

WINDSTREAM HOLDINGS, INC.
 Form 10-Q
 May 08, 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 March 31, 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

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 April 30, 2014, 602,659,992 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 64.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

(Millions, except per share amounts)	Three Months Ended	
	March 31, 2014	2013
Revenues and sales:		
Service revenues:		
Business	\$910.0	\$915.7
Consumer	313.0	326.9
Wholesale	141.7	151.9
Other	55.0	56.8
Total service revenues	1,419.7	1,451.3
Product sales	45.2	45.2
Total revenues and sales	1,464.9	1,496.5
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	644.6	641.2
Cost of products sold	41.1	42.6
Selling, general and administrative	252.2	237.5
Depreciation and amortization	338.9	329.3
Merger and integration costs	7.4	5.1
Restructuring charges	12.9	4.9
Total costs and expenses	1,297.1	1,260.6
Operating income	167.8	235.9
Other income, net	0.9	2.3
Loss on early extinguishment of debt	—	(13.8)
Interest expense	(141.9)	(168.9)
Income from continuing operations before income taxes	26.8	55.5
Income taxes	10.8	3.5
Income from continuing operations	16.0	52.0
Discontinued operations	—	0.3
Net income	\$16.0	\$52.3
Basic and diluted earnings per share:		
From continuing operations	\$.02	\$.09
From discontinued operations	—	—
Net income	\$.02	\$.09

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

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WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions)	Three Months Ended	
	March 31,	
	2014	2013
Net income	\$16.0	\$52.3
Other comprehensive loss:		
Interest rate swaps:		
Changes in designated interest rate swaps	(6.9	) (0.5
Amortization of unrealized losses on de-designated interest rate swaps	4.2	13.2
Income tax benefit (expense)	1.0	(4.8
Unrealized holding (loss) gain on interest rate swaps	(1.7	) 7.9
Postretirement and pension plans:		
Change in net actuarial gain for postretirement plan	(0.8) —
Plan curtailment	(9.5	) (19.8
Amounts included in net periodic benefit cost:		
Amortization of net actuarial loss	—	0.7
Amortization of prior service credits	(1.7	) (2.8
Income tax benefit	4.5	8.3
Change in postretirement and pension plans	(7.5	) (13.6
Other comprehensive loss	(9.2	) (5.7
Comprehensive income	\$6.8	\$46.6

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, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$70.0	\$48.2
Restricted cash	10.6	9.7
Accounts receivable (less allowance for doubtful accounts of \$38.4 and \$40.0, respectively)	632.7	635.3
Inventories	70.4	67.7
Deferred income taxes	167.5	241.5
Prepaid income taxes	24.1	29.7
Prepaid expenses and other	168.1	152.7
Total current assets	1,143.4	1,184.8
Goodwill	4,331.4	4,331.4
Other intangibles, net	1,954.5	2,020.1
Net property, plant and equipment	5,610.1	5,702.6
Other assets	200.4	205.7
Total Assets	\$13,239.8	\$13,444.6
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$88.7	\$85.0
Current portion of interest rate swaps	30.8	30.0
Accounts payable	355.9	385.9
Advance payments and customer deposits	222.0	223.5
Accrued dividends	151.9	151.1
Accrued taxes	89.0	104.2
Accrued interest	170.1	103.5
Other current liabilities	319.2	362.4
Total current liabilities	1,427.6	1,445.6
Long-term debt	8,617.6	8,622.2
Deferred income taxes	1,968.0	2,038.3
Other liabilities	503.9	498.3
Total liabilities	12,517.1	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	703.3	811.6
Accumulated other comprehensive income	19.3	28.5
Retained earnings	—	—
Total shareholders' equity	722.7	840.2
Total Liabilities and Shareholders' Equity	\$13,239.8	\$13,444.6

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

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WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Three Months Ended	
	March 31, 2014	2013
Cash Provided from Operations:		
Net income	\$ 16.0	\$52.3
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	338.9	329.5
Provision for doubtful accounts	12.3	16.1
Share-based compensation expense	13.7	12.4
Deferred income taxes	9.3	26.9
Unamortized net premium on retired debt	—	(38.7)
Amortization of unrealized losses on de-designated interest rate swaps	4.2	13.2
Plan curtailment and other, net	(4.9)	) (22.6)
Changes in operating assets and liabilities, net		
Accounts receivable	(9.7)	) 3.9
Prepaid income taxes	5.6	(3.3)
Prepaid expenses and other	(20.1)	) (25.6)
Accounts payable	(46.1)	) (69.2)
Accrued interest	66.0	47.2
Accrued taxes	(15.2)	) (8.1)
Other current liabilities	(32.4)	) (31.6)
Other liabilities	(3.3)	) (16.1)
Other, net	(14.5)	) 18.3
Net cash provided from operations	319.8	304.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(153.0)	) (243.5)
Broadband network expansion funded by stimulus grants	(7.1)	) (11.9)
Changes in restricted cash	(0.9)	) 7.6
Grant funds received for broadband stimulus projects	11.4	13.3
Grant funds received from Connect America Fund	26.0	—
Net cash used in investing activities	(123.6)	) (234.5)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(150.2)	) (148.1)
Repayments of debt and swaps	(331.6)	) (2,164.9)
Proceeds of debt issuance	325.0	2,195.0
Debt issuance costs	—	(19.6)
Payments under capital lease obligations	(7.8)	) (4.0)
Other, net	(9.8)	) (6.1)
Net cash used in financing activities	(174.4)	) (147.7)
Increase (decrease) in cash and cash equivalents	21.8	(77.6)
Cash and Cash Equivalents:		
Beginning of period	48.2	132.0
End of period	\$70.0	\$54.4
Supplemental Cash Flow Disclosures:		
Interest paid	\$74.7	\$105.2
Income taxes (refunded) paid, net	\$(1.0)	) \$0.5

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

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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	—	—	16.0	16.0
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(7.5	) —	(7.5)
Amortization of unrealized losses on de-designated interest rate swaps	—	2.6	—	2.6
Changes in designated interest rate swaps	—	(4.3	) —	(4.3)
Comprehensive (loss) income	—	(9.2	) 16.0	6.8
Share-based compensation expense	6.5	—	—	6.5
Stock options exercised	0.4	—	—	0.4
Stock issued to 401(k) plan (See Note 7)	21.6	—	—	21.6
Stock issued to qualified pension plan (See Note 7)	8.3	—	—	8.3
Taxes withheld on vested restricted stock and other	(10.3	) —	—	(10.3)
Dividends of \$0.25 per share declared to shareholders	(134.8	) —	(16.0	) (150.8)
Balance at March 31, 2014	\$703.4	\$19.3	\$—	\$722.7

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

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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Interest expense	(141.9) (168.9)
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Income taxes	11.0	3.5	
Income from continuing operations	16.3	52.0	
Discontinued operations	—	0.3	
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WINDSTREAM CORPORATION

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