FRONTIER COMMUNICATIONS CORP
Form 10-Q
August 08, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _________to__________

Commission file number: 001-11001

FRONTIER COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	06-0619596
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

401 Merritt 7	
Norwalk, Connecticut	06851
(Address of principal executive offices)	(Zip Code)

(203) 614-5600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

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

Yes X No ___

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares outstanding of the registrant's Common Stock as of July 29, 2016 was 1,173,071,000.

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, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 683	$ 936
Accounts receivable, less allowances of $74 and $57, respectively	1,034	571
Restricted cash	-	8,444
Prepaid expenses	108	100
Income taxes and other current assets	56	80
Total current assets	1,881	10,131
Property, plant and equipment, net	16,161	8,493
Goodwill	9,198	7,166
Other intangibles, net	2,098	1,143
Other assets	118	151
Total assets	$ 29,456	$ 27,084
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 1,043	$ 384
Accounts payable	722	467
Advanced billings	323	160
Accrued other taxes	126	87
Accrued interest	434	403
Pension and other postretirement benefits	29	33
Other current liabilities	515	359
Total current liabilities	3,192	1,893

Deferred income taxes	2,501	2,666
Pension and other postretirement benefits	1,470	1,163
Other liabilities	308	240
Long-term debt	16,923	15,508
Equity:		
Preferred stock, $0.01 par value (50,000 authorized shares, 11.125%, Series A, 19,250 shares issued and outstanding)	-	-
Common stock, $0.25 par value (1,750,000 authorized shares, 1,192,986 issued and 1,173,071 and 1,168,200 outstanding, at June 30, 2016 and December 31, 2015, respectively)	298	298
Additional paid-in capital	5,621	6,034
Retained deficit	(300)	(87)
Accumulated other comprehensive loss, net of tax	(342)	(353)
Treasury stock	(215)	(278)
Total equity	5,062	5,614
Total liabilities and equity	$ 29,456	$ 27,084

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, 2016 AND 2015

($ 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,	
	2016	2015	2016	2015
Revenue	$ 2,608	$ 1,368	$ 3,963	$ 2,739
Operating expenses:				
Network access expenses	453	161	613	316
Network related expenses	546	313	872	638
Selling, general and administrative expenses	596	331	953	661
Depreciation and amortization	575	335	891	676
Acquisition and integration costs	127	35	265	92
Total operating expenses	2,297	1,175	3,594	2,383
Operating income	311	193	369	356
Investment and other income, net	-	1	11	2
Interest expense	386	260	759	505
Loss before income taxes	(75)	(66)	(379)	(147)
Income tax benefit	(48)	(38)	(166)	(68)
Net loss	(27)	(28)	(213)	(79)
Less: Dividends on preferred stock	53	-	107	-
Net loss attributable to Frontier common shareholders	$ (80)	$ (28)	$ (320)	$ (79)
Basic and diluted net loss per share attributable to Frontier common shareholders	$ (0.07)	$ (0.03)	$ (0.28)	$ (0.08)

Total weighted average shares outstanding - basic and diluted	1,164,262	1,037,407	1,164,083	1,018,976

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

($ in millions)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net loss	$ (27)	$ (28)	$ (213)	$ (79)
Other comprehensive income, net of tax (see Note 12)	5	5	11	8
Comprehensive loss	$ (22)	$ (23)	$ (202)	$ (71)

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, 2016

($ in millions and shares in thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional		Accumulated Other	Treasury Common Stock		
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Deficit	Comprehensive Loss	Shares	Amount	Total Equity
Balance January 1, 2016	19,250	$ -	1,192,986	$ 298	$ 6,034	$ (87)	$ (353)	(24,786)	$ (278)	$ 5,614
Stock plans	-	-	-	-	(60)	-	-	4,871	63	3
Dividends on common stock	-	-	-	-	(246)	-	-	-	-	(246)
Dividends on preferred stock	-	-	-	-	(107)	-	-	-	-	(107)
Net loss	-	-	-	-	-	(213)	-	-	-	(213)
Other comprehensive income, net of tax	-	-	-	-	-	-	11	-	-	11
Balance June 30, 2016	19,250	$ -	1,192,986	$ 298	$ 5,621	$ (300)	$ (342)	(19,915)	$ (215)	$ 5,062

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

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

($ in millions)

(Unaudited)

	2016	2015
Cash flows provided from (used by) operating activities:		
Net loss	$ (213)	$ (79)
Adjustments to reconcile net loss to net cash provided from (used by) operating activities:		
Depreciation and amortization	891	676
Pension/OPEB costs	35	-
Stock based compensation expense	15	12
Amortization of deferred financing costs	28	138
Other non-cash adjustments	2	(10)
Deferred income taxes	(171)	115
Change in accounts receivable	(141)	77
Change in accounts payable and other liabilities	170	(99)
Change in prepaid expenses, income taxes and other current assets	15	(214)
Net cash provided from operating activities	631	616
Cash flows provided from (used by) investing activities:		
Cash paid for the Verizon Acquisition	(9,886)	-
Capital expenditures - Business operations	(557)	(348)
Capital expenditures - Integration activities	(88)	(38)
Network expansion funded by Connect America Fund - Phase I	-	(16)
Cash transferred from/(to) escrow	8,444	(1,840)
Cash paid for an acquisition, net of cash acquired	-	(16)
Other	6	1
Net cash used by investing activities	(2,081)	(2,257)
Cash flows provided from (used by) financing activities:		
Proceeds from long-term debt borrowings	1,625	3
Financing costs paid	(7)	-
Long-term debt payments	(69)	(250)

Proceeds from issuance of common stock, net	-	799
Proceeds from issuance of preferred stock, net	-	1,866
Dividends paid on common stock	(246)	(211)
Dividends paid on preferred stock	(107)	-
Other	1	(2)
Net cash provided from financing activities	1,197	2,205
Increase/(Decrease) in cash and cash equivalents	(253)	564
Cash and cash equivalents at January 1,	936	682
Cash and cash equivalents at June 30,	$ 683	$ 1,246
Supplemental cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 711	$ 358
Income taxes (refunds), net	$ (32)	$ 20

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

(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, 2015. 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, 2016, we evaluated subsequent events and transactions for potential recognition or disclosure through the date that we filed this Form 10-Q with the Securities and Exchange Commission (SEC).

Effective April 1, 2016, Frontier's scope of operations and balance sheet changed materially as a result of the completion of the Verizon Acquisition, as described in Note 3 – Acquisitions. Historical financial data presented for Frontier is not indicative of the future financial position or operating results for Frontier, and includes the results of the CTF Operations, as defined in Note 3 – Acquisitions, from the date of acquisition on April 1, 2016.

The preparation of our interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities at the date of the financial statements, (ii) the disclosure of contingent assets and liabilities, and (iii) the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for the allowance for doubtful accounts, asset impairments, indefinite-lived intangibles, depreciation and amortization, income taxes, business combinations, and pension and other postretirement benefits, among others.

We operate in one reportable segment. Frontier provides both regulated and unregulated voice, data and video services to residential, business and wholesale customers and is typically the incumbent voice services provider in its service areas. We have utilized the aggregation criteria to combine our seven regional operating segments because all of these regional operations share similar characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not significantly impact the economic characteristics or operating results of a particular region.

(b) Revenue Recognition:

Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes monthly recurring network access services (including data services), special access services and monthly recurring voice, video and related charges. The unearned portion of these fees is initially deferred as a component of “Advanced billings” on our consolidated balance sheet and recognized as revenue over the period that the services are provided. Revenue that is billed in arrears includes non-recurring network access services (including data services), switched access services and non-recurring voice and video services. The earned but unbilled portion of these fees is recognized as revenue in our consolidated statements of operations and accrued in “Accounts receivable” on our consolidated balance sheet in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

Frontier collects various taxes from its customers and subsequently remits these taxes to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) that we have recorded on a gross basis in our consolidated statements of operations and included within “Revenue” and “Network related expenses” of $62 million and $39 million, and $101 million and $76 million for the three and six months ended June 30, 2016 and 2015, respectively.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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 Verizon Acquisition, Frontier assumed the CAF Phase II support and related obligations that Verizon had previously accepted with regard to California and Texas. CAF Phase II funding is a program intended to subsidize the high cost of establishing and delivering communications services to certain unserved or underserved areas. We are recognizing these subsidies into revenue on a straight line basis, which is consistent with how the costs related to these subsidies are being and are expected to be incurred. We may reserve against our subsidy revenue which would be based on our ability to meet the buildout requirements of CAF Phase II. CAF Phase II is a multi-year program which requires us to deploy broadband to a specified number of households in each of the states where funding was accepted. Failure to meet our deployment obligations at the end of the program in 2020 will result in a return of a portion of the funding received. We regularly evaluate our ability to meet our broadband deployment obligations and adjust revenue accordingly.

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

- Voice services include traditional local and long distance wireline services, Voice over Internet Protocol (VoIP) services, as well as a number of unified messaging services offered to our residential and business customers. Voice services also include the long distance voice origination and termination services that we provide to our business customers and other carriers;

- Data and Internet services include broadband services for residential and business customers. We provide data transmission services to high volume business customers and other carriers with dedicated high capacity circuits ("nonswitched access") including services to wireless providers ("wireless backhaul");

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

- Other customer revenue includes sales of customer premise equipment to our business customers and directory services, less our provision for bad debts; and

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

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

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	2016	2015	2016	2015
Voice services	$ 836	$ 515	$ 1,303	$ 1,040
Data and Internet services	1,048	584	1,635	1,159
Video	419	72	487	143
Other	78	65	145	127
Customer revenue	2,381	1,236	3,570	2,469
Switched access and subsidy	227	132	393	270
Total revenue	$ 2,608	$ 1,368	$ 3,963	$ 2,739

(c) Goodwill and Other Intangibles:

Goodwill represents the excess of purchase price over the fair value of identifiable tangible and intangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

We examine the carrying value of our goodwill and trade name annually as of December 31, or more frequently, as circumstances warrant, to determine whether there are any impairment losses. We test for goodwill impairment at the “operating segment” level, as that term is defined in GAAP. During the second quarter of 2016, Frontier reorganized into seven regional operating segments, which are aggregated into one reportable segment. In conjunction with the reorganization of our operating segments effective with the second quarter of 2016, we reassigned goodwill to our regional operating segments (reporting units) using a relative fair value allocation approach. We tested for the impairment of goodwill and there was no indication of impairment at June 30, 2016.

Frontier amortizes finite-lived intangible assets over their estimated useful lives on the accelerated method of sum of the years digits. We review such intangible assets at least annually as of December 31 to assess whether any potential impairment exists and whether factors exist that would necessitate a change in useful life and a different amortization period.

(2) Recent Accounting Literature:

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 the company expects to be entitled in exchange for those goods or services. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017. Companies are also permitted to voluntarily adopt the new standard as of the original effective date that was for annual reporting periods beginning after December 15, 2016. Companies are permitted to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. Frontier is currently evaluating the impact of adopting the new standard, but has not yet selected a transition method or determined the impact of adoption on its consolidated financial statements.

Employee Benefit Plans

In July 2015, the FASB issued ASU No. 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965)”: There are three parts to the ASU that aim to simplify the accounting and presentation of plan accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II of this ASU requires investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways. Part III of this ASU provides a similar measurement date practical expedient for employee benefit plans as available in ASU No. 2015-04, “Compensation – Retirement Benefits (Topic 715),” which allows employers to measure defined benefit plan assets on a month-end date that is nearest to the year’s fiscal year-end when the fiscal period does not coincide with a month-end. Parts I and II of the new guidance should be applied on a retrospective basis. Part III of the new guidance should be applied on a prospective basis. The adoption of ASU 2015-12 will impact certain of the disclosures related to our pension plan assets, but otherwise is not expected to have a material impact on our consolidated financial statements.

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. Early application is permitted. Frontier is currently evaluating the impact of adopting the new standard, but has not yet determined the impact of adoption on its consolidated financial statements.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Compensation – Stock Compensation

In March 2016 the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," to amend ASC Topic 718, "Compensation – Stock Compensation." The ASU is part of the FASB's ongoing simplification initiative, which is designed to reduce cost and complexity while maintaining or improving the usefulness of the information provided to the users of financial statements. The proposed simplifications address a variety of areas for public entities, including the following: 1) accounting for income taxes, 2) classification of excess tax benefits on the statement of cash flows, 3) forfeitures, 4) minimum statutory tax withholding requirements, 5) classifications of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes, and 6) classification of awards with repurchase features. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Frontier is currently evaluating the impact of adopting the new standard, but has not yet determined the impact of adoption on its consolidated financial statements.

(3) Acquisitions:

The Verizon Acquisition

On April 1, 2016, Frontier acquired the wireline operations of Verizon Communications, Inc. in California, Texas and Florida for a purchase price of $10,540 million in cash and assumed debt (the Verizon Acquisition), with adjustments for working capital, pursuant to the February 5, 2015 Securities Purchase Agreement, as amended. As a result of the Verizon Acquisition, Frontier now operates these former Verizon properties, which included approximately 2.6 million total customers, 2.2 million broadband subscribers, and 1.2 million FiOS video subscribers as of April 1, 2016 (the CTF Operations).

Our consolidated statement of operations for the three and six months ended June 30, 2016 includes $1,282 million of revenue and $264 million of operating income related to the results of the CTF Operations.

The allocation of the purchase price presented below, which is preliminary and subject to change, represents the effect of recording the estimates of the fair value of assets acquired and liabilities assumed as of the date of the Verizon Acquisition, based on the total transaction cash consideration of $9,886 million. These current estimates will be revised in future periods for information that is currently not available to us, primarily related to certain legal and tax accruals and contingencies; accounts receivable; property, plant and equipment; customer list and other intangibles; other working capital "true-up" adjustments; deferred income tax assets and liabilities; pension assets and liabilities, as well as other assumed postretirement benefit obligations, pending completion of actuarial studies and the related transfer of pension assets. The revisions may affect the presentation of our consolidated financial results. Any changes to the initial estimates of the fair value of the assets and liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

($ in millions)

Current assets	$	391
Property, plant & equipment		7,693
Goodwill		2,032
Other intangibles - customer list		1,160
Other assets		89
Other current liabilities		(552)
Long-term debt		(544)
Other liabilities		(383)
Total net assets acquired	$	9,886

The Securities Purchase Agreement provides for a post-closing adjustment for both pension liabilities and pension assets. Frontier and Verizon have not finalized the results of these calculations. Such calculations will be completed in accordance with the terms of the Securities Purchase Agreement.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

The following unaudited pro forma financial information presents the combined results of operations of Frontier and the CTF Operations as if the Verizon Acquisition had occurred as of January 1, 2015. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the Verizon Acquisition been completed as of January 1, 2015. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of Frontier. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that may result from the Verizon Acquisition.

($ in millions, except per share amounts)	(Unaudited) For the three months ended June 30, 2015	For the six months ended June 30, 2016	2015
Revenue	$ 2,779	$ 5,322	$ 5,549
Operating income	$ 385	$ 743	$ 733
Net loss attributable to Frontier common shareholders	$ (43)	$ (96)	$ (120)
Basic and diluted net loss attributable to Frontier common shareholders per share	$ (0.04)	$ (0.08)	$ (0.10)

During 2015, we completed our financing activities associated with the Verizon Acquisition, which included: 1) a private debt offering of $6,600 million of unsecured senior notes in September 2015, 2) the 2015 Credit Agreement (as defined below) for a senior secured delayed-draw term loan facility in August 2015 and 3) a registered offering of $2,750 million of preferred and common stock in June 2015. Net proceeds from these debt and equity offerings together with the proceeds received from the delayed draw term loan facility and cash on hand were used to fund the Verizon Acquisition and pay related fees and expenses.

The Connecticut Acquisition

On October 24, 2014, Frontier acquired the wireline properties of AT&T Inc. in Connecticut (the Connecticut Acquisition) for a purchase price of $2,018 million in cash, pursuant to the stock purchase agreement dated December 16, 2013, as amended.

Acquisition and Integration Costs

Acquisition costs include legal, financial advisory, accounting, regulatory and other related costs. Integration costs include expenses incurred to integrate the network and information technology platforms and to enable other integration initiatives.

Frontier incurred operating expenses related to the Verizon Acquisition and Connecticut Acquisition, as follows:

($ in millions)	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Acquisition costs:				
Verizon Acquisition	$ 21	$ 2	$ 23	$ 35
Connecticut Acquisition	-	-	-	1
	21	2	23	36
Integration costs:				
Verizon Acquisition	106	28	242	31
Connecticut Acquisition	-	5	-	25
	106	33	242	56
Total acquisition and integration costs	$ 127	$ 35	$ 265	$ 92

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

We also invested $88 million and $19 million in capital expenditures related to the Verizon Acquisition during the six months ended June 30, 2016 and 2015, respectively. In connection with the Connecticut Acquisition, Frontier invested $19 million in capital expenditures during the six months ended June 30, 2015. In connection with the Verizon Acquisition, we will incur additional operating expenses and capital expenditures in 2016 related to integration activities.

(4) Accounts Receivable:

The components of accounts receivable, net are as follows:

($ in millions)	June 30, 2016	December 31, 2015
Retail and Wholesale	$ 1,020	$ 569
Other	88	59
Less: Allowance for doubtful accounts	(74)	(57)
Accounts receivable, net	$ 1,034	$ 571

We maintain an allowance for doubtful accounts based on our estimate of our ability to collect accounts receivable. Bad debt expense, which is recorded as a reduction to revenue, was as follows:

($ in millions)	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Bad debt expense	$ 34	$ 12	$ 48	$ 25

(5) Property, Plant and Equipment:

Property, plant and equipment, net is as follows:

($ in millions)	June 30, 2016	December 31, 2015
Property, plant and equipment	$ 26,140	$ 17,801
Less: Accumulated depreciation	(9,979)	(9,308)
Property, plant and equipment, net	$ 16,161	$ 8,493

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

($ in millions)	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Depreciation expense	$ 446	$ 247	$ 686	$ 496

We adopted new estimated remaining useful lives for certain plant assets as of October 1, 2015, 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. In addition, the estimated useful lives for assets acquired in the Verizon Acquisition were adopted for such assets based on this same study effective April 1, 2016.

PART I. FINANCIAL INFORMATION (Continued)

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

(6) Goodwill and Other Intangibles:

The activity in our goodwill from December 31, 2015 to June 30, 2016 is as follows:

($ in millions)	Goodwill
Balance at January 1, 2016	$ 7,166
Verizon Acquisition (Note 3)	2,032
Balance at June 30, 2016	$ 9,198

The components of other intangibles are as follows: