

WINDSTREAM HOLDINGS, INC.

Form 10-Q

May 05, 2016

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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 March 31, 2016

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 Services, LLC	Delaware	001-36093	20-0792300

4001  
Rodney  
Parham  
Road  
Little  
Rock, 72212  
Arkansas  
(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

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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 Services, LLC  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 Services, LLC  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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Windstream Services, LLC 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).

Windstream Holdings, Inc.  YES  NO  
Windstream Services, LLC  YES  NO

As of April 29, 2016, 96,310,037 shares of common stock of Windstream Holdings, Inc. were outstanding.  
Windstream Holdings, Inc. holds a 100 percent interest in Windstream Services, LLC.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Windstream Holdings, Inc. and Windstream Services, LLC. Windstream Services, LLC is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Services, LLC 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 Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.

The Exhibit Index is located on page 68.

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\*No reportable information under this item.

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WINDSTREAM HOLDINGS, INC.  
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PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

(Millions, except per share amounts)	Three Months Ended	
	March 31,	
	2016	2015
Revenues and sales:		
Service revenues	\$1,340.6	\$1,381.8
Product sales	32.8	36.8
Total revenues and sales	1,373.4	1,418.6
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	668.8	680.0
Cost of products sold	28.9	31.9
Selling, general and administrative	203.8	225.0
Depreciation and amortization	304.8	340.7
Merger and integration costs	5.0	14.1
Restructuring charges	4.4	7.0
Total costs and expenses	1,215.7	1,298.7
Operating income	157.7	119.9
Dividend income on CS&L common stock	17.6	—
Other expense, net	(1.2 )	(1.2 )
Net loss on early extinguishment of debt	(35.4 )	—
Other-than-temporary impairment loss on investment in CS&L common stock	(181.9 )	—
Interest expense	(219.7 )	(141.1 )
Loss before income taxes	(262.9 )	(22.4 )
Income tax benefit	(31.0 )	(27.7 )
Net (loss) income	\$(231.9 )	\$5.3
Basic and diluted (loss) earnings per share:		
Net (loss) income	(\$2.52 )	\$ .05

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

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(Millions)	2016	2015
Net (loss) income	\$(231.9)	\$5.3
Other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized holding gain arising during the period	104.6	—
Other-than-temporary impairment loss recognized in the period	181.9	—
Change in available-for-sale securities	286.5	—
Interest rate swaps:		
Unrealized loss on designated interest rate swaps	(8.3	) (8.6 )
Amortization of unrealized losses on de-designated interest rate swaps	1.2	3.4
Income tax benefit	2.7	2.0
Change in interest rate swaps	(4.4	) (3.2 )
Postretirement and pension plans:		
Plan curtailment	(5.5	) —
Amounts included in net periodic benefit cost:		
Amortization of net actuarial loss	0.1	0.2
Amortization of prior service credits	(0.5	) (1.3 )
Income tax benefit	2.3	0.2
Change in postretirement and pension plans	(3.6	) (0.9 )
Other comprehensive income (loss)	278.5	(4.1 )
Comprehensive income	\$46.6	\$1.2

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

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	March 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$74.6	\$ 31.3
Accounts receivable (less allowance for doubtful accounts of \$30.6 and \$33.1, respectively)	636.1	643.9
Inventories	79.4	79.5
Prepaid expenses and other	149.9	120.6
Total current assets	940.0	875.3
Goodwill	4,213.6	4,213.6
Other intangibles, net	1,457.2	1,504.7
Net property, plant and equipment	5,255.7	5,279.8
Investment in CS&L common stock	653.8	549.2
Other assets	90.9	95.5
Total Assets	\$12,611.2	\$ 12,518.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$11.9	\$ 5.9
Current portion of long-term lease obligations	156.6	152.7
Accounts payable	323.6	430.1
Advance payments and customer deposits	193.9	193.9
Accrued taxes	71.6	84.1
Accrued interest	118.1	78.4
Other current liabilities	273.9	322.0
Total current liabilities	1,149.6	1,267.1
Long-term debt	5,433.1	5,164.6
Long-term lease obligations	4,959.8	5,000.4
Deferred income taxes	254.9	287.4
Other liabilities	476.1	492.2
Total liabilities	12,273.5	12,211.7
Commitments and Contingencies (See Note 13)		
Shareholders' Equity:		
Common stock, \$.0001 par value, 166.7 shares authorized, 96.3 and 96.7 shares issued and outstanding, respectively	—	—
Additional paid-in capital	587.6	602.9
Accumulated other comprehensive loss	(5.9	) (284.4
Accumulated deficit	(244.0	) (12.1
Total shareholders' equity	337.7	306.4
Total Liabilities and Shareholders' Equity	\$12,611.2	\$ 12,518.1

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

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
(Millions)	2016	2015
Cash Flows from Operating Activities:		
Net (loss) income	\$(231.9)	\$5.3
Adjustments to reconcile net (loss) income to net cash provided from operations:		
Depreciation and amortization	304.8	340.7
Provision for doubtful accounts	9.7	10.3
Share-based compensation expense	13.7	14.8
Deferred income taxes	(27.5 )	(33.8 )
Other-than-temporary impairment loss on investment in CS&L common stock	181.9	—
Noncash portion of net loss on early extinguishment of debt	(7.4 )	—
Amortization of unrealized losses on de-designated interest rate swaps	1.2	3.4
Plan curtailment	(5.5 )	—
Other, net	(15.3 )	6.9
Changes in operating assets and liabilities, net		
Accounts receivable	(2.0 )	(33.3 )
Prepaid income taxes	(5.8 )	7.8
Prepaid expenses and other	(6.0 )	(24.8 )
Accounts payable	(100.2 )	(64.2 )
Accrued interest	39.8	67.4
Accrued taxes	(12.5 )	(10.9 )
Other current liabilities	4.2	(43.2 )
Other liabilities	(10.0 )	(2.6 )
Other, net	(4.0 )	—
Net cash provided from operating activities	127.2	243.8
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(263.8 )	(189.3)
Proceeds from the sale of property	6.2	—
Grant funds received for broadband stimulus projects	—	7.4
Network expansion funded by Connect America Fund - Phase I	—	(8.3 )
Change in restricted cash	—	(0.4 )
Other, net	—	(2.1 )
Net cash used in investing activities	(257.6 )	(192.7)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(14.9 )	(151.5)
Repayments of debt and swaps	(985.3 )	(325.4)
Proceeds of debt issuance	1,278.0	490.0
Debt issuance costs	(10.7 )	—
Stock repurchases	(28.9 )	—
Payments under long-term lease obligations	(36.8 )	—
Payments under capital lease obligations	(19.8 )	(11.2 )
Other, net	(7.9 )	(6.8 )
Net cash provided from (used in) financing activities	173.7	(4.9 )

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Increase in cash and cash equivalents	43.3	46.2
Cash and Cash Equivalents:		
Beginning of period	31.3	27.8
End of period	\$74.6	\$74.0
Supplemental Cash Flow Disclosures:		
Interest paid	\$178.6	\$74.7
Income taxes paid (refunded), net	\$6.5	\$(1.2)

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

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 2015	\$ 602.9	\$ (284.4 )	\$ (12.1 )	\$ 306.4
Net loss	—	—	(231.9 )	(231.9 )
Other comprehensive income (loss), net of tax:				
Change in available-for-sale securities	—	286.5	—	286.5
Change in postretirement and pension plans	—	(3.6 )	—	(3.6 )
Amortization of unrealized losses on de-designated interest rate swaps	—	0.7	—	0.7
Change in designated interest rate swaps	—	(5.1 )	—	(5.1 )
Comprehensive income (loss)	—	278.5	(231.9 )	46.6
Share-based compensation expense (See Note 6)	6.6	—	—	6.6
Stock options exercised	0.4	—	—	0.4
Stock issued for management incentive compensation plans (See Note 6)	5.5	—	—	5.5
Stock issued to employee savings plan (See Note 5)	24.0	—	—	24.0
Stock repurchases	(28.9 )	—	—	(28.9 )
Taxes withheld on vested restricted stock and other	(8.3 )	—	—	(8.3 )
Dividends of \$.15 per share declared to shareholders	(14.6 )	—	—	(14.6 )
Balance at March 31, 2016	\$ 587.6	\$ (5.9 )	\$ (244.0 )	\$ 337.7

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Millions)	Three Months Ended	
	March 31,	
	2016	2015
Revenues and sales:		
Service revenues	\$1,340.6	\$1,381.8
Product sales	32.8	36.8
Total revenues and sales	1,373.4	1,418.6
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	668.8	680.0
Cost of products sold	28.9	31.9
Selling, general and administrative	203.3	224.4
Depreciation and amortization	304.8	340.7
Merger and integration costs	5.0	14.1
Restructuring charges	4.4	7.0
Total costs and expenses	1,215.2	1,298.1
Operating income	158.2	120.5
Dividend income on CS&L common stock	17.6	—
Other expense, net	(1.2 )	(1.2 )
Net loss on early extinguishment of debt	(35.4 )	—
Other-than-temporary impairment loss on investment in CS&L common stock	(181.9 )	—
Interest expense	(219.7 )	(141.1 )
Loss before income taxes	(262.4 )	(21.8 )
Income tax benefit	(30.8 )	(27.4 )
Net (loss) income	\$(231.6 )	\$5.6

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

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(Millions)	2016	2015
Net (loss) income	\$(231.6)	\$5.6
Other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized holding gain arising during the period	104.6	—
Other-than-temporary impairment loss recognized in the period	181.9	—
Change in available-for-sale securities	286.5	—
Interest rate swaps:		
Unrealized loss on designated interest rate swaps	(8.3 )	(8.6 )
Amortization of unrealized losses on de-designated interest rate swaps	1.2	3.4
Income tax benefit	2.7	2.0
Change in interest rate swaps	(4.4 )	(3.2 )
Postretirement and pension plans:		
Plan curtailment	(5.5 )	—
Amounts included in net periodic benefit cost:		
Amortization of net actuarial loss	0.1	0.2
Amortization of prior service credits	(0.5 )	(1.3 )
Income tax benefit	2.3	0.2
Change in postretirement and pension plans	(3.6 )	