

WINDSTREAM CORP
Form 10-Q
May 06, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

Commission file number 1-32422

WINDSTREAM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-0792300
(I.R.S. Employer
Identification No.)

4001 Rodney Parham Road,

Little Rock, Arkansas
(Address of principal executive offices)

72212
(Zip Code)

Edgar Filing: WINDSTREAM CORP - Form 10-Q

Registrant's telephone number, including area code (501) 748-7000

(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 ☐ 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 (§232.405 of this chapter) 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, or a smaller reporting company. See definition of "large accelerated filer", "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 by Rule 12b-2 of the Exchange Act). ☐ YES ☒ NO

Number of common shares outstanding as of April 30, 2010: 456,614,233

The Exhibit Index is located on page 47.

Table of Contents

WINDSTREAM CORPORATION

FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income (Unaudited)</u>	2
<u>Consolidated Balance Sheets March 31, 2010 (Unaudited) and December 31, 2009</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	4
<u>Consolidated Statements of Shareholders' Equity (Unaudited)</u>	5
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	43
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	44
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	*
Item 3. <u>Defaults Upon Senior Securities</u>	*
Item 4. <u>Reserved</u>	*
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45

* No reportable information under this item.

Table of Contents**WINDSTREAM CORPORATION****FORM 10-Q****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Millions, except per share amounts)	Three Months Ended March 31,	
	2010	2009
Revenues and sales:		
Service revenues	\$ 828.4	\$ 720.8
Product sales	19.5	34.2
Total revenues and sales	847.9	755.0
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	294.8	251.2
Cost of products sold	16.3	30.3
Selling, general, administrative and other	111.4	89.0
Depreciation and amortization	155.4	132.0
Restructuring charges		(0.1)
Merger and integration costs	23.2	
Total costs and expenses	601.1	502.4
Operating income	246.8	252.6
Other income (expense), net	(0.3)	0.8
Interest expense	(123.0)	(99.7)
Income before income taxes	123.5	153.7
Income taxes	49.4	65.5
Net income	\$ 74.1	\$ 88.2
Basic and diluted earnings per share		
Net income	\$.17	\$.20

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**CONSOLIDATED BALANCE SHEETS**

(Millions)	(Unaudited) March 31, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 580.1	\$ 1,062.9
Accounts receivable (less allowance for doubtful accounts of \$15.7 and \$18.5, respectively)	321.0	291.7
Inventories	31.9	26.1
Deferred income taxes	27.3	21.7
Prepaid expenses and other	56.1	53.6
Total current assets	1,016.4	1,456.0
Goodwill	2,639.9	2,344.4
Other intangibles, net	1,408.5	1,253.3
Net property, plant and equipment	4,167.2	3,992.6
Other assets	95.4	99.1
Total Assets	\$ 9,327.4	\$ 9,145.4
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$ 28.3	\$ 23.8
Current portion of interest rate swaps	46.2	45.8
Accounts payable	178.7	158.5
Advance payments and customer deposits	110.5	95.2
Accrued dividends	114.2	109.2
Accrued taxes	87.6	60.6
Accrued interest	108.5	156.0
Other current liabilities	47.4	60.2
Total current liabilities	721.4	709.3
Long-term debt	6,266.7	6,271.4
Deferred income taxes	1,412.5	1,372.0
Other liabilities	523.9	532.0
Total liabilities	8,924.5	8,884.7
Commitments and Contingencies (See Note 7)		
Shareholders' Equity:		
Common stock, \$0.0001 par value, 1,000.0 shares authorized, 456.6 and 436.8 shares issued and outstanding, respectively		
Additional paid-in capital	268.1	83.6
Accumulated other comprehensive loss	(210.6)	(208.3)
Retained earnings	345.4	385.4
Total shareholders' equity	402.9	260.7
Total Liabilities and Shareholders' Equity	\$ 9,327.4	\$ 9,145.4

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Millions)	Three Months Ended March 31,	
	2010	2009
Cash Provided from Operations:		
Net income	\$ 74.1	\$ 88.2
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	155.4	132.0
Provision for doubtful accounts	8.6	9.3
Stock-based compensation expense	3.5	5.2
Pension and postretirement benefits expense	14.9	24.5
Deferred taxes	7.1	36.4
Other, net	3.3	1.5
Changes in operating assets and liabilities, net:		
Accounts receivable	1.7	19.4
Prepaid expenses and other	(10.1)	(7.2)
Accounts payable	(17.2)	(17.1)
Accrued interest	(48.0)	(72.7)
Accrued taxes	19.8	23.9
Other current liabilities	(16.2)	(29.5)
Other liabilities	(22.0)	(4.7)
Other, net	(1.4)	5.8
Net cash provided from operations	173.5	215.0
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(60.5)	(62.8)
Acquisition of NuVox, net of cash acquired	(198.4)	
Other, net	0.6	
Net cash used in investing activities	(258.3)	(62.8)
Cash Flows from Financing Activities:		
Dividends paid on common shares	(109.2)	(109.9)
Stock repurchase		(20.7)
Repayment of debt	(284.5)	(3.6)
Other, net	(4.3)	(2.4)
Net cash used in financing activities	(398.0)	(136.6)
Increase (decrease) in cash and cash equivalents	(482.8)	15.6
Cash and Cash Equivalents:		
Beginning of period	1,062.9	296.6
End of period	\$ 580.1	\$ 312.2
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 168.6	\$ 171.6
Income taxes paid, net of refunds	\$ 7.1	\$ (5.1)

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

	Accumulated			
	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Total
(Millions, except per share amounts)				
Balance at December 31, 2009	\$ 83.6	\$ (208.3)	\$ 385.4	\$ 260.7
Net income			74.1	74.1
Other comprehensive income, net of tax: (see Note 10)				
Change in employee benefit plans		0.9		0.9
Unrealized holding losses on interest rate swaps		(3.2)		(3.2)
Comprehensive income (loss)		(2.3)	74.1	71.8
Stock-based compensation expense				