

WINDSTREAM HOLDINGS, INC.  
 Form 10-Q  
 August 07, 2014

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, 2014

or

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

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	Commission File Number	I.R.S. Employer Identification No.
Windstream Holdings, Inc.	Delaware	001-32422	46-2847717
Windstream Corporation	Delaware	001-36093	20-0792300

4001 Rodney Parham Road  
 Little Rock, Arkansas 72212  
 (Address of principal executive offices) (Zip Code)

(501) 748-7000  
 (Registrants' 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.

Windstream Holdings, Inc.  YES  NO  
 Windstream Corporation  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).

Windstream Holdings, Inc.  YES  NO

Windstream Corporation     YES     NO

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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):

Windstream Holdings, Inc.	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Windstream Corporation	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

Windstream Holdings, Inc.	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO
Windstream Corporation	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

As of July 31, 2014, 602,673,743 shares of common stock of Windstream Holdings, Inc. and 1,000 shares of common stock of Windstream Corporation were outstanding. All of Windstream Corporation's outstanding common stock, for which there is no trading market, is held by Windstream Holdings, Inc.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Windstream Holdings, Inc. and Windstream Corporation. Windstream Corporation is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Corporation meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, the use of the terms "Windstream," "we," "us" or "our" shall refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Corporation, and the term "Windstream Corp." shall refer to Windstream Corporation and its subsidiaries.

The Exhibit Index is located on page 71.

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Table of Contents

WINDSTREAM HOLDINGS, INC.  
WINDSTREAM CORPORATION  
FORM 10-Q  
TABLE OF CONTENTS

Page No.

PART I – FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	
	<u>Windstream Holdings, Inc. Consolidated Financial Statements</u>	
	<u>Consolidated Statements of Income (Unaudited)</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>3</u>
	<u>Consolidated Balance Sheets (Unaudited)</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>5</u>
	<u>Consolidated Statements of Shareholders' Equity (Unaudited)</u>	<u>6</u>
	<u>Windstream Corporation Consolidated Financial Statements</u>	
	<u>Consolidated Statements of Income (Unaudited)</u>	<u>7</u>
	<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>8</u>
	<u>Consolidated Balance Sheets (Unaudited)</u>	<u>9</u>
	<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>10</u>
	<u>Consolidated Statements of Shareholders' Equity (Unaudited)</u>	<u>11</u>
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	<u>12</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>67</u>
Item 4.	<u>Controls and Procedures</u>	<u>68</u>

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>69</u>
Item 1A.	<u>Risk Factors</u>	<u>69</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	*
Item 3.	Defaults Upon Senior Securities	*
Item 4.	Mine Safety Disclosures	*
Item 5.	Other Information	*
Item 6.	<u>Exhibits</u>	<u>69</u>

\*No reportable information under this item.

Table of Contents

WINDSTREAM HOLDINGS, INC.  
WINDSTREAM CORPORATION  
FORM 10-Q  
PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

WINDSTREAM HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Revenues and sales:				
Service revenues:				
Business	\$903.8	\$914.3	\$1,813.8	\$1,830.1
Consumer	316.8	325.8	629.8	652.7
Wholesale	141.0	150.7	282.7	302.6
Other	56.1	54.6	111.1	111.3
Total service revenues	1,417.7	1,445.4	2,837.4	2,896.7
Product sales	48.3	56.3	93.5	101.5
Total revenues and sales	1,466.0	1,501.7	2,930.9	2,998.2
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	652.3	646.6	1,296.9	1,287.8
Cost of products sold	40.0	49.4	81.1	92.0
Selling, general and administrative	250.6	237.0	502.8	474.5
Depreciation and amortization	344.0	332.2	682.9	661.5
Merger and integration costs	8.1	6.9	16.0	12.0
Restructuring charges	3.8	2.6	16.2	7.5
Total costs and expenses	1,298.8	1,274.7	2,595.9	2,535.3
Operating income	167.2	227.0	335.0	462.9
Other (expense) income, net	(0.7)	) (1.7)	) 0.2	0.6
Loss on early extinguishment of debt	—	—	—	(13.8)
Interest expense	(142.5)	) (162.0)	) (284.4)	) (330.9)
Income from continuing operations before income taxes	24.0	63.3	50.8	118.8
Income taxes	10.0	24.0	20.8	27.5
Income from continuing operations	14.0	39.3	30.0	91.3
Discontinued operations	—	0.4	—	0.7
Net income	\$14.0	\$39.7	\$30.0	\$92.0
Basic and diluted earnings per share:				
From continuing operations	\$0.02	\$0.06	\$0.05	\$0.15
From discontinued operations	—	—	—	—
Net income	\$0.02	\$0.06	\$0.05	\$0.15

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

2

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Table of Contents

## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Net income	\$14.0	\$39.7	\$30.0	\$92.0	
Other comprehensive (loss) income:					
Interest rate swaps:					
Changes in designated interest rate swaps	(13.0	) 29.0	(19.9	) 28.5	
Amortization of unrealized losses on de-designated interest rate swaps	4.1	12.4	8.3	25.6	
Income tax benefit (expense)	3.4	(15.9	) 4.4	(20.7	)
Unrealized holding (loss) gain on interest rate swaps	(5.5	) 25.5	(7.2	) 33.4	
Postretirement and pension plans:					
Change in net actuarial gain for postretirement plan	3.7	4.2	2.9	4.2	
Plan curtailment	—	(5.5	) (9.5	) (25.3	)
Amounts included in net periodic benefit cost:					
Amortization of net actuarial loss	—	0.1	—	0.8	
Amortization of prior service credits	(1.1	) (2.0	) (2.8	) (4.8	)
Income tax (expense) benefit	(0.9	) 1.5	3.6	9.8	
Change in postretirement and pension plans	1.7	(1.7	) (5.8	) (15.3	)
Other comprehensive (loss) income	(3.8	) 23.8	(13.0	) 18.1	
Comprehensive income	\$10.2	\$63.5	\$17.0	\$110.1	

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

3

---



Table of Contents

## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$54.8	\$48.2
Restricted cash	7.9	9.7
Accounts receivable (less allowance for doubtful accounts of \$39.4 and \$40.0, respectively)	630.9	635.3
Inventories	64.5	67.7
Deferred income taxes	98.7	241.5
Prepaid income taxes	17.4	29.7
Prepaid expenses and other	156.8	152.7
Total current assets	1,031.0	1,184.8
Goodwill	4,331.4	4,331.4
Other intangibles, net	1,889.4	2,020.1
Net property, plant and equipment	5,540.7	5,702.6
Other assets	193.2	205.7
Total Assets	\$12,985.7	\$13,444.6
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$92.5	\$85.0
Current portion of interest rate swaps	30.1	30.0
Accounts payable	361.4	385.9
Advance payments and customer deposits	220.9	223.5
Accrued dividends	152.3	151.1
Accrued taxes	95.0	104.2
Accrued interest	102.2	103.5
Other current liabilities	350.9	362.4
Total current liabilities	1,405.3	1,445.6
Long-term debt	8,593.1	8,622.2
Deferred income taxes	1,897.9	2,038.3
Other liabilities	499.2	498.3
Total liabilities	12,395.5	12,604.4
Commitments and Contingencies (See Note 6)		
Shareholders' Equity:		
Common stock, \$0.0001 par value, 1,000.0 shares authorized, 602.7 and 596.2 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	574.6	811.6
Accumulated other comprehensive income	15.5	28.5
Retained earnings	—	—
Total shareholders' equity	590.2	840.2
Total Liabilities and Shareholders' Equity	\$12,985.7	\$13,444.6

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

4

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Table of Contents

## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended	
	June 30, 2014	2013
Cash Provided from Operations:		
Net income	\$30.0	\$92.0
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	682.9	661.9
Provision for doubtful accounts	23.0	33.0
Share-based compensation expense	27.7	22.8
Deferred income taxes	10.5	44.0
Unamortized net premium on retired debt	—	(38.7)
Amortization of unrealized losses on de-designated interest rate swaps	8.3	25.6
Plan curtailment and other, net	5.7	(22.8)
Changes in operating assets and liabilities, net		
Accounts receivable	(18.7)	(32.4)
Prepaid income taxes	12.4	0.1
Prepaid expenses and other	(16.7)	(24.2)
Accounts payable	(38.8)	(33.8)
Accrued interest	(2.3)	15.6
Accrued taxes	(9.2)	(1.0)
Other current liabilities	(11.9)	(23.1)
Other liabilities	(9.7)	(12.9)
Other, net	(11.6)	6.5
Net cash provided from operations	681.6	712.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(358.8)	(472.2)
Broadband network expansion funded by stimulus grants	(10.3)	(20.1)
Changes in restricted cash	1.8	11.4
Grant funds received for broadband stimulus projects	21.7	35.7
Grant funds received from Connect America Fund	26.0	—
Net cash used in investing activities	(319.6)	(445.2)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(300.9)	(296.3)
Repayments of debt and swaps	(668.5)	(2,426.2)
Proceeds of debt issuance	635.0	2,435.0
Debt issuance costs	—	(19.6)
Payments under capital lease obligations	(12.1)	(8.2)
Other, net	(8.9)	(5.8)
Net cash used in financing activities	(355.4)	(321.1)
Increase (decrease) in cash and cash equivalents	6.6	(53.7)
Cash and Cash Equivalents:		
Beginning of period	48.2	132.0
End of period	\$54.8	\$78.3
Supplemental Cash Flow Disclosures:		
Interest paid	\$283.6	\$294.1
Income taxes paid, net	\$1.1	\$3.9

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

5

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Table of Contents

## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2013	\$811.7	\$28.5	\$—	\$840.2
Net income	—	—	30.0	30.0
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(5.8	) —	(5.8 )
Amortization of unrealized losses on de-designated interest rate swaps	—			