

FRONTIER COMMUNICATIONS CORP  
Form 10-K  
March 01, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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  
incorporation or organization)

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

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

06851  
(Zip Code)

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 \$0.25 per share	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, 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):

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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 aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2018 was \$559,443,000 based on the closing price of \$5.36 per share on June 29, 2018. The number of shares outstanding of the registrant's common stock as of February 26, 2019 was 105,303,000.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Frontier's 2019 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 a provider of communications services in the United States, with approximately 4.5 million customers, 3.7 million broadband subscribers and 21,200 employees, operating in 29 states. On April 1, 2016, we completed our acquisition of Verizon's wireline properties in California, Texas, and Florida (the CTF Acquisition or the CTF Operations).

Frontier's Service Territories

How We Serve Our Customers

We conduct business with both consumer and commercial customers.

**Consumer.** We provide broadband, video, voice and other services and products to our consumer customers. We deliver these services generally over a combination of fiber and copper-based networks.

**Commercial** (small, and medium business, and larger enterprise customers (SME) as well as wholesale customers).

**Commercial.** We provide a broad range of services to our SME customers, including broadband service, Ethernet service, traditional circuit-based services (TDM services), SD-WAN, managed Wi-Fi, managed cloud IT solutions, voice and Unified Communications as a Service (UCaaS services) and Voice over Internet Protocol (VoIP). We also offer advanced hardware and network solutions and services.

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- o Larger Enterprise: Fortune 1000, multi-location companies, large government entities, large educational institutions, and non-profits.
  
- o Medium Business: Single or multi-location companies and mid-sized government entities, educational institutions and non-profits.
  
- o Small Business: Mostly single-location businesses, the smaller of which have purchase patterns similar to consumer customers.

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## FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

- o Wholesale: Wholesale customers are often referred to as carriers or service providers and include national operators such as AT&T and Verizon; Local Exchange Companies that need to access locations within Frontier's footprint to offer local services; and wireless carriers and integrated carriers that offer a variety of services across all of these categories. Wholesale customers buy both voice and data services to supplement their own network infrastructure.

### Services and Products

We offer a broad portfolio of communications services for consumer and commercial customers. These services are offered on either a standalone basis or in a bundled package, depending on each customer's needs.

**Data and Internet services.** We offer a comprehensive range of broadband and networking services. The principal consumer service we provide is broadband internet service. Commercial services include a complete portfolio of Ethernet services, dedicated internet, software defined wide area network (SDWAN), managed Wi-Fi, time division multiplexing (TDM) data transport services and optical transport services. These services are all supported by 24/7 technical support and an advanced network operations center. We also offer wireless broadband services (using unlicensed spectrum) in select markets utilizing networks that we own or operate.

**Video services.** We offer video services under FiOS® brand in portions of California, Texas, Florida, Indiana, Oregon and Washington, and the Vantage™ brand in portions of Connecticut, North Carolina, South Carolina, Minnesota, Illinois, New York, and Ohio. We also offer satellite TV video service to our customers under an agency relationship with DISH® in all of our markets.

**Voice services.** We provide voice services, including data-based VoIP and UCaaS, long-distance and voice messaging services, to consumer and commercial customers in all of our markets. These services are billed monthly in advance. Long-distance 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 advance for unlimited use service, and billed in arrears for services on a per minute-of-use basis.

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

**Access services.** We offer a range of 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 are



based on access rates filed with the Federal Communications Commission (FCC) for interstate services and with the respective state regulatory agency for intrastate services. See “Regulatory Environment” below.

**Advanced Hardware and Network Solutions.** We offer our SME customers various hardware and network solutions utilizing cloud functionality and Customer Premise Equipment (CPE). We offer third-party communications equipment tailored to their specific business needs by partnering with Mitel, Cisco, Ingram Micro, Airbus, Avaya, Hewlett Packard, Adtran and other equipment manufacturers. CPE is typically sold in conjunction with voice, data and Internet services, and may also be sold on a standalone basis.

### Transformation Program

In 2018, Frontier launched a multi-year strategic transformation program with the aim of re-positioning the company to be better able to react to current and future business and operational challenges and to create long-term sustainable value. We believe there are substantial opportunities to improve revenues, operations, customer care and technical support by simplifying our business processes that have become more complex as the Company has grown and evolved over time.

We have aligned Frontier’s resources around the Transformation Program and have established dedicated cross functional teams for specific targeted business areas. As we develop, test, and deploy solutions in these areas, we are utilizing an agile approach, which entails focusing on discrete processes within the related subject areas and working iteratively over very short time frames to develop, test and deploy solutions. We believe this approach will lead to not only greater success, but also increase the rate at which success is realized as compared to traditional approaches.

## FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

### 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.

We have expanded and enhanced our fiber optic and copper transport systems to support increasing demand for high bandwidth transport services. We routinely enhance our network and upgrade 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 support advanced services such as Ethernet, Dedicated Internet, VoIP, and SDWAN. The network is designed with redundancy and auto-failover capability on our major circuits.

We connect to households and business locations in our service territory using a combination of fiber optic, copper and wireless technologies. In some cases we provide direct fiber into a residence or a business premises. In other cases a location is served with a hybrid combination of fiber and copper. Residences in our service territory are served by fiber-to-the-home (FTTH) and by fiber-to-the-node (FTTN), meaning fiber carries the traffic to an intermediate location where the signals are converted to copper wire for the final delivery to the household. We provide data, video, and voice services to customers over both of these architectures. Additionally, fixed wireless broadband (FWB) will play an important part of our future broadband strategy and is deployed for some business Ethernet services. FWB is delivered by the use of an antenna on a Frontier base location and another antenna at the customer location.

Rapid and significant changes in technology are occurring in the communications industry. Our success will depend, in part, on our ability to anticipate and adapt to technological changes. We believe that our next generation network architecture strategy will enable us to respond to these ongoing technological changes efficiently. In addition, we anticipate reducing costs through the sharing of best practices across operations, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability. We will continue to make strategic enhancements to our network, with a focus on higher return investments.

### Competition

Competition within the communications industry is intense. Technological advances as well as regulatory and legislative changes have enabled a wide range of historically non-traditional communications service providers to compete with traditional providers, including Frontier. More market participants are now competing to meet the telecommunications needs of the same customer base, thus increasing competitive pressures. Many of these service providers are not subject to the same regulations as traditional communications providers and have lower cost structures than we do. The industry has also experienced substantial consolidation in recent years. Many of our competitors are larger, have stronger brand recognition, and have more service offerings and greater financial resources than we currently do. All of these factors create downward pressure on the demand for and pricing of our services. In addition to traditional communication providers we have competition with the following:

- Cable operators: In a majority of our markets, cable operators offer high speed Internet, video and voice services similar to ours, and compete with us aggressively for consumer and business customers on speed and price primarily by marketing with significant promotional period pricing.
- Wireless carriers: Wireless operators offer broadband, video and voice services and compete with us for consumer and business customers by offering increasingly larger data packages that utilize the latest 5G technology to mobile customers. As a result, the percentage of homes with landline telephone service has been declining, a trend we expect will continue.
- Online video providers: Many consumers are opting for internet-delivered video services (Over the Top, or OTT) through online service providers rather than traditional, multi-channel video. In response, we have made investments in our network to deliver OTT video content to consumers who might not opt for traditional video services. The percentage of homes with a video product has been declining, a trend we expect will continue.

## FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Competition for consumer customers is based on price, bandwidth, quality and speed of service, including pricing and promotions as well as bundling of service offerings. Competition comes from other telecommunications providers, cable operators, Competitive Local Exchange Companies and other enterprises. Many consumer customers prefer the convenience and discounts available when voice, data, Internet and or video services are bundled by a single provider. Because of this, we offer satellite TV video service through DISH in areas where we don't otherwise have our own video capabilities. We believe this bundling capability positively impacts new customer acquisition and retention of existing customers. As of December 31, 2018, 48% of our consumer customers subscribed to at least two service offerings with 16% subscribed to three or more service offerings.

Competition for commercial customers is also based on price, bandwidth, quality and speed of service, including pricing and promotions and bundled offerings. Competition comes from other telecommunications providers, cable operators, Competitive Local Exchange Companies and other enterprises. As compared to our consumer customers, commercial customers often require more sophisticated and more data-centered solutions (e.g., IP PBX, E911 networks, Ethernet and SIP trunking).

Broadband is a core growth component for attracting and retaining consumer customers as well as our smaller commercial customers, whether bundled with video and/or voice services or on a standalone basis. We are committed to growing our customer base through providing higher broadband speeds and capacity that will enable us to reach new markets, target new customers and grow the business while maximizing our full geographic footprint.

In addition to the focus on our broadband capabilities, we must continue to evolve our other product offerings to stay current with the changing needs of the market, provide strong customer service and support, invest in our network to enable adequate capacity and capabilities and package our offerings at attractive prices.

### Regulatory Environment

Some of our operations are subject to regulation by the FCC and various state regulatory agencies, often called public service or utility commissions. We expect federal and state lawmakers, the FCC and the state regulatory agencies to continue to revise the statutes and regulations governing communications services.

### Regulation of our business

We are subject to federal, state and local regulation and we have various regulatory authorizations for our regulated service offerings. At the federal level, the FCC generally exercises jurisdiction over information services, interstate or international telecommunications services and over facilities to the extent they are used to provide, originate or

terminate interstate or international services. State regulatory commissions generally exercise jurisdiction over intrastate telecommunications services and the facilities used to provide, originate or terminate those services. Most of our local exchange companies operate as incumbent carriers in the states in which they operate and are certified in those states to provide local telecommunications services. Certain federal and state agencies, including attorneys general, monitor and exercise oversight related to consumer protection issues, including marketing, sales, provision of services, and service charges. In addition, local governments often regulate the public rights-of-way necessary to install and operate networks and may require service providers to obtain licenses or franchises regulating their use of public rights-of-way. Municipalities and other local government agencies also may regulate other limited aspects of our business, by requiring us to obtain cable franchises and construction permits and to abide by applicable building codes.

Some state regulatory agencies have substantial oversight over incumbent telephone companies, and their interconnection with competitive providers and provision of non-discriminatory network access to certain network elements to them. Under the Federal Telecommunications Act of 1996, state regulatory commissions have jurisdiction to set certain rates, arbitrate, and review interconnection disputes and agreements between incumbent telephone companies and competitive local exchange carriers, in accordance with rules set by the FCC. The FCC and some state regulatory commissions also impose fees on providers of telecommunications services to support state universal service programs. Many of the states in which we operate require prior approvals or notifications for certain acquisitions and transfers of assets, customers, or ownership of regulated entities.

Additionally, in some states we are subject to operating restrictions and minimum service quality standards. Failure to meet such restrictions may result in penalties. We also are required to report certain financial information. At the federal level and in a number of the states in which we operate, we are subject to price cap or incentive regulation plans under which prices for regulated services are capped. Some of these plans have limited terms and, as they expire, we may need to renegotiate with various states. These negotiations could impact rates, service quality and/or infrastructure requirements, which could also impact our earnings and capital expenditures. In other states in which

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we operate, we are subject to rate of return regulation that limits levels of earnings and returns on investments. Approximately 19% of our total access lines as of December 31, 2018 are in state jurisdictions under the rate of return regulatory model. We continue to advocate for no or reduced regulation with the regulatory agencies in those states. In some of the states we operate in we have already been successful in reducing or eliminating price regulation on end-user services.

### Federal Regulatory Environment

Frontier, along with all telecommunications providers, is subject to FCC rules governing privacy of specified customer information. Among other things, these rules obligate carriers to implement procedures to: protect specified customer information from inappropriate disclosure; obtain customer permission to use specified information in marketing; authenticate customers before disclosing account information; and annually certify compliance with the FCC's rules. Although most of these regulations are generally consistent with our business plans, they may restrict our flexibility in operating our business.

Some regulations are, or could in the future be, the subject of judicial proceedings, legislative hearings and administrative proposals or challenges that could change the manner in which the entire industry operates or the way we provide our services. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. Regulation can change rapidly in the communications industry, and such changes may have an adverse effect on us.

The current status of material regulatory initiatives is as follows:

**Federal High-Cost Subsidies:** The FCC has adopted rules changing the eligibility requirements for federal subsidies offered to wireline carriers providing service to high-cost, low-density markets, as well as the amounts of such subsidies, as follows:

**Connect America Fund (CAF):** On November 18, 2011, the FCC adopted the Universal Service Fund (USF)/Intercarrier Compensation (ICC) Report and Order (the 2011 Order), which changed how federal subsidies are calculated and disbursed, and began the transition of the high-cost component of the Federal USF, which supported voice services in high-cost areas, to the CAF, which supports broadband deployment in high-cost areas.

On April 29, 2015, the FCC released offers of support to price cap carriers under the CAF Phase II program. The intent of these offers is to provide long-term support for carriers for establishing and providing broadband service with at least 10 Mbps downstream/1 Mbps upstream speeds in high cost areas unserved by a competitor. Frontier accepted the CAF Phase II offer in 28 states, including certain CTF properties, which provides for \$332 million in annual support through 2020, and a commitment to make broadband available to approximately 774,000 households. CAF Phase II support is a successor to the approximately \$156 million in annual USF frozen high cost support that Frontier had been receiving prior to the CTF acquisition, and the \$42 million in annual transitional USF frozen high cost support that Verizon had been receiving in California and Texas. In addition to the annual support levels, these amounts also include frozen support phasedown amounts in states where the annual CAF II funding is less than the prior annual frozen high cost support funding. The frozen support phasedown support was \$17 million and \$9 million in 2017 and 2018, respectively. Phasedown funding provided to Frontier is complete as of December 31, 2018.

**Intercarrier Compensation:** In the 2011 Order, the FCC also reformed Intercarrier Compensation, which is the payment framework that governs how carriers compensate each other for the exchange of interstate switched traffic, and began a multi-year transition to the new rates. The 2011 Order provided for the gradual elimination of effectively all terminating traffic charges by July 2017. The 2011 Order did not resolve all questions on originating access rates and the FCC continues to consider the possibility of a transition of originating access rates, although the impact on Frontier, if any, is unknown at this time. Our total revenue for Intercarrier Compensation was \$4 million for the year ended December 31, 2018.

**Special Access:** On April 20, 2017, the FCC issued an Order (the 2017 Order) that significantly altered how commercial data services are regulated. Specifically, the 2017 Order adopted a test to determine, on a county-by-county basis, whether price cap ILECs, like Frontier's DS1 and DS3 services, will continue to be regulated. The test resulted in deregulation in a substantial number of our markets and is allowing Frontier to offer its DS1 and DS3 services in a manner that better responds to the competitive marketplace and allows for commercial negotiation. The areas that remain regulated may be subject to price fluctuations depending upon the price cap formula that year. Multiple parties appealed the 2017 Order, and the 8th Circuit issued a decision that upheld the majority of the 2017 Order. The part of the decision that was vacated and remanded to the FCC is currently stayed allowing the FCC to

## FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

resolve. Frontier cannot predict the outcome of that appeal or the impact of future changes on our results of operations.

**Intrastate Services:** Some state regulatory commissions regulate some of the rates ILECs charge for intrastate services, including originating switched access rates for intrastate access services paid by providers of intrastate long-distance services. Some states also have their own open proceedings to address reform to originating intrastate access charges and other intercarrier compensation and state universal service funds. Although the FCC has pre-empted state jurisdiction on most access charges, some states could consider moving forward with their proceedings. We cannot predict when or how these matters will be decided or the effect on our subsidy or switched access revenues. Our total revenue for Intrastate switched access services was \$40 million for the year ended December 31, 2018, spread across all the states we serve.

**Current and Potential Internet Regulatory Obligations and Privacy:** In December 2017 the FCC voted to overturn the FCC's 2015 decision in which it had asserted jurisdiction over broadband service, declared broadband a "Title II" telecommunications service, and imposed rules to "preserve a Free and Open Internet" (i.e., net neutrality). Specifically, the FCC voted to eliminate explicit bans on blocking, throttling and paid prioritization in favor of requiring Internet service providers (ISPs) to be fully transparent about their practices. Both the FCC and Federal Trade Commission (FTC) will now have a role in ensuring that the ISPs are managing their network in the manner in which they publicly state they are. The December 2017 decision took effect in June 2018 and has been appealed to the D.C. Circuit. Oral argument occurred on February 1, 2019 and the timing of the Court's decision is uncertain. It is unclear whether pending or future appeals will have any impact on the regulatory structure.

At the same time, several states, including California, have sought to exercise jurisdiction over broadband services and privacy. The U.S. Department of Justice has filed a lawsuit against California, stating that it attempts to govern interstate commerce, which is a federal matter outside the state's jurisdiction. Four industry associations representing ISPs (USTelecom, CTIA, NCTA, and ACA) have also filed suit against California. Frontier cannot predict the outcome of this litigation or the extent to which regulatory changes associated with the California law could affect our financial results.

The December 2017 decision also puts ISPs on an equal footing with other online web companies with respect to privacy rules, with the FTC being the lead agency on privacy enforcement. However, like with net neutrality, certain states, including California, have sought to regulate ISP privacy practices. Meanwhile, Congress is also contemplating comprehensive privacy regulation. Frontier cannot predict what future ISP privacy rules will be, but we intend to meet those obligations.



## Video programming

Federal, state and local governments extensively regulate the video services industry. Our FiOS and Vantage video services are subject to, among other things: subscriber privacy regulations; requirements that we carry a local broadcast station or obtain consent to carry a local or distant broadcast station; rules for franchise renewals and transfers; the manner in which program packages are marketed to subscribers; and program access requirements.

We provide video programming in some of our markets in California, Connecticut, Florida, Illinois, Indiana, Minnesota, New York, North Carolina, Ohio, Oregon, South Carolina, Texas and Washington pursuant to franchises, permits and similar authorizations issued by state and local franchising authorities. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require payment of a franchise fee as a requirement to the granting of authority.

Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with material provisions set forth in the franchise agreement governing system operations. We believe that we are in compliance and meeting all material standards and requirements. Franchises are generally granted for fixed terms of at least ten years and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate.

