

WINDSTREAM HOLDINGS, INC.  
 Form 10-Q  
 August 06, 2015

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, 2015

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, 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 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 ý 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 Services, LLC	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.  YES  NO

Windstream Services, LLC  YES  NO

As of July 31, 2015, 104,017,719 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 74.

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Table of Contents

WINDSTREAM HOLDINGS, INC.  
WINDSTREAM SERVICES, LLC  
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 Operations (Unaudited)</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive (Loss) 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 Services, LLC Consolidated Financial Statements</u>	
	<u>Consolidated Statements of Operations (Unaudited)</u>	<u>7</u>
	<u>Consolidated Statements of Comprehensive (Loss) 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 Member 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>43</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>68</u>
Item 4.	<u>Controls and Procedures</u>	<u>69</u>

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>70</u>
Item 1A.	<u>Risk Factors</u>	<u>70</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>72</u>

\*No reportable information under this item.

Table of Contents

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

## Item 1. Financial Statements

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

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues and sales:				
Service revenues:				
Enterprise	\$485.2	\$468.7	\$967.4	\$928.6
Small business	253.8	279.9	512.5	568.1
Consumer	313.8	316.8	626.0	629.8
Carrier	172.3	183.3	348.8	373.1
Regulatory and other	152.1	169.0	304.3	337.8
Total service revenues	1,377.2	1,417.7	2,759.0	2,837.4
Product sales	43.9	48.3	80.7	93.5
Total revenues and sales	1,421.1	1,466.0	2,839.7	2,930.9
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	685.2	666.3	1,365.2	1,324.2
Cost of products sold	38.4	40.0	70.3	81.1
Selling, general and administrative	215.7	236.6	440.7	475.5
Depreciation and amortization	341.8	344.0	682.5	682.9
Merger and integration costs	57.3	8.1	71.4	16.0
Restructuring charges	3.4	3.8	10.4	16.2
Total costs and expenses	1,341.8	1,298.8	2,640.5	2,595.9
Operating income	79.3	167.2	199.2	335.0
Other income (expense), net	22.3	(0.7)	21.1	0.2
Loss on early extinguishment of debt	(43.4)	—	(43.4)	—
Interest expense	(217.5)	(142.5)	(358.6)	(284.4)
(Loss) income before income taxes	(159.3)	24.0	(181.7)	50.8
Income tax (benefit) expense	(48.1)	10.0	(75.8)	20.8
Net (loss) income	\$(111.2)	\$14.0	\$(105.9)	\$30.0
Basic and diluted (loss) earnings per share:				
Net (loss) income	(\$1.13)	\$ .13	(\$1.08)	\$ .28

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 (LOSS) INCOME (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net (loss) income	\$(111.2	) \$14.0	\$(105.9	) \$30.0	
Other comprehensive (loss) income:					
Available-for-sale securities:					
Unrealized holding loss arising during the period	(109.3	) —	(109.3	) —	
Unrealized holding loss on available-for-sale securities	(109.3	) —	(109.3	) —	
Interest rate swaps:					
Changes in designated interest rate swaps	20.9	(13.0	) 12.3	(19.9	)
Amortization of unrealized losses on de-designated interest rate swaps	3.7	4.1	7.1	8.3	
Income tax (expense) benefit	(9.5	) 3.4	(7.5	) 4.4	
Unrealized gain (loss) on interest rate swaps	15.1	(5.5	) 11.9	(7.2	)
Postretirement and pension plans:					
Change in net actuarial (loss) gain for postretirement plan	(0.6	) 3.7	(0.6	) 2.9	
Plan curtailment	(13.4	) —	(13.4	) (9.5	)
Amounts included in net periodic benefit cost:					
Amortization of net actuarial loss	0.3	—	0.5	—	
Amortization of prior service credits	(1.3	) (1.1	) (2.6	) (2.8	)
Income tax benefit (expense)	5.7	(0.9	) 5.9	3.6	
Change in postretirement and pension plans	(9.3	) 1.7	(10.2	) (5.8	)
Other comprehensive loss	(103.5	) (3.8	) (107.6	) (13.0	)
Comprehensive (loss) income	\$(214.7	) \$10.2	\$(213.5	) \$17.0	

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

3

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Table of Contents

## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$47.0	\$27.8
Restricted cash	2.9	6.7
Accounts receivable (less allowance for doubtful accounts of \$39.6 and \$43.4, respectively)	665.7	635.5
Inventories	73.1	63.7
Deferred income taxes	166.3	105.4
Prepaid expenses and other	159.2	164.6
Total current assets	1,114.2	1,003.7
Goodwill	4,340.0	4,352.8
Other intangibles, net	1,640.9	1,764.0
Net property, plant and equipment	5,291.7	5,412.3
Investment in CS&L common stock	726.4	—
Other assets	91.2	92.9
Total Assets	\$13,204.4	\$12,625.7
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$5.9	\$717.5
Current portion of long-term lease obligations	142.8	—
Current portion of interest rate swaps	16.3	28.5
Accounts payable	369.6	403.3
Advance payments and customer deposits	211.1	214.7
Accrued dividends	11.9	152.4
Accrued taxes	93.1	95.2
Accrued interest	84.5	102.5
Other current liabilities	281.9	328.9
Total current liabilities	1,217.1	2,043.0
Long-term debt	5,637.9	7,846.5
Long-term lease obligations	5,045.4	81.0
Deferred income taxes	382.5	1,878.6
Other liabilities	486.5	551.8
Total liabilities	12,769.4	12,400.9
Commitments and Contingencies (See Note 7)		
Shareholders' Equity:		
Common stock, \$.0001 par value, 166.7 shares authorized, 104.1 and 100.5 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	675.8	252.1
Accumulated other comprehensive (loss) income	(95.5	) 12.1
Accumulated deficit	(145.4	) (39.5
Total shareholders' equity	435.0	224.8
Total Liabilities and Shareholders' Equity	\$13,204.4	\$12,625.7

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, 2015	2014	
Cash Provided from Operations:			
Net (loss) income	\$(105.9	) \$30.0	
Adjustments to reconcile net (loss) income to net cash provided from operations:			
Depreciation and amortization	682.5	682.9	
Provision for doubtful accounts	23.5	23.0	
Share-based compensation expense	28.3	27.7	
Deferred income taxes	(83.4	) 10.5	
Unamortized net premium on retired debt	(15.5	) —	
Amortization of unrealized losses on de-designated interest rate swaps	7.1	8.3	
Plan curtailment and other, net	(8.2	) 5.7	
Changes in operating assets and liabilities, net			
Accounts receivable	(53.7	) (18.7	)
Prepaid income taxes	9.2	12.4	
Prepaid expenses and other	(12.5	) (16.7	)
Accounts payable	(29.2	) (38.8	)
Accrued interest	(20.2	) (2.3	)
Accrued taxes	(2.1	) (9.2	)
Other current liabilities	(13.0	) (11.9	)
Other liabilities	(6.7	) (9.7	)
Other, net	(20.2	) (11.6	)
Net cash provided from operations	380.0	681.6	
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(444.3	) (358.8	)
Broadband network expansion funded by stimulus grants	—	(10.3	)
Changes in restricted cash	3.8	1.8	
Grant funds received for broadband stimulus projects	17.5	21.7	
Grant funds received from Connect America Fund - Phase I	—	26.0	
Network expansion funded by Connect America Fund - Phase I	(42.9	) —	
Other, net	9.0	—	
Net cash used in investing activities	(456.9	) (319.6	)
Cash Flows from Financing Activities:			
Dividends paid to shareholders	(342.6	) (300.9	)
Payment received from CS&L in spin-off	1,035.0	—	
Repayments of debt and swaps	(1,641.9	) (668.5	)
Proceeds of debt issuance	1,100.0	635.0	
Debt issuance costs	(3.7	) —	
Payments under long-term lease obligations	(24.5	) —	
Payments under capital lease obligations	(18.4	) (12.1	)
Other, net	(7.8	) (8.9	)
Net cash provided from (used in) financing activities	96.1	(355.4	)
Increase in cash and cash equivalents	19.2	6.6	
Cash and Cash Equivalents:			
Beginning of period	27.8	48.2	

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End of period	\$47.0	\$54.8
Supplemental Cash Flow Disclosures:		
Interest paid	\$377.1	\$283.6
Income taxes (refunded) paid, net	\$(1.5	) \$1.1

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 (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2014	\$252.2	\$12.1	\$(39.5)	\$224.8
Net loss	—	—	(105.9)	(105.9)
Other comprehensive (loss) income, net of tax:				
Unrealized holding loss on available-for-sale securities	—	(109.3)	—	(109.3)
Change in postretirement and pension plans	—	(10.2)	—	(10.2)
Amortization of unrealized losses on de-designated interest rate swaps	—	4.4	—	4.4
Changes in designated interest rate swaps	—	7.5	—	7.5
Comprehensive loss	—	(107.6)	(105.9)	(213.5)
Effect of REIT spin-off (See Note 2)	599.2	—	—	599.2
Share-based compensation expense (See Note 9)	10.5	—	—	10.5
Stock issued for management incentive compensation plans (See Note 9)	2.4	—	—	2.4
Stock issued to employee savings plan (See Note 8)	21.6	—	—	21.6
Taxes withheld on vested restricted stock and other	(8.2)	—	—	(8.2)
Dividends of \$2.01 per share declared to shareholders	(201.8)	—	—	(201.8)
Balance at June 30, 2015	\$675.9	\$(95.5)	\$(145.4)	\$435.0

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

6

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Table of ContentsWINDSTREAM SERVICES, LLC  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues and sales:				
Service revenues:				
Enterprise	\$485.2	\$468.7	\$967.4	\$928.6
Small business	253.8	279.9	512.5	568.1
Consumer	313.8	316.8	626.0	629.8
Carrier	172.3	183.3	348.8	373.1
Regulatory and other	152.1	169.0	304.3	337.8
Total service revenues	1,377.2	1,417.7	2,759.0	2,837.4
Product sales	43.9	48.3	80.7	93.5
Total revenues and sales	1,421.1	1,466.0	2,839.7	2,930.9
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	685.2	666.3	1,365.2	1,324.2
Cost of products sold	38.4	40.0	70.3	81.1
Selling, general and administrative	215.0	235.5	439.4	473.9
Depreciation and amortization	341.8	344.0	682.5	682.9
Merger and integration costs	57.3	8.1	71.4	16.0
Restructuring charges	3.4	3.8	10.4	16.2
Total costs and expenses	1,341.1	1,297.7	2,639.2	2,594.3
Operating income	80.0	168.3	200.5	336.6
Other income (expense), net	22.3	(0.7)	21.1	0.2
Loss on early extinguishment of debt	(43.4)	—	(43.4)	—
Interest expense	(217.5)	(142.5)	(358.6)	(284.4)
(Loss) income before income taxes	(158.6)	25.1	(180.4)	52.4
Income tax (benefit) expense	(47.9)	10.4	(75.3)	21.4
Net (loss) income	\$(110.7)	\$14.7	\$(105.1)	\$31.0

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

7

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Table of Contents

## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net (loss) income	\$(110.7	) \$14.7	\$(105.1	) \$31.0	
Other comprehensive (loss) income:					
Available-for-sale securities:					
Unrealized holding loss arising during the period	(109.3	) —	(109.3	) —	
Unrealized holding loss on available-for-sale securities	(109.3	) —	(109.3	) —	
Interest rate swaps:					
Changes in designated interest rate swaps	20.9	(13.0	) 12.3	(19.9	)
Amortization of unrealized losses on de-designated interest rate swaps	3.7	4.1	7.1	8.3	
Income tax (expense) benefit	(9.5	) 3.4	(7.5	) 4.4	
Unrealized gain (loss) on interest rate swaps	15.1	(5.5	) 11.9	(7.2	)
Postretirement and pension plans:					
Change in net actuarial (loss) gain for postretirement plan	(0.6	) 3.7	(0.6	) 2.9	
Plan curtailment	(13.4	) —	(13.4	) (9.5	)
Amounts included in net periodic benefit cost:					
Amortization of net actuarial loss	0.3	—	0.5	—	
Amortization of prior service credits	(1.3	) (1.1	) (2.6	) (2.8	)
Income tax benefit (expense)	5.7	(0.9	) 5.9	3.6	
Change in postretirement and pension plans	(9.3	) 1.7	(10.2	) (5.8	)
Other comprehensive loss	(103.5	) (3.8	) (107.6	) (13.0	)
Comprehensive (loss) income	\$(214.2	) \$10.9	\$(212.7	) \$18.0	

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

8

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Table of ContentsWINDSTREAM SERVICES, LLC  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except number of shares)	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$47.0	\$27.8
Restricted cash	2.9	6.7
Accounts receivable (less allowance for doubtful accounts of \$39.6 and \$43.4, respectively)	665.7	635.5
Inventories	73.1	63.7
Deferred income taxes	166.3	105.4
Prepaid expenses and other	159.2	164.6
Total current assets	1,114.2	1,003.7
Goodwill	4,340.0	4,352.8
Other intangibles, net	1,640.9	1,764.0
Net property, plant and equipment	5,291.7	5,412.3
Investment in CS&L common stock	726.4	—
Other assets	91.2	92.9
Total Assets	\$13,204.4	\$12,625.7
Liabilities and Member Equity		
Current Liabilities:		
Current maturities of long-term debt	\$5.9	\$717.5
Current portion of long-term lease obligations	142.8	—
Current portion of interest rate swaps	16.3	28.5
Accounts payable	369.6	403.3
Advance payments and customer deposits	211.1	214.7
Payable to Windstream Holdings, Inc.	11.9	152.4
Accrued taxes	93.1	95.2
Accrued interest	84.5	102.5
Other current liabilities	281.9	328.9
Total current liabilities	1,217.1	2,043.0
Long-term debt	5,637.9	7,846.5
Long-term lease obligations	5,045.4	81.0
Deferred income taxes	382.5	1,878.6
Other liabilities	486.5	551.8
Total liabilities	12,769.4	12,400.9
Commitments and Contingencies (See Note 7)		
Member Equity:		
Additional paid-in capital	673.7	250.8
Accumulated other comprehensive (loss) income	(95.5	) 12.1
Accumulated deficit	(143.2	) (38.1
Total member equity	435.0	224.8
Total Liabilities and Member Equity	\$13,204.4	\$12,625.7

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

9

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Table of Contents

## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended		
	June 30, 2015	2014	
Cash Provided from Operations:			
Net (loss) income	\$(105.1	) \$31.0	
Adjustments to reconcile net (loss) income to net cash provided from operations:			
Depreciation and amortization	682.5	682.9	
Provision for doubtful accounts	23.5	23.0	
Share-based compensation expense	28.3	27.7	
Deferred income taxes	(83.4	) 10.5	
Unamortized net premium on retired debt	(15.5	) —	
Amortization of unrealized losses on de-designated interest rate swaps	7.1	8.3	
Plan curtailment and other, net	(8.2	) 5.7	
Changes in operating assets and liabilities, net			
Accounts receivable	(53.7	) (18.7	)
Prepaid income taxes	9.2	12.4	
Prepaid expenses and other	(12.5	) (16.7	)
Accounts payable	(29.2	) (38.8	)
Accrued interest	(20.2	) (2.3	)
Accrued taxes	(2.1	) (9.3	)
Other current liabilities	(13.0	) (11.9	)
Other liabilities	(6.7	) (9.7	)
Other, net	(20.2	) (11.6	)
Net cash provided from operations	380.8	682.5	
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(444.3	) (358.8	)
Broadband network expansion funded by stimulus grants	—	(10.3	)
Changes in restricted cash	3.8	1.8	
Grant funds received for broadband stimulus projects	17.5	21.7	
Grant funds received from Connect America Fund - Phase I	—	26.0	
Network expansion funded by Connect America Fund - Phase I	(42.9	) —	
Other, net	9.0	—	
Net cash used in investing activities	(456.9	) (319.6	)
Cash Flows from Financing Activities:			
Distributions to Windstream Holdings, Inc.	(343.4	) (301.8	)
Payment received from CS&L in spin-off	1,035.0	—	
Repayments of debt and swaps	(1,641.9	) (668.5	)
Proceeds of debt issuance	1,100.0	635.0	
Debt issuance costs	(3.7	) —	
Payments under long-term lease obligations	(24.5	) —	
Payments under capital lease obligations	(18.4	) (12.1	)
Other, net	(7.8	) (8.9	)
Net cash provided from (used in) financing activities	95.3	(356.3	)
Increase in cash and cash equivalents	19.2	6.6	
Cash and Cash Equivalents:			
Beginning of period	27.8	48.2	

End of period	\$47.0	\$54.8
Supplemental Cash Flow Disclosures:		
Interest paid	\$377.1	\$283.6
Income taxes (refunded) paid, net	\$(1.5	) \$1.1

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

10

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Table of ContentsWINDSTREAM SERVICES, LLC  
CONSOLIDATED STATEMENTS OF MEMBER EQUITY (UNAUDITED)

(Millions, except per share amounts)	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2014	\$250.8	\$12.1	\$(38.1)	) \$224.8
Net loss	—	—	(105.1)	) (105.1 )
Other comprehensive (loss) income, net of tax:				
Unrealized holding loss on available-for-sale securities	—	(109.3)	) —	(109.3 )
Change in postretirement and pension plans	—	(10.2)	) —	(10.2 )
Amortization of unrealized losses on de-designated interest rate swaps	—	4.4	—	4.4
Changes in designated interest rate swaps	—	7.5	—	7.5
Comprehensive loss	—	(107.6)	) (105.1)	) (212.7 )
Effect of REIT spin-off (See Note 2)	599.2	—	—	599.2
Share-based compensation expense (See Note 9)	10.5	—	—	10.5
Stock issued for management incentive compensation plans (See Note 9)	2.4	—	—	2.4
Stock issued to employee savings plan (See Note 8)	21.6	—	—	21.6
Taxes withheld on vested restricted stock and other	(8.2)	) —	—	(8.2 )
Distributions payable to Windstream Holdings, Inc.	(202.6)	) —	—	(202.6 )
Balance at June 30, 2015	\$673.7	\$(95.5)	) \$(143.2)	) \$435.0

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

11

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Table of Contents

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements:

In these consolidated financial statements, unless the context requires 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.

Organizational Structure – Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company and the parent of Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation. Windstream Holdings common stock trades on the Nasdaq Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). As a result, all issued and outstanding common stock of Windstream Corporation held by Windstream Holdings was converted into a 100 percent interest in Windstream Services. The conversion of Windstream Services to a LLC has been accounted for as a change in reporting entity and accordingly, the historical equity presentation of Windstream Services reflect the effect of the LLC conversion for all periods presented. Windstream Services and its guarantor subsidiaries are the sole obligors of all outstanding debt obligations and, as a result also file periodic reports with the Securities and Exchange Commission (“SEC”). Windstream Holdings is not a guarantor of nor subject to the restrictive covenants included in any of Windstream Services’ debt agreements. The Windstream Holdings board of directors and officers oversee both companies.

As further discussed in Note 2, on April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate into an independent, publicly traded real estate investment trust (“REIT”). Upon completion of the spin-off, we amended our certificate of incorporation to decrease the number of authorized shares of common stock from 1.0 billion to 166.7 million and enacted a one-for-six reverse stock split with respect to all of our outstanding shares of common stock which became effective on April 26, 2015. All share data of Windstream Holdings presented has been retrospectively adjusted to reflect the effects of the decrease in its authorized shares and the reverse stock split, as appropriate.

Description of Business – We are a leading provider of advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers primarily in rural markets. We have operations in 48 states and the District of Columbia and we operate a local and long-haul fiber network spanning approximately 121,000 miles and 27 data centers offering managed services and cloud computing.

Enterprise and small business service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services to enterprise and small business customers. Carrier revenues include revenues from other carriers for special access circuits and fiber connections as well as voice and data services sold on a wholesale basis. Consumer service revenues are generated from the provision of high-speed Internet, voice and video services to consumers. Regulatory revenues include switched access revenues and Universal Service Fund (“USF”) revenues. Other service revenues include USF surcharge revenues, other miscellaneous services and, for periods prior to the April 24, 2015 spin-off, consumer revenues generated in markets where we lease the connection to the customer premise. As further discussed in Note 2, substantially all of this business was transferred to the REIT.

Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2014, was derived from audited financial statements, but does not include all disclosures required by

accounting principles generally accepted in the United States. In our opinion, these financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 24, 2015.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. Preparation of Interim Financial Statements, Continued:

Windstream Holdings and its domestic subsidiaries, including Windstream Services, file a consolidated federal income tax return. As such, Windstream Services and its subsidiaries are not separate taxable entities for federal and certain state income tax purposes. In instances when Windstream Services does not file a separate return, income taxes as presented within the accompanying consolidated financial statements attribute current and deferred income taxes of Windstream Holdings to Windstream Services and its subsidiaries in a manner that is systematic, rational and consistent with the asset and liability method. Income tax provisions presented for Windstream Services and its subsidiaries are prepared under the “separate return method.” The separate return method represents a hypothetical computation assuming that the reported revenue and expenses of Windstream Services and its subsidiaries were incurred by separate taxable entities.

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

There are no significant differences between the consolidated results of operations, financial condition, and cash flows of Windstream Holdings and those of Windstream Services other than for certain expenses incurred directly by Windstream Holdings principally consisting of audit, legal and board of director fees, NASDAQ listing fees, other shareholder-related costs, income taxes, common stock activity, and payables from Windstream Services to Windstream Holdings. Earnings per share data has not been presented for Windstream Services, because that entity has not issued publicly held common stock as defined in accordance with U.S. GAAP. Unless otherwise indicated, the note disclosures included herein pertain to both Windstream Holdings and Windstream Services.

## Revisions to Prior Period Financial Statements

During the first half of 2015, as a result of the recent change in our executive management team, we have begun to reorganize the way in which we will manage our business for purposes of operating decisions and assessing profitability. In undertaking this reorganizational effort, which has yet to be completed, management became aware of and corrected for the immaterial misclassification of certain operating expenses. The previously reported amounts included certain costs related to customer service delivery, customer care and field operations that had been classified as selling, general and administrative expense and should have been reported as cost of services. These revisions did not impact previously reported operating income, net income or comprehensive income.

The following tables present the effect of the revisions to Windstream Holdings’ consolidated statements of operations for the three and six month periods ended June 30:

(Millions)	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	As Previously Reported	Effect of Revision	As Revised	As Previously Reported	Effect of Revision	As Revised
Cost of services	\$652.3	\$14.0	\$666.3	\$1,296.9	\$27.3	\$1,324.2
	250.6	(14.0	) 236.6	502.8	(27.3	) 475.5

Selling, general and  
administrative

The effect of the revisions to Windstream Services' consolidated statements of operations would be the same for all periods presented. We evaluated the materiality of these revisions and have determined they were not material to any prior period. We expect to complete the reorganization of our operations in the third quarter of 2015 and will reassess our segment reporting at that time.

13

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Preparation of Interim Financial Statements, Continued:

During the second quarter of 2015, management identified a classification error within the shareholders' equity section of our consolidated balance sheet as of December 31, 2014. Specifically, additional paid-in capital as originally reported of \$212.7 million was understated by \$39.5 million while retained earnings as originally reported of zero was overstated by \$39.5 million due to the manner in which dividends were recorded during the year. As this classification error had no effect on our total shareholders' equity balance as of December 31, 2014, management determined the related impact was not material to the previously issued financial statements. The accompanying consolidated balance sheet as of December 31, 2014 has been revised to correct this classification error.

Certain other prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact net (loss) income or comprehensive (loss) income.

#### Recently Adopted Accounting Standards

**Presentation of Debt Issuance Costs** – In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The standard outlines a simplified presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted. During the second quarter of 2015, we early adopted this guidance and have classified in our consolidated balance sheets unamortized debt issuance costs from other assets to long-term debt for all periods presented (see Note 4). The effect of this change was to reduce the previously reported amounts within the accompanying consolidated balance sheet as of December 31, 2014 for other assets and long-term debt by \$87.7 million or a decrease in other assets from \$180.6 million to \$92.9 million and long-term debt from \$7,934.2 million to \$7,846.5 million. Adoption of this guidance did not affect our consolidated results of operations, financial position or liquidity.

#### Recently Issued Authoritative Guidance

**Revenue Recognition** – In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to all periods presented in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect adjustment in the year of adoption. When issued, ASU 2014-09 was to be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption was not permitted. On July 9, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date, or January 1, 2018, for calendar companies like Windstream. Entities are permitted to early adopt the standard, but not before the original effective date of December 15, 2016. We are in the process of determining the method of adoption and assessing the impact the new standard will have on our consolidated financial statements.

Fair Value Measurement Disclosures - In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent), which amends certain fair value measurement disclosures (“ASU 2015-07”). The standard removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient and also removes certain related disclosure requirements. ASU 2015-07 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 31, 2015, with early adoption permitted. Adoption of this standard will impact certain of the disclosures related to our qualified pension plan assets, but otherwise is not expected to have a material impact on our consolidated financial statements.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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## 2. Completion of Spin-off of Certain Network and Real Estate Assets:

On April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate, into an independent, publicly traded REIT. The spin-off also included substantially all of our consumer competitive local exchange carrier (“CLEC”) business. The telecommunications network assets consisted of copper cable and fiber optic cable lines, telephone poles, underground conduits, concrete pads, attachment hardware (e.g., bolts and lashings), pedestals, guy wires, anchors, signal repeaters, and central office land and buildings, with a net book value of approximately \$2.5 billion. We requested and received a private letter ruling from the Internal Revenue Service on the qualification of the spin-off as a tax-free transaction and the designation of the telecommunications network assets as real estate.

Pursuant to the plan of distribution and immediately prior to the effective time of the spin-off, we contributed the telecommunications network assets and the consumer CLEC business to Communications Sales & Leasing, Inc. (“CS&L”), a wholly owned subsidiary of Windstream, in exchange for: (i) the issuance to Windstream of CS&L common stock of which 80.4 percent of the shares were distributed on a pro rata basis to Windstream’s stockholders, (ii) cash payment to Windstream in the amount of \$1.035 billion and (iii) the distribution by CS&L to Windstream of approximately \$2.5 billion of CS&L debt securities. After giving effect to the interest in CS&L retained by Windstream, each Windstream Holdings shareholder received one share of CS&L for every five shares of Windstream Holdings common stock held as of the record date of April 10, 2015 in the form of a tax-free dividend. An ex-date of April 27, 2015 was established by NASDAQ, and all trades through the close of business on April 24, 2015 carried the right to receive the distribution. No fractional shares were distributed in connection with the spin-off, with a cash payment being made in lieu of any fractional shares.

In connection with the distribution, CS&L borrowed approximately \$2.14 billion through a new senior credit agreement. CS&L also issued debt securities in the private placement market to fund the cash payment and to issue its debt securities to Windstream, consisting of \$1,110.0 million aggregate principal amount of 8.25 percent senior notes due April 15, 2023 and \$400.0 million aggregate principal amount of 6.00 percent senior secured notes due October 15, 2023. The CS&L unsecured notes and the borrowings under CS&L’s new senior credit agreement were issued at a discount, and accordingly, at the date of distribution, CS&L issued to Windstream approximately \$2.5 billion of its debt securities consisting of \$970.2 million in term loans, \$400.0 million in secured and \$1,077.3 million in unsecured notes (the “CS&L Securities”).

In connection with the spin-off transaction, Windstream entered into an exchange agreement (the “Exchange Agreement”), with J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Inc. (together, the “Investment Banks”), and CS&L. Pursuant to the terms of the Exchange Agreement, Windstream agreed to transfer the CS&L Securities and cash to the Investment Banks, in exchange for the transfer by the Investment Banks to Windstream of certain debt securities of Windstream Services consisting of \$1.7 billion aggregate principal amount of borrowings outstanding under Tranches A3, A4 and B4 of Windstream Services’ senior credit facility and \$752.2 million aggregate principal amount of borrowings outstanding under the revolving line of credit held by the Investment Banks. On April 24, 2015, following the completion of the spin-off transaction, Windstream and the Investment Banks completed the exchange of debt securities pursuant to the terms of the Exchange Agreement. We incurred approximately \$35.4 million of costs in completing the debt-for-debt exchange. In conjunction with the retirement of debt, Windstream Services terminated seven of its ten interest rate swaps designated as cash flow hedges of the variable cash flows paid on its senior secured credit facility. Windstream Services paid \$22.7 million to terminate the interest rate swaps.

As of the spin-off date, excluding restricted shares held by Windstream employees and directors, Windstream retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L opportunistically within the next 18 to 24 months, subject to market conditions, to retire additional Windstream Services debt. Windstream has classified its shares of CS&L common stock as an available-for-sale security and, accordingly, the shares are recorded at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss). No deferred income taxes will be recorded with respect to any unrealized gains and losses due to the tax-free qualification of the spin-off.

For employees and directors remaining with Windstream, restricted stock awarded pursuant to our equity incentive plans and held by employees and directors at the time of the distribution continue to represent the right to receive shares of Windstream Holdings' common stock. In addition, the holders of these restricted shares received restricted shares of CS&L common stock equivalent to the number of shares of CS&L common stock that was received with respect to each share of unrestricted Windstream Holdings' common stock at the time of the distribution. The existing Windstream Holdings' restricted stock and newly issued CS&L restricted stock remain subject to vesting and other terms and conditions as prescribed by our equity incentive plans. The number of Windstream Holdings' shares underlying any outstanding stock options and the related per share exercise price were adjusted to maintain both the aggregate fair market value of stock underlying the stock options and the relationship between the per share exercise price and the related per share market value, pursuant to the terms of the applicable Windstream Holdings' equity incentive plans and taking into account the change in the market value of Windstream Holdings' common stock as a result of the distribution.



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Completion of Spin-off of Certain Network and Real Estate Assets, Continued:

As further discussed in Note 4, following the spin-off, Windstream entered into an agreement to lease back the telecommunications network assets from CS&L.

## 3. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets has been recorded as goodwill. In accordance with authoritative guidance, goodwill is to be assigned to a company's reporting units and tested for impairment at least annually using a consistent measurement date, which for us is January 1st of each year. Goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit for which discrete financial information is available and our executive management team regularly reviews the operating results of that component. Additionally, components of an operating segment can be combined as a single reporting unit if the components have similar economic characteristics. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. Prior to performing the two step evaluation, an entity has the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. Under the qualitative assessment, if an entity determines that it is more likely than not that a reporting unit's fair value exceeds its carrying value, then the entity is not required to complete the two step goodwill impairment evaluation.

Changes in the carrying amount of goodwill were as follows:

(Millions)

Balance at December 31, 2014	\$4,352.8	
Disposition during the period (a)	(12.8	)
Balance at June 30, 2015	\$4,340.0	

(a) Represents the portion of historical goodwill allocated to the consumer CLEC business that was transferred to CS&L in conjunction with the spin-off (see Note 2).

As of January 1, 2015, we have three reporting units, excluding corporate level activities. In performing our annual goodwill impairment assessment, we estimated the fair value of each of our three reporting units utilizing both an income approach and a market approach. The income approach is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows of the reporting unit beyond the cash flows from the discrete projection period of five years. We discounted the estimated cash flows for each of the reporting units using a rate that represents a market participant's weighted average cost of capital commensurate with the reporting unit's underlying business operations. The market approach included the use of comparable multiples of publicly traded companies operating in businesses similar to ours. We also reconciled the estimated fair value of our reporting units to our total market capitalization.

As of January 1, 2015, based on our assessment performed with respect to our three reporting units as described above, we concluded that goodwill for all of our reporting units was not impaired as of that date, and accordingly, no further analysis was required.

As previously discussed, as a result of recent changes in our executive management team, we have begun to reorganize the way in which we manage our business and will reassess our reporting unit structure during the third quarter of 2015.

Other intangible assets arising from business combinations are initially recorded at estimated fair value and amortized over the estimated useful lives.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Goodwill and Other Intangible Assets, Continued:

Other intangible assets were as follows at:

(Millions)	June 30, 2015			December 31, 2014		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	\$1,285.1	\$(264.7)	\$1,020.4	\$1,285.1	\$(243.3)	\$1,041.8
Customer lists (a)	1,879.5	(1,273.6)	605.9	1,914.0	(1,203.4)	710.6
Cable franchise rights	39.8	(28.8)	11.0	39.8	(28.2)	11.6
Other (b)	42.0	(38.4)	3.6	37.9	(37.9)	—
Balance	\$3,246.4	\$(1,605.5)	\$1,640.9	\$3,276.8	\$(1,512.8)	\$1,764.0

(a) In connection with the spin-off, we transferred customer lists with a gross cost of \$34.5 million and a net carrying value of \$13.1 million to CS&L (see Note 2).

(b) During the first quarter of 2015, we acquired for cash non-exclusive licenses to various patents, which are being amortized on a straight-line basis over the estimated useful life of 3 years.

Intangible asset amortization methodology and useful lives were as follows as of June 30, 2015:

Intangible Assets	Amortization Methodology	Estimated Useful Life
Franchise rights	straight-line	30 years
Customer lists	sum-of-years-digits	9 - 15 years
Cable franchise rights	straight-line	15 years
Other	straight-line	1 - 3 years

Amortization expense for intangible assets subject to amortization was \$56.5 million and \$114.1 million for the three and six month periods ended June 30, 2015, as compared to \$65.1 million and \$130.7 million for the same periods in 2014. Amortization expense for intangible assets subject to amortization is estimated to be as follows for each of the twelve month periods ended June 30:

Year	(Millions)
2016	\$201.7
2017	177.2
2018	149.8
2019	122.9
2020	100.0
Thereafter	889.3
Total	\$1,640.9

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. Long-term Debt and Lease Obligations:

Windstream Holdings has no debt obligations. All debt, including the senior secured credit facility described below, have been incurred by Windstream Services and its subsidiaries. Windstream Holdings is neither a guarantor of nor subject to the restrictive covenants imposed by such debt.

Long-term debt was as follows at:

(Millions)	June 30, 2015	December 31, 2014
Issued by Windstream Services:		
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016 (a)	\$—	\$344.3
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017 (a)	—	255.0
Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020 (a)	—	1,318.1
Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019	581.2	584.1
Senior secured credit facility, Revolving line of credit – variable rates, due April 24, 2020	480.0	625.0
Debentures and notes, without collateral:		
2017 Notes – 7.875%, due November 1, 2017	1,100.0	1,100.0
2018 Notes – 8.125%, due September 1, 2018	—	400.0
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021	950.0	950.0
2022 Notes – 7.500%, due June 1, 2022	500.0	500.0
2023 Notes – 7.500%, due April 1, 2023	600.0	600.0
2023 Notes – 6.375%, due August 1, 2023	700.0	700.0
Issued by subsidiaries of Windstream Services:		
Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028	100.0	100.0
Cinergy Communications Company – 6.58%, due January 1, 2022	—	1.9
Debentures and notes, without collateral:		
PAETEC 2018 Notes – 9.875%, due December 1, 2018	—	450.0
Premium on long-term debt, net	3.9	23.3
Unamortized debt issuance costs	(71.3)	(87.7)
	5,643.8	8,564.0
Less current maturities	(5.9)	(717.5)
Total long-term debt	\$5,637.9	\$7,846.5

(a) Debt obligation was retired in connection with completion of the debt-for-debt exchange (see Note 2).

## Senior Secured Credit Facility

Revolving Line of Credit - On April 24, 2015, Windstream Services amended the revolving line of credit and extended its maturity from December 17, 2015 to April 24, 2020. During the first six months of 2015, Windstream Services borrowed \$1,100.0 million under the revolving line of credit in its senior secured credit facility and through completion of the debt-for-debt exchange and repayments retired \$1,245.0 million of these borrowings through June 30, 2015. Letters of credit are deducted in determining the total amount available for borrowing under the revolving line of credit. Accordingly, the total amount outstanding under the letters of credit and the indebtedness incurred under the revolving line of credit may not exceed \$1,250.0 million. Considering letters of credit of \$20.6

million, the amount available for borrowing under the revolving line of credit was \$749.4 million at June 30, 2015.

During the first half of 2015, the variable interest rate on the revolving line of credit ranged from 2.19 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.53 percent during the period. Comparatively, the variable interest rate ranged from 2.41 percent to 4.50 percent during the first six months of 2014, with a weighted average rate on amounts outstanding during the period of 2.51 percent.

18

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. Long-term Debt and Lease Obligations, Continued:

## Debentures and Notes Repaid in 2015

2018 Notes - On May 27, 2015, Windstream Services redeemed all of its \$400.0 million aggregate principal amount of 8.125 percent senior unsecured notes due September 1, 2018 (the "2018 Notes"), at a redemption price payable in cash equal to \$1,040.63 per \$1,000 principal amount of the notes, plus accrued and unpaid interest. At the time of redemption, there was \$1.4 million and \$4.0 million in unamortized discount and debt issuance costs, respectively, related to the 2018 Notes.

PAETEC 2018 - On May 27, 2015, PAETEC Holding, LLC ("PAETEC"), a direct, wholly-owned subsidiary of Windstream Services, redeemed all \$450.0 million of the outstanding aggregate principal amount of 9.875 percent notes due 2018 (the "PAETEC 2018 Notes"), at a redemption price payable in cash equal to \$1,049.38 per \$1,000 principal amount of the notes, plus accrued and unpaid interest. At the time of redemption, there was \$16.9 million in unamortized premium related to the PAETEC 2018 Notes.

Windstream used a portion of the \$1.035 billion cash payment received from CS&L in conjunction with the spin-off of certain telecommunication network assets to redeem these two debt obligations (see Note 2).

Cinergy Communications Company - On April 24, 2015, Windstream Services repaid all \$1.9 million of the outstanding aggregate principal amount of these unsecured notes utilizing available borrowings under the amended revolving line of credit.

## Debt Compliance

The terms of Windstream Services' credit facility and indentures include customary covenants that, among other things, require maintenance of certain financial ratios and restrict Windstream Services' ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.5 to 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. In addition, the covenants include restrictions on dividend and certain other types of payments. As of June 30, 2015, Windstream Services was in compliance with all of these covenants.

In addition, certain of Windstream Services' debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under Windstream Services' long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more interest in Windstream Services, or breach of certain other conditions set forth in the borrowing agreements. Windstream Services and its subsidiaries were in compliance with these covenants as of June 30, 2015.

Maturities for long-term debt outstanding as of June 30, 2015, excluding \$3.9 million of unamortized net premium and \$71.3 million of unamortized debt issuance costs, were as follows:

Twelve month period ended:	(Millions)
June 30, 2016	\$5.9
June 30, 2017	5.9
June 30, 2018	1,105.9
June 30, 2019	5.9
June 30, 2020	1,037.6
Thereafter	3,550.0
Total	\$5,711.2

### Loss on Extinguishment of Debt

In conjunction with the spin-off, Windstream completed a debt-for-debt exchange retiring \$1.7 billion aggregate principal amount of borrowings outstanding under Tranches A3, A4 and B4 of Windstream Services' senior credit facility and \$752.2 million aggregate principal amount of borrowings outstanding under the revolving line of credit. Following the completion of the debt-for-debt exchange, Windstream Services repaid the remaining \$241.8 million aggregate principal amount of borrowings under Tranche B4. The debt-for-debt exchange and repayment were accounted for under the extinguishment method of accounting and, as a result, Windstream Services recognized a loss due to the extinguishment of the aforementioned debt obligations of \$15.9 million.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. Long-term Debt and Lease Obligations, Continued:

As previously discussed, Windstream Services retired all \$400.0 million of the outstanding 2018 Notes and all \$450.0 million of the PAETEC 2018 Notes using a portion of the cash payment received from CS&L in conjunction with the spin-off. The retirements were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations during the second quarter of 2015.

The loss on extinguishment of debt was as follows for the three and six month periods ended June 30:

(Millions)	2015
Senior secured credit facility borrowings:	
Premium on early redemption	\$(6.6 )
Third-party fees for early redemption	(0.7 )
Unamortized debt issuance costs on original issuance	(8.6 )
Loss on early extinguishment of senior secured credit facility borrowings	(15.9 )
2018 Notes:	
Premium on early redemption	(16.3 )
Unamortized discount on original issuance	(1.4 )
Unamortized debt issuance costs on original issuance	(4.0 )
Loss on early extinguishment of 2018 Notes	(21.7 )
PAETEC 2018 Notes:	
Premium on early redemption	(22.2 )
Unamortized premium on original issuance	16.9
Loss on early extinguishment of PAETEC 2018 Notes	(5.3 )
Cinergy Communications Company Notes:	
Premium on early redemption	(0.5 )
Loss on early extinguishment of Cinergy Communication Company Notes	(0.5 )
Total loss on early extinguishment of debt	\$(43.4 )

## Long-term Lease Obligations

Leaseback of Telecommunications Network Assets - Following the spin-off transaction (see Note 2), on April 24, 2015, Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. Under terms of the master lease, Windstream Holdings has the exclusive right to use the telecommunications network assets for an initial term of 15 years with up to four, five-year renewal options. CS&L has the right, but not the obligation, upon Windstream's request, to fund capital expenditures of Windstream in an aggregate amount of up to \$250.0 million for a maximum period of five years. We have requested, and CS&L has agreed to fund up to \$50.0 million of capital expenditures during the remainder of 2015. Monthly rent paid by us to CS&L will increase in accordance with the master lease effective as of the date of the funding. If CS&L exercises this right, the lease payments under the master lease will be adjusted at a rate of 8.125 percent of the capital expenditures funded by CS&L during the first two years and at a floating rate based on CS&L's cost of capital thereafter. Additionally, if CS&L agrees to fund the entire \$250.0 million, the initial term of the master lease will be increased from 15 years to 20 years and the number of renewal terms will be reduced from four renewal terms of five years each to three renewal terms of five years each. Windstream Holdings is required to pay all property taxes, insurance, and repair or maintenance costs associated with the leased property. The master lease provides for an annual rent of \$650.0 million paid in equal monthly installments in advance and is fixed for the first three years. The effective interest rate on the long-term lease obligation is 10.15 percent. Thereafter, rent will increase on an annual basis at a base rent



escalator of 0.5 percent. Future lease payments due under the agreement reset to fair market rental rates upon Windstream Holdings' execution of the renewal options.

Due to various forms of continuing involvement, including Windstream Services or its subsidiaries, retaining bare legal title (but not beneficial ownership) to the various easements, permits and pole attachments related to the telecommunications network assets, we accounted for the transaction as a failed spin-leaseback for financial reporting purposes. As a result, the net book value of the network assets transferred to CS&L continue to be reported in our consolidated balance sheet and all depreciable assets will be fully depreciated over the initial lease term of 15 years.

20

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. Long-term Debt and Lease Obligations, Continued:

We recorded a long-term lease obligation of approximately \$5.1 billion equal to the sum of the minimum future annual lease payments over the 15-year lease term discounted to the present value based on Windstream Services' incremental borrowing rate. As annual lease payments are made, a portion of the payment will decrease the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

As the master lease was entered into by Windstream Holdings for the direct benefit of Windstream Services and its subsidiaries, Windstream Services is also deemed to have continuing involvement due to retaining its regulatory obligations associated with operating the telecommunications network assets. Accordingly, the effects of the failed spin-leaseback transaction have also been reflected in the standalone consolidated financial statements of Windstream Services. Notwithstanding the foregoing accounting treatment, neither Windstream Services or its subsidiaries is a counterparty or obligor to the master lease agreement.

Leaseback of Real Estate Contributed to Pension Plan - During the third quarter of 2014, we contributed certain of our owned real property to the Windstream Pension Plan and then entered into agreements to leaseback the properties for continued use by our operating subsidiaries. Independent appraisals of the properties contributed were obtained and at the dates of contribution the properties' aggregate fair value was \$80.9 million. The lease agreements include initial lease terms of 10 years for certain properties and 20 years for the remaining properties at an aggregate annual rent of approximately \$6.3 million. The lease agreements provide for annual rent increases ranging from 2.0 percent to 3.0 percent over the initial lease term and may be renewed for up to three additional five-year terms. The properties are managed on behalf of the Windstream Pension Plan by an independent fiduciary and terms of the lease agreements were negotiated with the fiduciary on an arm's-length basis.

Due to various forms of continuing involvement, including Windstream Services' benefit from the future appreciation of the property, the transaction has been accounted for as a failed contribution-leaseback. Accordingly, the properties continue to be reported as assets of Windstream and depreciated over their remaining useful lives until termination of the lease agreement. We recorded a long-term lease obligation equal to the fair value of the properties at the date of contribution. No gain or loss was recognized on the contribution. As lease payments are made to the Windstream Pension Plan, a portion of the payment is applied to the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

A summary of the current and noncurrent portions of the long-term lease obligations was as follows:

(Millions)	June 30, 2015			December 31, 2014		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Assets Subject to Leaseback:						
Telecommunications network assets	\$ 142.8	\$4,964.2	\$5,107.0	\$—	\$—	\$—
Real estate contributed to pension plan						