other than the transition

adjustment, there was no impact to our operating results for the six months ended June 30, 2018 related to this change.

Switched Access

Under ASC 606, switched access revenue, which has been historically reflected in Other regulatory revenue, is considered revenue from a customer; therefore, will be reflected in commercial customer revenue on a prospective basis.

Contributions in Aid of Construction (CIAC)

It is customary for us to charge customers for certain construction activities requested by them. Historically, these amounts were reflected as offsets to the costs of construction and were recorded net in property, plant and equipment accounts. Under ASC 606, certain CIAC amounts will now be recognized as other customer revenue. For the six months ended June 30, 2018, we recognized \$16 million in Revenue for performance obligations that were satisfied during the period.

USF Fees

Universal Service Fund Fees assessed to our customers were previously reflected in regulatory revenue. Under ASC 606, these amounts are being included in contract value and allocated to the services which have been delivered based on relative stand-alone selling price of each service.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the impacts of adopting ASC 606 on Frontier's consolidated balance sheet as of June 30, 2018.

(\$ in millions)	June 30, 2018		
	As Reported	Impact of Adoption of ASC 606	Amounts Excluding Adoption of ASC 606
Assets			
Accounts receivable, net	\$ 751	\$ 35	\$ 786
Contract acquisition costs	\$ 97	\$ (97)	\$ -
Prepaid expenses	\$ 90	\$ 6	\$ 96
Other current assets	\$ 106	\$ (2)	\$ 104
Property, plant and equipment, net	\$ 14,282	\$ (39)	\$ 14,243
Other assets	\$ 236	\$ (137)	\$ 99
Liabilities and Equity			
Other current liabilities	\$ 387	\$ (12)	\$ 375
Other liabilities	\$ 274	\$ 5	\$ 279
Deferred income taxes	\$ 1,219	\$ (54)	\$ 1,165
Accumulated deficit	\$ (2,107)	\$ (173)	\$ (2,280)

The following tables summarize the impacts of adopting ASC 606 on Frontier's statement of operations for the three and six months ended June 30, 2018.

For the three months ended
June 30, 2018

	Impact of	Amounts Excluding
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	As Reported	Adoption of ASC 606	Adoption of ASC 606
(\$ in millions)			
Revenue	\$ 2,162	\$ (2)	\$ 2,160
Operating expenses:			
Network access expenses	369	(3)	366
Network related expenses	478	-	478
Selling, general and administrative expenses	460	9	469
Other operating expenses	488	-	488
Total operating expenses	1,795	6	1,801
Operating income	\$ 367	\$ (8)	\$ 359

For the six months ended
June 30, 2018

	As Reported	Impact of Adoption of ASC 606	Amounts Excluding Adoption of ASC 606
(\$ in millions)			
Revenue	\$ 4,361	\$ (8)	\$ 4,353
Operating expenses:			
Network access expenses	741	(6)	735
Network related expenses	961	-	961
Selling, general and administrative expenses	929	13	942
Other operating expenses	997	-	997
Total operating expenses	3,628	7	3,635
Operating income	\$ 733	\$ (15)	\$ 718

The impact of adoption of ASC 606 on net income, basic and diluted net loss per share, consolidated statement of comprehensive income, and the consolidated statement of cash flows were not material for the three and six months ended June 30, 2018.

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

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”);

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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;

Video services include revenues generated from services provided directly to residential customers through the FiOS® and Vantage video brands, and through DISH® satellite TV services;

Other customer revenue includes switched access revenue, sales of customer premise equipment to our business customers, rents collected for collocation services, and revenue from other services and fees. Switched access revenue includes 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; and

Subsidy and other regulatory revenue includes revenues generated from cost subsidies from state and federal authorities, including the Connect America Fund Phase II.

The following tables provide a summary of revenues, by category. Because of limited comparability for historical periods, we have reflected the current period under both an ASC 606 basis as well as the historical ASC 605 basis.

For the three months ended June 30,
2018

Impact

(\$ in millions)	As reported	Amounts Excluding		2017
		Adoption of ASC 606	Adoption of ASC 606	
Data and Internet services	\$ 973	\$ (25)	\$ 948	\$ 974
Voice services	682	(34)	648	724
Video services	270	27	297	329
Other	140	(54)	86	79
Revenue from contracts with customers	2,065	(86)	1,979	2,106
Subsidy and other regulatory revenue	97	84	181	198
Total revenue	\$ 2,162	\$ (2)	\$ 2,160	\$ 2,304

For the three months ended June 30, 2018

(\$ in millions)	As reported	Impact of Adoption of		2017
		ASC 606	Amounts Excluding Adoption of ASC 606	
Consumer	\$ 1,095	\$ (27)	\$ 1,068	\$ 1,124
Commercial	970	(59)	911	982
Revenue from contracts with customers	2,065	(86)	1,979	2,106
Subsidy and other regulatory revenue	97	84	181	198
Total revenue	\$ 2,162	\$ (2)	\$ 2,160	\$ 2,304

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months ended June 30,
2018

(\$ in millions)	As reported	Impact	Amounts	2017
		Adoption of ASC 606	Excluding Adoption of ASC 606	
Data and Internet services	\$ 1,958	\$ (68)	\$ 1,890	\$ 1,967
Voice services	1,384	(66)	1,318	1,475
Video services	550	56	606	676
Other	275	(104)	171	147
Revenue from contracts with customers	4,167	(182)	3,985	4,265
Subsidy and other regulatory revenue	194	174	368	395
Total revenue	\$ 4,361	\$ (8)	\$ 4,353	\$ 4,660

For the six months ended June 30,
2018

Impact of Adoption of	Amounts Excluding Adoption of
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(\$ in millions)	As reported	ASC 606	ASC 606	2017
Consumer	\$ 2,223	\$ (66)	\$ 2,157	\$ 2,288
Commercial	1,944	(116)	1,828	1,977
Revenue from contracts with customers	4,167	(182)	3,985	4,265
Subsidy and other regulatory revenue	194	174	368	395
Total revenue	\$ 4,361	\$ (8)	\$ 4,353	\$ 4,660

Frontier satisfies its obligations to customers by transferring goods and services in exchange for consideration received from the customer. The timing of Frontier's satisfaction of the performance obligation often differs from the timing of the customer's payment, which results in the recognition of a contract asset or a contract liability. Frontier recognizes a contract asset or liability when the Company transfers goods or services to a customer and bills an amount which differs from the revenue allocated to the related performance obligations.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The opening and closing balances of Frontier's contract asset, contract liability, receivables, and advanced billings balances for the six months ended June 30, 2018 are as follows:

(\$ in millions)	Contract Assets		Contract Liabilities	
Balance January 1, 2018	\$ 77	(1)	\$ (60)	(2)
Revenue recognized included in opening contract balance	(21)		64	
Cash received, excluding amounts recognized as revenue	-		(86)	
Credits granted, excluding amounts recognized as revenue	27		-	
Other	-		6	
Balance June 30, 2018	\$ 83	(1)	\$ (76)	(2)

(1) Includes \$42 million and \$40 million in other current assets and \$41 million and \$37 million in other assets as of June 30, 2018 and January 1, 2018, respectively.

(2) Includes \$51 million and \$41 million in other current liabilities and \$25 million and \$19 million in other liabilities as of June 30, 2018 and January 1, 2018, respectively.

Short-term contract assets, Long-term contract assets, Short-term contract liabilities, and Long-term contract liabilities are included in other current assets, other assets, other current liabilities, and other liabilities, respectively, on our

consolidated balance sheet.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

(\$ in millions)	Revenue from contracts with customers
2018 (remaining six months)	\$ 2,197
2019	2,396
2020	878
2021	367
2022	224
Thereafter	274
Total	\$ 6,336

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(4) Accounts Receivable:

The components of accounts receivable, net are as follows:

(\$ in millions)	June 30, 2018	December 31, 2017
Retail and wholesale	\$ 765	\$ 801
Other	88	87
Less: Allowance for doubtful accounts	(102)	(69)
Accounts receivable, net	\$ 751	\$ 819

We maintain an allowance for doubtful accounts based on our estimate of our ability to collect accounts receivable. A transition adjustment of \$32 million was recorded for the impact of ASC 606 to the Allowance for doubtful accounts as of January 1, 2018 to reflect the cumulative impact of this change on prior periods.

Bad debt expense, which is recorded as a reduction to revenue, is as follows:

(\$ in millions)	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Bad debt expense	\$ 22	\$ 25	\$ 41	\$ 57

(5) Property, Plant and Equipment:

Property, plant and equipment, net is as follows:

(\$ in millions)	June 30, 2018	December 31, 2017
Property, plant and equipment	\$ 27,085	\$ 26,496
Less: Accumulated depreciation	(12,803)	(12,119)
Property, plant and equipment, net	\$ 14,282	\$ 14,377

In 2018, we sold certain properties subject to leaseback, generating \$11 million in net proceeds. For these properties, we have deferred \$9 million in related gains that will be amortized over the related lease terms of two years.

For the six months ended June 30, 2018, amortization of deferred gains for properties sold in 2017 and 2018 totaled \$18 million, which are included in "Selling, general and administrative expenses" on our consolidated statement of operations. We have a remaining deferred gain balance of \$35 million, which is included in "Other current liabilities."

Depreciation expense is principally based on the composite group method. Depreciation expense was as follows:

For the three months ended	For the six months ended
----------------------------	--------------------------

(\$ in millions)	June 30,		June 30,	
	2018	2017	2018	2017
Depreciation expense	\$ 343	\$ 379	\$ 688	\$ 755

We adopted new estimated remaining useful lives for certain plant assets as of October 1, 2017, as a result of an annual independent study of the estimated remaining useful lives of our plant assets, with an insignificant impact to depreciation expense.

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(6) Goodwill and Other Intangibles:

We are required to perform impairment tests related to our goodwill annually, which we perform as of December 31, or sooner if an indicator of impairment occurs. Accumulated goodwill impairment charges were \$2,788 million as of June 30, 2018 and December 31, 2017.

The components of other intangibles are as follows:

(\$ in millions)	June 30, 2018		Net Carrying Amount	December 31, 2017		Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization	
Other Intangibles:						
Customer base	\$ 5,188	\$ (3,590)	\$ 1,598	\$ 5,188	\$ (3,294)	\$ 1,894
Trade name	122	-	122	122	-	122
Royalty agreement	72	(32)	40	72	(25)	47
Total other intangibles	\$ 5,382	\$ (3,622)	\$ 1,760	\$ 5,382	\$ (3,319)	\$ 2,063

Amortization expense was as follows:

(\$ in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Amortization expense	\$ 143	\$ 173	\$ 303	\$ 376

Amortization expense primarily represents the amortization of our customer base acquired as a result of our acquisitions in 2010, 2014, and 2016 with each based on a useful life of 8 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 June 30, 2018 and December 31, 2017. For the other financial instruments including cash, accounts receivable, restricted cash, 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)	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 16,209	\$ 13,883	\$ 16,970	\$ 13,994

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(8) Long-Term Debt:

The activity in our long-term debt from January 1, 2018 through June 30, 2018 is summarized as follows:

(\$ in millions)	January 1, 2018	For the six months ended June 30, 2018		June 30, 2018	Interest Rate at June 30, 2018*
		Payments and Retirements	New Borrowings		
Secured debt issued by Frontier	\$ 3,511	\$ (82)	\$ 1,600	\$ 5,029	7.03%
Unsecured debt issued by Frontier	13,495	(1,699)	-	11,796	9.51%
Secured debt issued by subsidiaries	107	(1)	-	106	8.35%
Unsecured debt issued by subsidiaries	750	-	-	750	6.90%
Total debt	\$ 17,863	\$ (1,782)	\$ 1,600	\$ 17,681	8.69%
Less: Debt Issuance Costs	(183)			(192)	
Less: Debt Premium/(Discount)	(54)			(52)	
Less: Current Portion	(656)			(1,228)	
	\$ 16,970			\$ 16,209	

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at June 30, 2018 represent a weighted average of multiple issuances.

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PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Additional information regarding our long-term debt as of June 30, 2018 and December 31, 2017 is as follows:

(\$ in millions)	June 30, 2018		December 31, 2017	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Secured debt issued by Frontier				
Term loan due 10/24/2019 (1)	\$ 228	8.375% (Variable)	\$ 245	5.445% (Variable)
Term loan due 3/31/2021 (2)	1,442	4.850% (Variable)	1,483	4.320% (Variable)
Term loan due 10/12/2021(3)	260	8.375% (Variable)	276	5.445% (Variable)
Term loan due 6/15/2024 (4)	1,485	5.850% (Variable)	1,492	5.320% (Variable)
Second lien notes due 4/1/2026	1,600	8.500%	-	
IDRB due 5/1/2030	13	6.200%	13	6.200%
Equipment financings	1	0.000%	2	0.000%
Total secured debt issued by Frontier	5,029		3,511	
Unsecured debt issued by Frontier				
Senior notes due 10/1/2018	443	8.125%	491	8.125%
Senior notes due 3/15/2019	404	7.125%	404	7.125%
Senior notes due 4/15/2020	172	8.500%	619	8.500%
Senior notes due 9/15/2020	55	8.875%	303	8.875%
Senior notes due 7/1/2021	89	9.250%	490	9.250%
Senior notes due 9/15/2021	220	6.250%	775	6.250%
Senior notes due 4/15/2022	500	8.750%	500	8.750%
Senior notes due 9/15/2022	2,188	10.500%	2,188	10.500%
Senior notes due 1/15/2023	850	7.125%	850	7.125%
Senior notes due 4/15/2024	750	7.625%	750	7.625%
Senior notes due 1/15/2025	775	6.875%	775	6.875%
Senior notes due 9/15/2025	3,600	11.000%	3,600	11.000%
Debentures due 11/1/2025	138	7.000%	138	7.000%
Debentures due 8/15/2026	2	6.800%	2	6.800%
Senior notes due 1/15/2027	346	7.875%	346	7.875%

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Senior notes due 8/15/2031	945	9.000%	945	9.000%
Debentures due 10/1/2034	1	7.680%	1	7.680%
Debentures due 7/1/2035	125	7.450%	125	7.450%
Debentures due 10/1/2046	193	7.050%	193	7.050%
Total unsecured debt issued by Frontier	11,796		13,495	
Secured debt issued by subsidiaries				
Debentures due 11/15/2031	100	8.500%	100	8.500%
RUS loan contracts due 1/3/2028	6	6.152%	7	6.152%
Total secured debt issued by subsidiaries	106		107	
Unsecured debt issued by subsidiaries				
Debentures due 5/15/2027	200	6.750%	200	6.750%
Debentures due 2/1/2028	300	6.860%	300	6.860%
Debentures due 2/15/2028	200	6.730%	200	6.730%
Debentures due 10/15/2029	50	8.400%	50	8.400%
Total unsecured debt issued by subsidiaries	750		750	
Total debt	\$ 17,681	8.7%(5)	\$ 17,863	8.1%(5)

- (1) Represents borrowings under the 2014 CoBank Credit Agreement, as defined below.
- (2) Represents borrowings under the JPM Credit Agreement Term Loan A, as defined below.
- (3) Represents borrowings under the 2016 CoBank Credit Agreement, as defined below.
- (4) Represents borrowings under the JPM Credit Agreement Term Loan B, as defined below.
- (5) Interest rate represents a weighted average of the stated interest rates of multiple issuances.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Term Loans and Credit Facilities:

JP Morgan Credit Facilities

On February 27, 2017, Frontier entered into a first amended and restated credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which Frontier combined its revolving credit agreement, dated as of June 2, 2014, and its term loan credit agreement, dated as of August 12, 2015. Under the JPM Credit Agreement, as further amended on June 15, 2017 by Increase Joinder No.1 and on July 3, 2018 by Increase Joinder No. 2 (as so amended, the JPM Credit Agreement), Frontier has a \$1,625 million senior secured term loan A facility (the Term Loan A) maturing on March 31, 2021, an \$850 million undrawn secured revolving credit facility maturing on February 27, 2022 (the Revolver), and a \$1,740 million senior secured term loan B facility (the Term Loan B) maturing on June 15, 2024. The maturities of the Term Loan A, the Revolver, and the Term Loan B, in each case if still outstanding, will be accelerated in the following circumstances: (i) if, 91 days before the maturity date of any series of Senior Notes maturing in 2020, 2023 and 2024, more than \$500 million in principal amount remains outstanding on such series; or (ii) if, 91 days before the maturity date of the first series of Senior Notes maturing in 2021 or 2022, more than \$500 million in principal amount remains outstanding, in the aggregate, on the two series of Senior Notes maturing in such year.

On January 25, 2018 Frontier amended the JPM Credit Agreement to, among other things, expand the security package to include the interests of certain subsidiaries previously not pledged and replace the net leverage ratio maintenance test with a first lien net leverage ratio maintenance test.

The determination of interest rates for each of the facilities under the JPM Credit Agreement is based on margins over the Base Rate (as defined in the JPM Credit Agreement) or over LIBOR, at the election of Frontier. Interest rate margins on the Term Loan A and Revolver (ranging from 0.75% to 1.75% for Base Rate borrowings and 1.75% to 2.75% for LIBOR borrowings) are subject to adjustment based on Frontier's Total Leverage Ratio (as defined in the JPM Credit Agreement). The interest rate on the Term Loan A as of June 30, 2018 was LIBOR plus 2.75%. Interest rate margins on the Term Loan B (2.75% for Base Rate borrowings and 3.75% for LIBOR borrowings) are not subject to adjustment. The security package under the JPM Credit Agreement includes pledges of the equity interests in certain Frontier subsidiaries and guaranties by certain Frontier subsidiaries. As of June 30, 2018, the company had no borrowings outstanding under the revolver (with letters of credit issued under the revolver totaling \$62 million).

CoBank Credit Facilities

As of June 30, 2018, Frontier had two senior secured credit agreements with CoBank, ACB, as administrative agent, lead arranger and a lender, and the other lenders party thereto: (i) a \$350 million senior term loan facility drawn in 2014 (the 2014 CoBank Credit Agreement), and (ii) a \$315 million senior term loan facility drawn in October 2016 (the 2016 CoBank Credit Agreement), which matures on October 12, 2021. We refer to the 2014 CoBank Credit Agreement and the 2016 CoBank Credit Agreement collectively as the CoBank Credit Agreements.

On March 29, 2017, Frontier amended the CoBank Credit Agreements to provide for increases in the maximum Leverage Ratio and expansion of the security package identical to those contained in the JPM Credit Agreement. On January 25, 2018 Frontier amended the CoBank Credit Agreements to, among other things, expand the security package to include the interests of certain subsidiaries previously not pledged and replace the net leverage ratio maintenance test with a first lien net leverage ratio maintenance test.

Borrowings under each of the CoBank Credit Agreements bear interest based on the margins over the Base Rate (as defined in the applicable CoBank Credit Agreement) or over LIBOR, at the election of Frontier. Interest rate margins under each of these facilities will range from 0.875% to 3.875% for Base Rate borrowings and 1.875% to 4.875% for LIBOR borrowings, subject to adjustment based on our Total Leverage Ratio, as defined in each credit agreement. The interest rate on each of the facilities as of June 30, 2018 was the Base Rate plus 3.375%. Following the extinguishment of the 2014 CoBank Credit Agreement and partial repayment of the 2016 CoBank Credit Agreement on July 3, 2018 as described in “Subsequent Events” below, the interest rate on the

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

2016 CoBank Credit Agreement was reverted to LIBOR plus 4.375%. For June 30, 2018 the Base Rate and one-month LIBOR were 5.0% and 2.09% respectively.

As of June 30, 2018, we were in compliance with all of our indenture and credit facility covenants.

New Debt Issuances:

On March 19, 2018, Frontier completed a private offering of \$1,600 million aggregate principal amount of 8.500% Second Lien Secured Notes due 2026 (the "Second Lien Notes"). The Second Lien Notes are guaranteed by each of the Company's subsidiaries that guarantees its senior secured credit facilities. The guarantees are unsecured obligations of the guarantors and subordinated in right of payment to all of the guarantor's obligations under the Company's senior secured credit facilities and certain other permitted future senior indebtedness but equal in right of payment with all other unsubordinated obligations of the guarantors. The Second Lien Notes indenture provides that (a) the aggregate amount of all guaranteed obligations guaranteed by the guarantees are limited and shall not, at any time, exceed the lesser of (x) the principal amount of the Second Lien Notes then outstanding and (y) the Maximum Guarantee Amount (as defined in the Second Lien Notes indenture), and (b) for the avoidance of doubt, nothing in the Second Lien Notes indenture shall, on any date or from time to time, allow the aggregate amount of all such guaranteed obligations guaranteed by the guarantors to cause or result in the Company or any subsidiary violating any indenture governing the Company's existing senior notes. The Second Lien Notes are secured on a second-priority basis by all the assets that secure Frontier's obligations under its senior secured credit facilities on a first-priority basis. The collateral securing the Second Lien Notes and the Company's senior secured credit facilities is limited to the equity interests of certain subsidiaries of the Company and substantially all personal property of Frontier Video Services, Inc. The Second Lien Notes bear interest at a rate of 8.500% per annum and mature on April 1, 2026. Interest on the Second Lien Notes is payable to holders of record semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2018.

Debt Reductions:

During the six months ended June 30, 2018, Frontier used cash on hand for the scheduled retirement of \$83 million contractual payments of principal indebtedness and open market purchases of \$48 million of 8.125% senior notes due 2018. Additionally, Frontier used cash proceeds from the \$1,600 million Second Lien Notes offering and cash on hand to retire an aggregate principal amount of \$1,651 million senior unsecured notes prior to maturity, consisting of \$447 million of 8.500% senior notes due 2020, \$249 million 8.875% senior notes due 2020, \$555 million of 6.250% senior

notes due 2021, and \$400 million of 9.250% senior notes due 2021. During the first six months of 2018, Frontier recorded a gain on early extinguishment of debt of \$33 million driven primarily by discounts received on the retirement of certain notes, slightly offset by premiums paid to retire certain notes and unamortized original issuance costs.

Subsequent Events:

Subsequent to the end of the quarter, on July 3, 2018, Frontier further amended the JPM Credit Agreement and the CoBank Credit Agreements. Among other things, the amendments replace certain operating subsidiary equity pledges with pledges of the equity interests of certain direct subsidiaries of Frontier. Corresponding changes were made to the collateral package securing the Second Lien Notes.

In addition, on July 3, 2018, the Company entered into Increase Joinder No. 2 to the JPM Credit Agreement, pursuant to which the Company borrowed an incremental \$240 million under the Term Loan B maturing in 2024. The Company used the incremental borrowings to repay in full the 2014 CoBank Credit Agreement, repay a portion of the 2016 CoBank Credit Agreement and pay certain fees and expenses related to this incremental borrowing. As a result of the extinguishment of the 2014 CoBank Credit Facility and partial repayment of the 2016 CoBank Credit Facility as described above, we reclassified \$197 million to “Long-term debt due within one year” that would have otherwise have been classified as “Long-term debt.”

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The table below represents our future principal payments as of June 30, 2018 and as of July 3, 2018. The changes reflect the incremental Term Loan B and the repayment of the CoBank Credit Agreements as discussed above.

(\$ in millions)	Principal payments as of June 30, 2018	Change in principal payments from July 3, 2018 activity	Principal payments as of July 3, 2018
2018 (remaining six months)	\$ 740	\$ (232)	\$ 508
2019	\$ 592	\$ 3	\$ 595
2020	\$ 434	\$ 3	\$ 437
2021	\$ 1,601	\$ 3	\$ 1,604
2022	\$ 2,703	\$ 3	\$ 2,706
2023	\$ 866	\$ 2	\$ 868
Thereafter	\$ 10,744	\$ 227	\$ 10,971

(9) Restructuring Costs and Other Charges:

As of June 30, 2018, restructuring related liabilities of \$6 million pertaining to employee separation charges were included in "Other current liabilities" in our consolidated balance sheet.

Restructuring costs and other charges, primarily consisting of severance and other employee-related costs of \$6 million and \$41 million in connection with workforce reductions, are included in “Restructuring costs and other charges” in our consolidated statement of operations for the six months ended June 30, 2018 and 2017.

The following is a summary of the changes in the liabilities established for restructuring programs at June 30, 2018:

(\$ in millions)

Balance, January 1, 2018	\$ 25
Severance expense	6
Cash payments during the period	(25)
Balance, June 30, 2018	\$ 6

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(10) Investment and Other Income:

The following is a summary of the components of Investment and Other Income for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30,		For the six months ended June 30,	
(\$ in millions)	2018	2017	2018	2017
Interest and dividend income	\$ 1	\$ -	\$ 3	\$ 3
Pension and OPEB costs	5	-	10	(3)
All other, net	(1)	-	-	-
Total investment and other income, net	\$ 5	\$ -	\$ 13	\$ -

(11) Income Taxes:

The following is a reconciliation of the provision for income taxes computed at the federal statutory rate to income taxes computed at the effective rate:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Consolidated tax provision at federal statutory rate	21.0 %	35.0 %	21.0 %	35.0 %
State income tax provisions, net of federal income tax benefit	1.7	1.8	(34.7)	1.6
Remeasurement of certain deferred tax balances	-	-	78.6	-
Tax reserve adjustment	0.9	(0.1)	(1.1)	(0.1)
Changes in certain deferred tax balances	31.6	(0.3)	146.6	(0.2)
Goodwill impairment	-	(12.3)	-	(10.9)
Shared-based payments	-	-	(70.3)	(0.2)
Federal research and development tax credit	(2.2)	0.1	(3.2)	0.2
All other, net	1.0	(0.2)	1.8	(0.2)
Effective tax rate	54.0 %	24.0 %	138.7 %	25.2 %

Under ASC 605, income tax benefit would have been \$3 million more for the six months ended June 30, 2018, as a result of changes in pre-tax income as discussed in Note 3.

Amounts pertaining to income tax related accounts of \$2 million and \$2 million are included in "Income taxes and other current assets" in the consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(12) Net Loss Per Share:

All share and per share amounts in the tables below have been retroactively adjusted for all periods presented to give effect to the reverse stock split. See Note 1 – Summary of Significant Accounting Policies for additional details.

The reconciliation of the net loss per share calculation is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(\$ in millions and shares in thousands, except per share amounts)	2018	2017	2018	2017
Net loss used for basic and diluted loss per share:				
Net loss attributable to Frontier common shareholders	\$ (72)	\$ (715)	\$ (105)	\$ (844)
Less: Dividends paid on unvested restricted stock awards	-	(1)	-	(2)
Total basic net loss attributable to Frontier common shareholders	\$ (72)	\$ (716)	\$ (105)	\$ (846)
Effect of loss related to dilutive stock units	-	(2)	-	(2)
Total diluted net loss attributable to Frontier common shareholders	\$ (72)	\$ (718)	\$ (105)	\$ (848)
Basic loss per share:				
Total weighted average shares and unvested restricted stock awards outstanding - basic	80,201	78,531	79,429	78,365
Less: Weighted average unvested restricted stock awards	(2,175)	(736)	(1,744)	(686)
Total weighted average shares outstanding - basic	78,026	77,795	77,685	77,679
Basic net loss per share attributable to Frontier common shareholders	\$ (0.92)	\$ (9.20)	\$ (1.35)	\$ (10.88)

Diluted loss per share:

Total weighted average shares outstanding - basic	78,026	77,795	77,685	77,679
Effect of dilutive stock units	-	156	-	156
Total weighted average shares outstanding - diluted	78,026	77,951	77,685	77,835

Diluted net loss per share

attributable to Frontier common shareholders	\$ (0.92)	\$ (9.21)	\$ (1.35)	\$ (10.89)
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In calculating diluted net loss per common share for the three and six months ended June 30, 2018, the effect of all common stock equivalents is excluded from the computation as the effect would be antidilutive.

Stock Options

For the three and six months ended June 30, 2018 and 2017, previously granted options to purchase 1,334 and 2,664 shares, issuable under employee compensation plans were excluded from the computation of diluted earnings (loss) per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Stock Units

At June 30, 2018 and 2017, we had 247,634 and 155,616 stock units, respectively, issued under the Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan), the Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan), the 2013 Equity Incentive Plan and the 2017 Equity Incentive Plan. These securities have not been included in the diluted EPS calculation for the six months ended June 30, 2018 and 2017 because their inclusion would have an antidilutive effect. Compensation costs associated with the issuance of stock units were \$0 and \$(3) million for the six months ended June 30, 2018 and 2017, respectively.

Mandatory Convertible Preferred Stock

The impact of the common share equivalents associated with approximately 19,250,000 shares of Series A Preferred stock were not included in the diluted EPS calculation as of June 30, 2017, as their impact was antidilutive.

(13) Capital Stock:

On June 10, 2015, prior to the reverse stock split, we completed a registered offering of 17,500,000 shares of our 11.125% Mandatory Convertible Preferred Stock, Series A, par value \$0.01 per share (the "Series A Preferred Stock"), at an offering price of \$100 per share. On June 24, 2015, Frontier issued an additional 1,750,000 shares of Series A Preferred Stock in connection with the over-allotment option that was exercised in full by the underwriters.

On June 29, 2018, pursuant to the provisions of Frontier's Certificate of Designation governing the Series A Preferred Stock, all outstanding shares of the Series A Preferred Stock converted at a rate of 1.3333 common shares per share of preferred stock into an aggregate of approximately 25,529,000 shares (net of fractional shares) of the Company's common stock. Frontier issued cash in lieu of fractional shares of common stock. These payments were recorded as a reduction to Additional paid-in capital.

At June 30, 2018, \$54 million of dividends payable were included in "Other current liabilities" in our consolidated balance sheet representing the final dividend payable to holders of the Series A Preferred Stock. The final dividend

was paid on July 2, 2018.

(14) Stock Plans:

All share and per share amounts in the tables below have been retroactively adjusted for all periods presented to give effect to the reverse stock split. See Note 1 – Summary of Significant Accounting Policies for additional details.

At June 30, 2018, we had seven stock-based compensation plans under which grants were made and awards remained outstanding. No further awards may be granted under six of the plans: the 1996 Equity Incentive Plan (the 1996 EIP), the Amended and Restated 2000 Equity Incentive Plan (the 2000 EIP), the 2009 Equity Incentive Plan (the 2009 EIP), the 2013 Equity Incentive Plan (the 2013 EIP), the Deferred Fee Plan and the Directors' Equity Plan. At June 30, 2018, there were approximately 5,667,000 shares authorized for grant and approximately 2,405,000 shares available for grant under the 2017 Equity Incentive Plan (the 2017 EIP and together with the 1996 EIP, the 2000 EIP, the 2009 EIP and the 2013 EIPs, the EIPs).

Performance Shares

On February 14, 2018, the Compensation Committee of our Board of Directors granted approximately 284,000 performance shares under the Frontier Long Term Incentive Plan (the LTIP) and set the operating cash flow performance goal for 2017, which applies to the first year in the 2017-2019 measurement period, the second year of the 2016-2018 measurement period and the third year of the 2015-2017 measurement period.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following summary presents information regarding LTIP target performance shares as of June 30, 2018 and changes during the six months then ended with regard to LTIP shares awarded under the 2013 EIP and the 2017 EIP:

	Number of Shares (in thousands)
Balance at January 1, 2018	306
LTIP target performance shares granted, net	284
LTIP target performance shares earned	(18)
LTIP target performance shares forfeited	(47)
Balance at June 30, 2018	525

For purposes of determining compensation expense, the fair value of each performance share is measured at the end of each reporting period and, therefore, will fluctuate based on the price of Frontier common stock as well as performance relative to the targets. For the six months ended June 30, 2018 and 2017, we recognized net compensation expense, reflected in "Selling, general and administrative expenses," of \$2 million and \$0 million, respectively, for the LTIP.

Restricted Stock

The following summary presents information regarding unvested restricted stock as of June 30, 2018 and changes during the six months then ended with regard to restricted stock granted under the 2013 EIP and the 2017 EIP:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)	Aggregate Fair Value (in millions)
Balance at January 1, 2018	633	\$ 58.63	\$ 4
Restricted stock granted	1,996	\$ 8.30	\$ 11
Restricted stock vested	(221)	\$ 66.47	\$ (1)
Restricted stock forfeited	(276)	\$ 19.24	
Balance at June 30, 2018	2,132	\$ 15.81	\$ 11

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the closing price of a share of our common stock on the date of the grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards that is deferred at June 30, 2018 was \$36 million, and the weighted average vesting period over which this cost is expected to be recognized is approximately 2 years.

Shares of restricted stock granted during the first six months of 2017 totaled 454,000. The total fair value of shares of restricted stock granted and vested at June 30, 2017 was approximately \$8 million and \$4 million, respectively. The total fair value of unvested restricted stock at June 30, 2017 was \$13 million. The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2017 was \$48.40 per share.

We have granted restricted stock awards to employees in the form of our common stock. None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse, subject to limited exceptions. The restrictions are time-based. Compensation expense, recognized in "Selling, general and administrative expenses," of \$7 million and \$9 million for each of the six month periods ended June 30, 2018 and 2017, respectively, has been recorded in connection with these grants.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(15) Comprehensive Income (Loss):

Comprehensive income (loss) consists of net income (loss) and other gains and losses affecting shareholders' equity and pension/postretirement benefit (OPEB) liabilities that, under GAAP, are excluded from net loss.

The components of accumulated other comprehensive loss, net of tax at June 30, 2018 and 2017, and changes for the six months then ended, are as follows:

(\$ in millions)	Pension Costs	OPEB Costs	Total
Balance at January 1, 2018 (a)	\$ (345)	\$ (21)	\$ (366)
Other comprehensive income (loss) before reclassifications	45	1	46
Amounts reclassified from accumulated other comprehensive loss to net loss	27	(3)	24
Net current-period other comprehensive income (loss)	72	(2)	70
Balance at June 30, 2018 (a)	\$ (273)	\$ (23)	\$ (296)

(\$ in millions)	Pension Costs	OPEB Costs	Total
Balance at January 1, 2017 (a)	\$ (403)	\$ 16	\$ (387)
Other comprehensive income (loss) before reclassifications	12 50	(1) (3)	11 47

Amounts reclassified from accumulated other comprehensive loss to net loss				
Net current-period other comprehensive income (loss)		62	(4)	58
Balance at June 30, 2017 (a)	\$	(341)	\$	12
			\$	(329)

(a) Pension and OPEB amounts are net of deferred tax balances of \$223 million and \$231 million as of January 1, 2018 and 2017, respectively and \$195 million and \$194 million as of June 30, 2018 and 2017, respectively.

As a result of pension settlement accounting, the Frontier Communications Pension Plan (the Pension Plan) was remeasured as of June 30, 2018 and as of June 30, 2017. For the three and six months ended June 30, 2018, Frontier recorded a net gain on remeasurement of \$65 million to Other comprehensive income (loss). Additionally, Frontier recorded pension settlement charges totaling \$25 million (\$19 million net of tax) to other comprehensive income.

For the three and six months ended June 30, 2017, Frontier recorded a net loss on remeasurement of \$28 million to Other comprehensive income (loss), respectively. Pension settlement charges of \$19 million and \$62 million were recorded to other comprehensive income for the three and six months ended June 30, 2017, respectively. Refer to Note 16 for details about the settlement accounting.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The significant items reclassified from each component of accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017 are as follows:

(\$ in millions)	Amount Reclassified from Accumulated Other Comprehensive Loss (a)			Affected Line Item in the Statement Where
	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	
Details about Accumulated Other Comprehensive Loss Components				Net Income (Loss)