

WINDSTREAM HOLDINGS, INC.

Form 10-Q

August 09, 2018

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, 2018

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 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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

Windstream Holdings, Inc. Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company   
Emerging growth company

Windstream Services, LLC Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Windstream Holdings, Inc.  YES  NO

Windstream Services, LLC  YES  NO

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 August 6, 2018, 42,938,115 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 91.

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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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues and sales:				
Service revenues	\$1,424.6	\$1,465.6	\$2,860.0	\$2,810.0
Product sales	19.8	26.0	38.7	47.3
Total revenues and sales	1,444.4	1,491.6	2,898.7	2,857.3
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	722.8	750.7	1,459.7	1,434.5
Cost of products sold	18.2	29.7	35.0	50.5
Selling, general and administrative	224.5	226.4	453.3	440.2
Depreciation and amortization	370.7	362.4	752.5	700.9
Merger, integration and other costs	14.1	16.4	21.4	73.7
Restructuring charges	5.8	3.5	19.5	10.9
Total costs and expenses	1,356.1	1,389.1	2,741.4	2,710.7
Operating income	88.3	102.5	157.3	146.6
Other income, net	12.0	4.2	9.7	6.8
Net loss on early extinguishment of debt	—	—	—	(3.2 )
Interest expense	(224.4 )	(214.4 )	(447.5 )	(426.2 )
Loss before income taxes	(124.1 )	(107.7 )	(280.5 )	(276.0 )
Income tax benefit	(30.4 )	(39.6 )	(65.4 )	(96.6 )
Net loss	\$(93.7 )	\$(68.1 )	\$(215.1 )	\$(179.4 )
Basic and diluted loss per share:				
Net loss	(\$2.30 )	(\$1.83 )	(\$5.51 )	(\$5.75 )

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

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## WINDSTREAM HOLDINGS, INC.

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

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$(93.7)	\$(68.1)	\$(215.1)	\$(179.4)
Other comprehensive income (loss):				
Interest rate swaps:				
Unrealized gain (loss) on designated interest rate swaps	4.9	(5.3 )	19.7	(1.9 )
Amortization of net unrealized losses on de-designated interest rate swaps	0.8	1.4	1.7	2.9
Income tax (expense) benefit	(1.5 )	1.5	(5.5 )	(0.4 )
Change in interest rate swaps	4.2	(2.4 )	15.9	0.6
Postretirement and pension plans:				
Prior service credit arising during the period	2.7	—	2.7	—
Change in net actuarial gain for employee benefit plans	5.4	1.4	5.4	1.4
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	—	0.1	0.1	0.1
Amortization of prior service credits	(1.3 )	(0.2 )	(2.6 )	(0.4 )
Income tax expense	(0.9 )	(0.5 )	(0.6 )	(0.4 )
Change in postretirement and pension plans	5.9	0.8	5.0	0.7
Other comprehensive income (loss)	10.1	(1.6 )	20.9	1.3
Comprehensive loss	\$(83.6)	\$(69.7)	\$(194.2)	\$(178.1)

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)	June 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$45.3	\$ 43.4
Accounts receivable (less allowance for doubtful accounts of \$25.3 and \$29.7, respectively)	623.9	643.0
Inventories	85.0	93.0
Prepaid expenses and other	181.0	154.3
Total current assets	935.2	933.7
Goodwill	2,873.9	2,842.4
Other intangibles, net	1,349.4	1,454.4
Net property, plant and equipment	5,156.6	5,391.8
Deferred income taxes	416.2	370.8
Other assets	108.5	91.2
Total Assets	\$10,839.8	\$ 11,084.3
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Current maturities of long-term debt	\$ 17.9	\$ 169.3
Current portion of long-term lease obligations	200.1	188.6
Accounts payable	495.2	494.0
Advance payments and customer deposits	199.7	207.3
Accrued taxes	87.5	89.5
Accrued interest	62.2	52.6
Other current liabilities	278.9	342.1
Total current liabilities	1,341.5	1,543.4
Long-term debt	5,867.9	5,674.6
Long-term lease obligations	4,540.5	4,643.3
Other liabilities	496.4	521.9
Total liabilities	12,246.3	12,383.2
Commitments and Contingencies (See Note 15)		
Shareholders' Deficit:		
Common stock, \$.0001 par value, 75.0 shares authorized, 42.7 and 36.5 shares issued and outstanding, respectively	—	—
Additional paid-in capital	1,243.2	1,191.9
Accumulated other comprehensive income	44.0	21.4
Accumulated deficit	(2,693.7 )	(2,512.2 )
Total shareholders' deficit	(1,406.5 )	(1,298.9 )
Total Liabilities and Shareholders' Deficit	\$10,839.8	\$ 11,084.3

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)	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$(215.1)	\$(179.4)
Adjustments to reconcile net loss to net cash provided from operations:		
Depreciation and amortization	752.5	700.9
Provision for doubtful accounts	15.2	19.7
Share-based compensation expense	18.4	32.4
Deferred income taxes	(64.7 )	(97.3 )
Net loss on early extinguishment of debt	—	3.2
Other, net	4.3	7.9
Changes in operating assets and liabilities, net		
Accounts receivable	5.8	15.7
Prepaid income taxes	(4.7 )	(5.2 )
Prepaid expenses and other	7.3	(14.3 )
Accounts payable	17.2	(56.3 )
Accrued interest	9.9	(6.8 )
Accrued taxes	(9.3 )	2.0
Other current liabilities	(18.7 )	(20.1 )
Other liabilities	7.0	1.5
Other, net	14.6	(29.0 )
Net cash provided from operating activities	539.7	374.9
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(406.3 )	(507.8 )
Cash acquired from EarthLink	—	5.0
Acquisition of MASS	(37.6 )	—
Other, net	(8.8 )	(11.8 )
Net cash used in investing activities	(452.7 )	(514.6 )
Cash Flows from Financing Activities:		
Dividends paid to shareholders	—	(35.6 )
Proceeds from issuance of stock	11.1	9.6
Repayments of debt and swaps	(413.1 )	(1,282.2)
Proceeds from debt issuance	450.0	1,535.6
Debt issuance costs	(11.6 )	(7.3 )
Payments under long-term lease obligations	(91.4 )	(82.2 )
Payments under capital lease obligations	(27.7 )	(22.0 )
Other, net	(2.4 )	(10.6 )
Net cash (used in) provided from financing activities	(85.1 )	105.3
Increase (decrease) in cash and cash equivalents	1.9	(34.4 )
Cash and Cash Equivalents:		
Beginning of period	43.4	59.1
End of period	\$45.3	\$24.7
Supplemental Cash Flow Disclosures:		
Interest paid, net of interest capitalized	\$428.9	\$417.7
Income taxes (refunded) paid, net	\$(15.1 )	\$1.3

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

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2017	\$ 1,191.9	\$ 21.4	\$ (2,512.2 )	\$(1,298.9)
Cumulative effect adjustments, net of tax:				
Adoption of ASU 2014-09 (See Note 1)	—	—	35.3	35.3
Adoption of ASU 2017-12 (See Note 1)	—	1.7	(1.7 )	—
Net loss	—	—	(215.1 )	(215.1 )
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	5.0	—	5.0
Amortization of net unrealized losses on de-designated interest rate swaps	—	1.2	—	1.2
Change in designated interest rate swaps	—	14.7	—	14.7
Comprehensive income (loss)	—	20.9	(215.1 )	(194.2 )
Share-based compensation	7.4	—	—	7.4
Stock issued under equity distribution agreement	11.1	—	—	11.1
Stock issued for pension contribution	5.8	—	—	5.8
Stock issued to employee savings plan	28.3	—	—	28.3
Taxes withheld on vested restricted stock and other	(1.3 )	—	—	(1.3 )
Balance at June 30, 2018	\$ 1,243.2	\$ 44.0	\$ (2,693.7 )	\$(1,406.5)

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues and sales:				
Service revenues	\$1,424.6	\$1,465.6	\$2,860.0	\$2,810.0
Product sales	19.8	26.0	38.7	47.3
Total revenues and sales	1,444.4	1,491.6	2,898.7	2,857.3
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	722.8	750.7	1,459.7	1,434.5
Cost of products sold	18.2	29.7	35.0	50.5
Selling, general and administrative	223.8	225.6	452.1	439.1
Depreciation and amortization	370.7	362.4	752.5	700.9
Merger, integration and other costs	14.1	16.4	21.4	73.7
Restructuring charges	5.8	3.5	19.5	10.9
Total costs and expenses	1,355.4	1,388.3	2,740.2	2,709.6
Operating income	89.0	103.3	158.5	147.7
Other income, net	12.0	4.2	9.7	6.8
Net loss on early extinguishment of debt	—	—	—	(3.2 )
Interest expense	(224.4 )	(214.4 )	(447.5 )	(426.2 )
Loss before income taxes	(123.4 )	(106.9 )	(279.3 )	(274.9 )
Income tax benefit	(30.2 )	(39.3 )	(65.1 )	(96.2 )
Net loss	\$(93.2 )	\$(67.6 )	\$(214.2 )	\$(178.7 )

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

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## WINDSTREAM SERVICES, LLC

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

(Millions)	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	2018	2017
Net loss	\$(93.2)	\$(67.6)	\$(214.2)	\$(178.7)
Other comprehensive income (loss):				
Interest rate swaps:				
Unrealized gain (loss) on designated interest rate swaps	4.9	(5.3 )	19.7	(1.9 )
Amortization of net unrealized losses on de-designated interest rate swaps	0.8	1.4	1.7	2.9
Income tax (expense) benefit	(1.5 )	1.5	(5.5 )	(0.4 )
Change in interest rate swaps	4.2	(2.4 )	15.9	0.6
Postretirement and pension plans:				
Prior service credit arising during the period	2.7	—	2.7	—
Change in net actuarial gain for employee benefit plans	5.4	1.4	5.4	1.4
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	—	0.1	0.1	0.1
Amortization of prior service credits	(1.3 )	(0.2 )	(2.6 )	(0.4 )
Income tax expense	(0.9 )	(0.5 )	(0.6 )	(0.4 )
Change in postretirement and pension plans	5.9	0.8	5.0	0.7
Other comprehensive income (loss)	10.1	(1.6 )	20.9	1.3
Comprehensive loss	\$(83.1)	\$(69.2)	\$(193.3)	\$(177.4)

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

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions)	June 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$45.3	\$ 43.4
Accounts receivable (less allowance for doubtful accounts of \$25.3 and \$29.7, respectively)	623.9	643.0
Inventories	85.0	93.0
Prepaid expenses and other	181.0	154.3
Total current assets	935.2	933.7
Goodwill	2,873.9	2,842.4
Other intangibles, net	1,349.4	1,454.4
Net property, plant and equipment	5,156.6	5,391.8
Deferred income taxes	416.2	370.8
Other assets	108.5	91.2
Total Assets	\$10,839.8	\$ 11,084.3
Liabilities and Member Deficit		
Current Liabilities:		
Current maturities of long-term debt	\$17.9	\$ 169.3
Current portion of long-term lease obligations	200.1	188.6
Accounts payable	495.2	494.0
Advance payments and customer deposits	199.7	207.3
Accrued taxes	87.5	89.5
Accrued interest	62.2	52.6
Other current liabilities	278.9	342.1
Total current liabilities	1,341.5	1,543.4
Long-term debt	5,867.9	5,674.6
Long-term lease obligations	4,540.5	4,643.3
Other liabilities	496.4	521.9
Total liabilities	12,246.3	12,383.2
Commitments and Contingencies (See Note 15)		
Member Deficit:		
Additional paid-in capital	1,237.5	1,187.1
Accumulated other comprehensive income	44.0	21.4
Accumulated deficit	(2,688.0 )	(2,507.4 )
Total member deficit	(1,406.5 )	(1,298.9 )
Total Liabilities and Member Deficit	\$10,839.8	\$ 11,084.3

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

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$(214.2)	\$(178.7)
Adjustments to reconcile net loss to net cash provided from operations:		
Depreciation and amortization	752.5	700.9
Provision for doubtful accounts	15.2	19.7
Share-based compensation expense	18.4	32.4
Deferred income taxes	(64.7 )	(97.3 )
Net loss on early extinguishment of debt	—	3.2
Other, net	4.3	7.9
Changes in operating assets and liabilities, net		
Accounts receivable	5.8	15.7
Prepaid income taxes	(4.7 )	(5.2 )
Prepaid expenses and other	7.3	(14.3 )
Accounts payable	17.2	(56.3 )
Accrued interest	9.9	(6.8 )
Accrued taxes	(9.3 )	2.0
Other current liabilities	(18.6 )	(21.1 )
Other liabilities	7.0	1.5
Other, net	14.6	(29.0 )
Net cash provided from operating activities	540.7	374.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(406.3 )	(507.8 )
Cash acquired from EarthLink	—	5.0
Acquisition of MASS	(37.6 )	—
Other, net	(8.8 )	(11.8 )
Net cash used in investing activities	(452.7 )	(514.6 )
Cash Flows from Financing Activities:		
Distributions to Windstream Holdings, Inc.	(1.0 )	(35.3 )
Contribution from Windstream Holdings, Inc.	11.1	9.6
Repayments of debt and swaps	(413.1 )	(1,282.2)
Proceeds from debt issuance	450.0	1,535.6
Debt issuance costs	(11.6 )	(7.3 )
Payments under long-term lease obligations	(91.4 )	(82.2 )
Payments under capital lease obligations	(27.7 )	(22.0 )
Other, net	(2.4 )	(10.6 )
Net cash (used in) provided from financing activities	(86.1 )	105.6
Increase (decrease) in cash and cash equivalents	1.9	(34.4 )
Cash and Cash Equivalents:		
Beginning of period	43.4	59.1
End of period	\$45.3	\$24.7
Supplemental Cash Flow Disclosures:		
Interest paid, net of interest capitalized	\$428.9	\$417.7
Income taxes (refunded) paid, net	\$(15.1 )	\$1.3

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

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENT OF MEMBER DEFICIT (UNAUDITED)

(Millions)	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2017	\$ 1,187.1	\$ 21.4	\$ (2,507.4 )	\$(1,298.9)
Cumulative effect adjustments, net of tax:				
Adoption of ASU 2014-09 (See Note 1)	—	—	35.3	35.3
Adoption of ASU 2017-12 (See Note 1)	—	1.7	(1.7 )	—
Net loss	—	—	(214.2 )	(214.2 )
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	5.0	—	5.0
Amortization of unrealized losses on de-designated interest rate swaps	—	1.2	—	1.2
Change in designated interest rate swaps	—	14.7	—	14.7
Comprehensive income (loss)	—	20.9	(214.2 )	(193.3 )
Share-based compensation	7.4	—	—	7.4
Contributions from Windstream Holdings, Inc.:				
Stock issued under equity distribution agreement	11.1	—	—	11.1
Stock issued for pension contribution	5.8	—	—	5.8
Stock contribution to employee savings plan	28.3	—	—	28.3
Taxes withheld on vested restricted stock and other	(1.3 )	—	—	(1.3 )
Distributions payable to Windstream Holdings, Inc.	(0.9 )	—	—	(0.9 )
Balance at June 30, 2018	\$ 1,237.5	\$ 44.0	\$ (2,688.0 )	\$(1,406.5)

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

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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 incorporated in the state of Delaware on May 23, 2013, and the parent of Windstream Services, LLC (“Windstream Services”), a Delaware limited liability company organized on March 1, 2004. Windstream Holdings common stock trades on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Windstream Holdings owns a 100 percent interest in Windstream Services. 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.

**Description of Business** – We are a leading provider of advanced network communications and technology solutions for businesses across the U.S. We also offer broadband, entertainment and security solutions to consumers and small businesses primarily in rural areas in 18 states. Additionally, we supply core transport solutions on a local and long-haul fiber network spanning approximately 150,000 miles.

Consumer service revenues are generated from the provisioning of high-speed Internet, voice and video services to consumers. Enterprise service revenues include revenues from integrated voice and data services, advanced data and traditional voice and long-distance services provided to enterprise, mid-market and small business customers. Wholesale revenues include revenues from other communications services providers for special access circuits and fiber connections, voice and data transport services, and revenues from the reselling of our services. Service revenues also include switched access revenues, federal and state Universal Service Fund (“USF”) revenues, amounts received from Connect America Fund - Phase II, USF surcharges and revenues from providing other miscellaneous services.

**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, 2017, 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 statement of results of operations and financial condition for the interim periods presented 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, 2017, which was filed with the SEC on February 28, 2018.

On May 23, 2018, we amended our certificate of incorporation to decrease the number of authorized shares of our common and preferred stock from 375.0 million to 75.0 million and from 33.3 million to 6.7 million, respectively, and enacted a one-for-five reverse stock split with respect to all of our outstanding shares of common stock which became effective on May 25, 2018. All per share data of Windstream Holdings presented herein has been retrospectively adjusted to reflect the decrease in authorized shares and the reverse stock split, as appropriate.

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.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

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.

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

Recently Adopted Accounting Standards

Revenue Recognition – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) as modified by subsequently issued ASU Nos. 2015-14, 2016-08, 2016-10, 2016-11, 2016-12 and 2016-20 (collectively “ASU 2014-09”). 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 provided new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs.

On January 1, 2018, we adopted ASU 2014-09 using the modified retrospective transition method applied to those contracts which were not complete as of January 1, 2018. Under the modified retrospective transition method, we recognized the cumulative effect of initial adoption as an adjustment to our opening accumulated deficit balance. Comparative information for prior periods has not been restated and continues to be reported under the accounting standards in effect for those periods.

Under the new revenue recognition guidance, a substantial portion of our service revenues continue to be recognized when services are provided. Changes to the timing of recognition of certain installation services, discounts and promotional credits given to customers under the new guidance resulted in the recognition of incremental contract assets and liabilities in our consolidated balance sheet at the date of adoption. In addition, the new requirement to defer incremental contract acquisition and fulfillment costs, including sales commissions and installation costs, and recognize such costs over the period where control of goods and services are transferred resulted in the recognition of additional deferred contract costs in our consolidated balance sheet at the date of adoption. We evaluated the effect of the time value of money and determined it to be immaterial.

The following table presents the cumulative effect of the changes made to our consolidated balance sheet at December 31, 2017:

(Millions)	December 31, 2017	ASU 2014-09 Adjustments	January 1, 2018
<b>Assets</b>			
Accounts receivable	\$643.0	\$ —	\$643.0
Prepaid expenses and other	\$154.3	\$ 26.0	\$180.3
Other assets	\$91.2	\$ 20.9	\$112.1
Deferred income taxes	\$370.8	\$ (12.0 )	\$358.8
<b>Liabilities</b>			
Advance payments and customer deposits	\$207.3	\$ (0.5 )	\$206.8
Other current liabilities	\$342.1	\$ (0.3 )	\$341.8
Other liabilities	\$521.9	\$ 0.4	\$522.3
Accumulated deficit	\$(2,512.2)	\$ 35.3	\$(2,476.9)

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The impact of adoption of ASU 2014-09 on our 2018 consolidated statements of operations and consolidated balance sheet are as follows:

(Millions)	Three Months Ended June 30, 2018		
	Under ASC 605	Effect of Adoption of ASU 2014-09	As reported
Revenue and sales			
Service revenues	\$1,424.5	\$ 0.1	\$1,424.6
Product sales	\$19.8	\$ —	\$19.8
Costs and expenses			
Cost of services	\$722.9	\$ (0.1 )	\$722.8
Selling, general and administrative	\$225.5	\$ (1.0 )	\$224.5
Income tax benefit	\$(30.7 )	\$ 0.3	\$(30.4 )
Net loss	\$(94.6 )	\$ 0.9	\$(93.7 )
	Six Months Ended June 30, 2018		
(Millions)	Under ASC 605	Effect of Adoption of ASU 2014-09	As reported
Revenue and sales			
Service revenues	\$2,858.9	\$ 1.1	\$2,860.0
Product sales	\$38.7	\$ —	\$38.7
Costs and expenses			
Cost of services	\$1,459.3	\$ 0.4	\$1,459.7
Selling, general and administrative	\$453.7	\$ (0.4 )	\$453.3
Income tax benefit	\$(65.7 )	\$ 0.3	\$(65.4 )
Net loss	\$(215.9 )	\$ 0.8	\$(215.1 )
	June 30, 2018		
(Millions)	Under ASC 605	Effect of Adoption of ASU 2014-09	As reported
Assets			
Accounts receivable	\$623.9	\$ —	\$623.9
Prepaid expenses and other	\$149.4	\$ 31.6	\$181.0
Other assets	\$92.3	\$ 16.2	\$108.5
Deferred income taxes	\$428.5	\$ (12.3 )	\$416.2
Liabilities			
Advance payments and customer deposits	\$200.3	\$ (0.6 )	\$199.7

Other current liabilities	\$278.8	\$ 0.1	\$278.9
Other liabilities	\$496.5	\$ (0.1 )	\$496.4
Accumulated deficit	\$(2,729.8)	\$ 36.1	\$(2,693.7)

The new revenue recognition standard also requires additional disclosures related to performance obligations; contract asset and liability balances; deferred commissions and costs to fulfill; disaggregation of revenue and use of practical expedients in applying the new guidance. See Note 2 for these additional disclosures.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). This standard provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows, including among others, debt prepayment and extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and distributions received from equity method investees. The standard also clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use of the underlying cash flows. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. We adopted this standard effective January 1, 2018. The effect of the retrospective adoption of this standard was to change previously reported amounts within the accompanying consolidated statement of cash flows for the six-month period ended June 30, 2017 due to reclassifying \$21.2 million of debt prepayment penalties and fees paid to lenders in conjunction with the early termination of long-term debt obligations from operating activities to financing activities. Other than this change in classification of debt prepayment penalties and fees, adoption of this standard did not have an impact on our consolidated statement of cash flows.

The following table presents the effect of the changes made to our consolidated statement of cash flows for the six-month period ended June 30, 2017:

(Millions)	As Previously Reported	Reclassification Adjustments	As Revised
Cash Flows from Operating Activities:			
Adjustments to reconcile net loss to net cash provided from operations:			
Noncash portion of net (gain) loss on early extinguishment of debt	\$(15.1 )	\$ 15.1	\$—
Net loss on early extinguishment of debt	\$—	\$ 3.2	\$3.2
Changes in operating assets and liabilities, net:			
Other, net	\$(31.9 )	\$ 2.9	\$(29.0 )
Net cash provided from operating activities	\$353.7	\$ 21.2	\$374.9
Cash Flows from Financing Activities:			
Repayments of debt and swaps	\$(1,261.0 )	\$ (21.2 )	\$(1,282.2)
Net cash provided from financing activities	\$126.5	\$ (21.2 )	\$105.3

Definition of a Business – In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business (“ASU 2017-01”). The standard clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under the new guidance an integrated set of activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business. ASU 2017-01 provides a framework to assist entities in evaluating whether both an input and a substantive process are present and removes the evaluation of whether a market participant could replace missing elements. Although outputs are not required for an integrated set of activities to be a business, outputs generally are a key element of a business; therefore, the new guidance provides more stringent criteria for an integrated sets of activities without outputs. Furthermore, ASU 2017-01 narrows the definition of the term output so that it is consistent with how outputs are described in Topic 606. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We adopted this standard effective January 1, 2018. Following adoption, we expect fewer transactions will be accounted for as acquisitions or disposals of businesses.





## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Presentation of Defined Benefit Retirement Costs – In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). This standard changes the income statement presentation of defined benefit plan expense by requiring separation between operating expense (service cost component) and non-operating expense (all other components, including interest cost, amortization of prior service cost, actuarial gains and losses, curtailments and settlements). The operating expense component will be reported in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period while the non-operating components will be reported in other income and expense. In addition, only the service cost component will be eligible for capitalization as part of an asset such as inventory or property, plant and equipment. Retrospective application of the change in income statement presentation is required, while the change in capitalized benefit cost is to be applied prospectively. The ASU is effective for fiscal years beginning after December 15, 2017. We adopted this standard effective January 1, 2018. The effect of the retrospective adoption of this standard was to change previously reported amounts within the accompanying consolidated statement of operations for the three and six month periods ended June 30, 2017, respectively, for operating income and other income, net, resulting in decreases in operating income from \$106.8 million to \$102.5 million and from \$152.8 million to \$146.6 million, respectively, with corresponding increases to other (expense) income, net from \$(0.1) million to \$4.2 million and \$0.6 million to \$6.8 million, respectively. There was no change to our reported net loss for the three and six month periods ended June 30, 2017. The impact of only capitalizing service cost on a prospective basis was immaterial to our consolidated financial statements as of and for the three and six month periods ended June 30, 2018.

Hedging Activities – In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities. This standard modifies hedge accounting to allow more hedging strategies to qualify for hedge accounting, amends presentation and disclosure requirements, and changes how entities assess effectiveness of their hedging transactions. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. As permitted, we early adopted this standard effective January 1, 2018. Upon adoption, we recognized a cumulative effect adjustment of \$(1.7) million, net of tax, to the opening balance of our accumulated deficit with an offsetting increase to accumulated comprehensive income. Comparative prior-period information has not been restated. See Note 6 for additional information regarding our hedging activities and derivative financial instruments.

## Recently Issued Authoritative Guidance

Leases – In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require that virtually all lease arrangements that do not meet the criteria of a short-term lease be presented on the lessee’s balance sheet by recording a right-of-use asset and a lease liability equal to the present value of the related future lease payments. The income statement impacts of the leases will depend on the nature of the leasing arrangement and will be similar to existing accounting for operating and capital leases. The new standard does not substantially change the accounting for lessors. The new standard will also require additional disclosures regarding an entity’s leasing arrangements and will be effective for the first interim reporting period within annual periods beginning after December 15, 2018, although early adoption is permitted. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. We will adopt ASU 2016-02 effective January 1, 2019. Our existing operating lease portfolio primarily consists of network, real estate and equipment leases. Upon adoption of this standard, we expect to record in our consolidated balance sheet a right-of-use asset and liability related to substantially all of our operating lease arrangements. We have established a cross-functional team to determine the scope of

arrangements subject to this standard as well as to assess the impact to our systems, processes and internal controls that will be necessary to meet the standard's reporting and disclosure requirements.

Financial Instruments - Credit Losses – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). This standard introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This new standard also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019, and the guidance is to be applied using a modified retrospective transition approach. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2018. We intend to adopt this standard update in the first quarter of 2020. We are currently assessing the impact the new standard will have on our consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Revenues:

As previously discussed in Note 1, we adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective transition method. The majority of our revenue is derived from providing access to or usage of our networks and facilities we operate.

**Performance Obligations** – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and represents the unit of account in applying the new revenue recognition guidance. A contract’s transaction price, considering discounts given for bundled purchases and promotional credits, is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have multiple performance obligations. While many contracts include one or more performance obligations, the revenue recognition pattern is generally not impacted by the allocation since the performance obligations are generally satisfied over the same period of time. For contracts with multiple performance obligations, we allocate the contract’s transaction price to each performance obligation based on the relative standalone selling price of each performance obligation in the contract. The standalone selling price is the estimated price we would charge for the good or service in a separate transaction with similar customers in similar circumstances. Identifying distinct performance obligations and determining the standalone selling price for each performance obligation within a contract with multiple performance obligations requires significant management judgment.

Our performance obligations are satisfied over time as services are rendered or at a point in time depending on our evaluation of when the customer obtains control of the promised goods. Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally, this occurs when services are rendered or control of our communication products is transferred. Service revenues are recognized over the period that the corresponding services are rendered to customers. Revenues that are billed in advance include monthly recurring network access and data services, special access and monthly recurring voice, Internet and other related charges. Revenues derived from other telecommunications services, including interconnection, long-distance and enhanced service revenues are recognized monthly as services are provided. Telecommunications network maintenance revenue from infeasible rights to use fiber optic network facility arrangements (“IRUs”) are generally recognized over the term of the related contract. Sales of communications products including customer premise equipment and modems are recognized when products are delivered to and accepted by customers.

In determining whether installation is a separate performance obligation, we evaluate, among other factors, whether other performance obligations are highly dependent upon installation requiring significant integration or customization or whether a customer can benefit from the installation with other readily available resources. In circumstances where customers can benefit from the installation with other readily available resources, installation is a separate performance obligation. We recognize installation revenue when the installation is complete. In circumstances where other telecommunication service performance obligations are highly dependent upon installation, installation is not a separate purchase obligation, and accordingly, we include the installation fees in the transaction price allocated to and recognized with other telecommunication service performance obligations.

Fees assessed to customers for service activation are considered a material right in a month-to-month contract. These service activation fees are deferred and recognized as service revenue on a straight-line basis over the estimated life of the customer.

As a practical expedient, we group similar contracts or performance obligations together into portfolios of contracts or performance obligations for the following: service activations, installation services, certain promotional credits, commissions and other costs to fulfill a contract. Portfolios are recognized over the estimated life of the customer.

Determining the estimated life of the customer requires significant management judgment.

The estimated life of our customer relationships varies by business segment. Wholesale customer lives are estimated based on the average number of months each individual circuit was active. Enterprise and small business customer lives are based on average contract terms. Consumer lives are estimated based on average customer tenure.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Revenues, Continued:

Our contracts include discounts and promotional credits given to customers. We include discounts and promotional credits in the transaction price. These estimates are based on historical experience and anticipated performance.

In determining whether to include in revenues and expenses, the taxes and surcharges assessed and collected from customers and remitted to government authorities, including USF charges, sales, use, value added and excise taxes, we evaluate, among other factors, whether we are the primary obligor or principal tax payer for the fees and taxes assessed in each jurisdiction in which we operate. In those jurisdictions for which we are the primary obligor, we record the taxes and surcharges on a gross basis and include in revenues and costs of services and products. In jurisdictions in which we function as a collection agent for the government authority, we record the taxes on a net basis and exclude the amounts from our revenues and costs of services and products.

We offer third-party video services to our customers. The third-party service provider retains control of the service and is the primary obligor. We record commissions received on a net basis.

Accounts Receivable – Accounts receivable, principally consist of amounts billed and currently due from customers and are generally unsecured and due within 30 days. The amounts due are stated at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of historical collection experience, age of outstanding receivables, current economic conditions and a specific customer's ability to meet its financial obligations. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up our customer base. Due to varying customer monthly billing cycle cut-off, we must estimate service revenues earned but not yet billed at the end of each reporting period. Included in accounts receivable are unbilled revenues related to communication services and product sales of \$23.7 million and \$23.8 million at June 30, 2018 and December 31, 2017, respectively.

Contract Balances – Contract assets include unbilled amounts resulting when revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Contract assets principally consist of discounts and promotional credits given to customers. The current and noncurrent portion of contract assets is included in prepaid expenses and other and other assets, respectively in the accompanying consolidated balance sheets.

Our contract liabilities consist of services billed in excess of revenue recognized. Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. We classify these amounts as current or noncurrent based on the timing of when we expect to recognize revenue.

The following table provides a rollforward of contract assets and liabilities from contracts with customers:

(Millions)	Contract Assets	Contract Liabilities
Balance at January 1, 2018	\$ 13.1	(a) \$ (209.3 ) (b)
Revenue recognized included in opening contract balance	(4.8 )	183.8
Cash received, excluding amounts recognized as revenue	—	(177.1 )
Credits granted, excluding amounts recognized as revenue	4.6	—
Balance at June 30, 2018	\$ 12.9	(a) \$ (202.6 ) (b)

(a)

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Includes \$8.5 million and \$3.6 million in prepaid expense and other and \$4.4 million and \$9.5 million in other assets as of June 30, 2018 and January 1, 2018, respectively.

(b) Includes \$190.0 million and \$198.3 million in advance payments and customer deposits and \$12.6 million and \$11.0 million in other liabilities as of June 30, 2018 and January 1, 2018, respectively.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Revenues, Continued:

Remaining Performance Obligations – Our remaining performance obligations represent services we are required to provide to customers under bundled or discounted arrangements, which are satisfied as services are provided over the contract term. Certain contracts provide customers the option to purchase additional services or usage based services. The fees related to the additional services or usage based services are recognized when the customer exercises the option, typically on a month-to-month basis. In determining the transaction price allocated, we do not include these non-recurring fees and estimates for usage, nor do we consider arrangements with an original expected duration of less than one year.

Remaining performance obligations reflect recurring charges billed, adjusted for discounts and promotional credits and revenue adjustments. At June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$3.5 billion for contracts with original expected durations of more than one year remaining. We expect to recognize approximately 23.1 percent, 38.3 percent and 24.7 percent of our remaining performance obligations as revenue during the remainder of 2018, 2019 and 2020, with the remaining balance thereafter.

Revenue by Category – We disaggregate our revenue from contracts with customers by product type for each of our segments, as we believe it best depicts the nature, amount and timing of our revenue. Revenues recognized from contracts with customers by customer and product type for the three-month period ended June 30, 2018 was as follows:

(Millions)	Consumer & Small Business	Enterprise	Wholesale	Consumer CLEC	Total
Revenue from contracts with customers:					
Type of service:					
High-speed Internet bundles	\$ 242.4	\$ —	\$ —	\$ 23.2	\$265.6
Voice and long-distance	30.7	240.2	—	—	270.9
Video and miscellaneous	11.3	—	—	—	11.3
Dial-up, e-mail and miscellaneous	—	—	—	22.5	22.5
Data and integrated services	—	388.4	—	—	388.4
Small business services	75.9	—	—	—	75.9
Core wholesale (a)	—	—	139.1	—	139.1
Resale (b)	—	—	20.1	—	20.1
Wireless TDM (c)	—	—	2.4	—	2.4
Switched access	7.0	—	9.4	—	16.4
Miscellaneous	—	38.8	—	—	38.8
Service revenues from contracts with customers	367.3	667.4	171.0	45.7	1,251.4
Product sales	6.6	13.0	0.1	0.1	19.8
Total revenue from contracts with customers	373.9	680.4	171.1	45.8	1,271.2
Other service revenues (d)	98.6	62.7	11.3	0.6	173.2
Total revenues and sales	\$ 472.5	\$ 743.1	\$ 182.4	\$ 46.4	\$1,444.4





## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Revenues, Continued:

Revenues recognized from contracts with customers by customer and product type for the six-month period ended June 30, 2018 was as follows:

(Millions)	Consumer & Small Business	Enterprise	Wholesale	Consumer CLEC	Total
Revenue from contracts with customers:					
Type of service:					
High-speed Internet bundles	\$ 486.0	\$ —	\$ —	\$ 47.6	\$533.6
Voice and long-distance	62.1	483.0	—	—	545.1
Video and miscellaneous	22.7	—	—	—	22.7
Dial-up, e-mail and miscellaneous	—	—	—	45.3	45.3
Data and integrated services	—	776.1	—	—	776.1
Small business services	154.0	—	—	—	154.0
Core wholesale (a)	—	—	278.6	—	278.6
Resale (b)	—	—	41.4	—	41.4
Wireless TDM (c)	—	—	5.1	—	5.1
Switched access	15.1	—	18.8	—	33.9
Miscellaneous	—	77.7	—	—	77.7
Service revenues from contracts with customers	739.9	1,336.8	343.9	92.9	2,513.5
Product sales	12.1	26.2	0.2	0.2	38.7
Total revenue from contracts with customers	752.0	1,363.0	344.1	93.1	2,552.2
Other service revenues (d)	197.0	126.2	22.1	1.2	346.5
Total revenues and sales	\$ 949.0	\$ 1,489.2	\$ 366.2	\$ 94.3	\$ 2,898.7

(a) Core wholesale revenues primarily include revenues from providing special access circuits, fiber connections, data transport and wireless backhaul services.

(b) Revenues represent voice and data services sold to other communications services providers on a resale basis.

(c) Revenues represent Time Division Multiplexing (“TDM”) private line transport services.

(d) Other service revenues primarily include end user surcharges, Connect America Fund Phase II funding, state USF and access recovery mechanism (“ARM”) support and lease revenue.

Deferred Commissions and Other Costs to Fulfill a Contract – Our direct incremental costs of obtaining a contract, consisting of sales commissions, and certain costs associated with activating services, including costs to develop customized solutions and provision services, are deferred and recognized as an operating expense using a portfolio approach over the estimated life of the customer, which ranges from 18 to 36 months.

Determining the amount of costs to fulfill requires judgment. In determining costs to fulfill consideration is given to periodic time studies, management estimates and statistics from internal information systems.

Collectively, deferred commissions and other costs to fulfill a contract are referred to as deferred contract costs. We classify deferred contract costs as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred contract costs are included in prepaid expenses and other and other assets in our consolidated balance sheets. Deferred contract costs totaled \$44.7 million at June 30, 2018, of which \$30.6 million and \$14.1 million was included in prepaid expenses and other and other assets, respectively. At January 1, 2018, deferred contract costs were \$44.6 million, of which \$30.3 million and \$14.3 million was included in prepaid expenses and other and other assets, respectively. Amortization of deferred contract costs was \$21.3 million for the six-month period ended June 30, 2018. There was no impairment loss recognized for the six-month period ended June 30, 2018, related to deferred contract cost.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Acquisitions:

## MASS Communications

On March 27, 2018, Windstream Holdings acquired MASS Communications (“MASS”), a privately held telecommunications network management company focused on providing custom engineered voice, data and networking solutions to small and mid-sized global enterprises in the financial, legal, healthcare, technology, education and government sectors for initial cash consideration of approximately \$37.6 million, including \$2.5 million of expected earn-out payments, which have been funded into an escrow account. The acquisition was accounted using the acquisition method and accordingly, the cost of the acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. In allocating the purchase price, we recorded approximately \$2.0 million of tangible assets, consisting primarily of accounts receivable, \$10.0 million associated with a customer list intangible asset, \$4.1 million of trade accounts payable and other current liabilities, \$2.5 million of deferred income tax liabilities, and \$32.2 million of goodwill. The purchase price allocation is preliminary and subject to change based on receipt of information currently not available to us, including the tax basis of the assets acquired. Any changes to the initial estimates of the fair value of the acquired assets and liabilities assumed will be recorded as adjustments to those asset and liabilities with the offset charged to goodwill. Goodwill associated with this acquisition was primarily attributable to the MASS workforce and expected synergies. None of the goodwill recorded in this acquisition is expected to be deductible for income tax purposes. The results of MASS’ operations were not material to our consolidated results of operations, and accordingly, no pro forma financial information has been presented.

## Broadview Network Holdings, Inc.

On July 28, 2017, Windstream Holdings completed its merger with Broadview Networks Holdings, Inc. (“Broadview”), pursuant to the terms of the Agreement and Plan of Merger (the “Broadview Merger Agreement”) dated April 12, 2017, whereby Broadview merged into Beethoven Merger Subsidiary, Inc., with Broadview surviving as an indirect wholly owned subsidiary of Windstream Holdings, and changing its name to Windstream BV Holdings, Inc. Broadview is a leading provider of cloud-based unified communications solutions to small and medium-sized businesses and offers a broad suite of cloud-based services, which will improve our competitiveness and ability to provide enhanced services to business customers. Upon completion of the merger, Windstream added approximately 20,000 small and medium-sized business customers and approximately 3,000 incremental route fiber miles. Pursuant to the terms of the Broadview Merger Agreement, each share of Broadview’s common stock, par value \$.01 per share that was issued and outstanding immediately prior to the effective time of the merger was automatically converted into the right to receive cash consideration of \$6.98 per share. In completing the merger, Windstream Services paid \$69.8 million in cash to Broadview shareholders and assumed \$160.2 million of Broadview’s short-term debt obligations, which Windstream Services subsequently repaid using amounts available under its senior secured revolving credit facility. The transaction is valued at approximately \$230.0 million.

We accounted for the merger using the acquisition method of accounting and accordingly, the cost of the acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the merger date. During 2018, we finalized our preliminary purchase price allocation for changes in the estimated fair value of certain acquired assets, resulting from new information about facts and circumstances that existed at the time of acquisition. The adjustments primarily consisted of an increase of \$4.2 million in property, plant and equipment, reflecting updates to replacement cost information applicable to the valuation of these assets. The impact of this change on depreciation expense was not material to our consolidated results of operations. We also adjusted deferred income tax assets based on receipt of the final tax basis of assets acquired and adjusted certain state gross receipts and sales tax liabilities based on additional information received subsequent to the acquisition date, resulting in increases in deferred income

tax assets of \$1.4 million and other current liabilities of \$4.7 million. The adjustments to the estimated fair values of assets acquired and liabilities assumed resulted in an offsetting decrease to goodwill of \$0.7 million.

Goodwill associated with this acquisition was primarily attributable to the Broadview workforce and expected synergies. As a result of past acquisitions completed by Broadview, approximately \$10.8 million of goodwill recorded in the merger is expected to be deductible for income tax purposes.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Acquisitions, Continued:

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed for Broadview.

(Millions)	Allocation as of December 31, 2017	Adjustments	Final Allocation
Fair value of assets acquired:			
Accounts receivable	\$ 17.4	\$ 0.2	\$ 17.6
Other current assets	7.1	(0.3 )	6.8
Property, plant and equipment	37.1	4.2	41.3
Goodwill	121.3	(0.7 )	120.6
Customer lists (a)	45.0	—	45.0
Trade names (b)	21.0	—	21.0
Developed technology (c)	10.0	—	10.0
Deferred income taxes	9.7	1.4	11.1
Other assets	2.6	(0.1 )	2.5
Total assets acquired	271.2	4.7	275.9
Fair value of liabilities assumed:			
Short-term debt obligations	160.2	—	160.2
Other current liabilities	46.9	4.7	51.6
Other liabilities	0.8	—	0.8
Total liabilities assumed	207.9	4.7	212.6
Cash paid, net of cash acquired	\$ 63.3	\$ —	\$ 63.3

(a) Customer lists are amortized using the sum-of-years digits methodology over a weighted average life of 10 years.

(b) Trade names are amortized on a straight-line basis over an estimated useful life of 1 and 10 years.

(c) Internally developed technology is amortized on a straight-line basis over an estimated useful life of 5 years.

The fair values of the assets acquired and liabilities assumed were determined utilizing income, cost and market approaches with the assistance of a third-party valuation firm. The customer list was valued based on the present value of future cash flows and the trade names and developed technology were valued using the relief-from-royalty method, both of which are income approaches. Significant assumptions utilized in these income approaches were based on our specific information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used as appropriate for valuing property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation. The fair value of Broadview's short-term debt obligations, consisting of a revolving credit facility and 10.5 percent senior notes due November 15, 2017 ("Broadview 2017 Notes"), were based on redemption cost and quoted market prices, respectively.

The results of Broadview's operations are included in our consolidated results of operations beginning on July 28, 2017. For the three and six month periods ended June 30, 2018 our consolidated results of operations include revenues

and sales of \$69.4 million and \$138.8 million and operating income of \$18.7 million and \$29.4 million attributable to Broadview. We incurred \$1.5 million and \$3.4 million of merger and integration expenses during the three and six month periods ended June 30, 2018 related to the completion of this acquisition (see Note 10). Pro forma financial information for Broadview has not been presented because the effects of this acquisition were not material to our consolidated results of operations.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Acquisitions, Continued:

## EarthLink Holdings Corp.

On February 27, 2017, Windstream Holdings completed its merger with EarthLink Holdings Corp. (“EarthLink”), pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”) dated November 5, 2016, whereby EarthLink merged into Europa Merger Sub, Inc., an wholly-owned subsidiary of Windstream Services, LLC, and survived, and immediately following, merged with Europa Merger Sub, LLC, a wholly-owned subsidiary of Windstream Services, LLC, with Merger Sub surviving and changing its name to EarthLink Holdings, LLC (the “Merger”). EarthLink Holdings, LLC is a direct, wholly-owned subsidiary of Windstream Services and provides data, voice and managed network services to retail and wholesale business customers and nationwide Internet access and related value-added services to residential customers. In the Merger, we added approximately 700,000 customers and approximately 16,000 incremental route fiber miles, which expanded our national footprint to approximately 150,000 fiber route miles and enhanced our ability to offer customers expanded products, services and enhanced enterprise solutions. We also expect to achieve operating expense and capital expenditure synergies in integrating the acquired operations. Pursuant to the terms of the Merger Agreement, each share of EarthLink common stock was exchanged, on a post-reverse stock split basis, for .1636 of Windstream Holdings common stock. No fractional shares were issued in the Merger, with a cash payment being made in lieu of fractional shares. Employee restricted stock units issued by EarthLink that were outstanding as of the merger date were exchanged for an equivalent number of Windstream Holdings restricted stock units based on the same exchange ratio of EarthLink common stock to Windstream Holdings common stock. The replacement restricted stock units remain subject to the vesting and other terms and conditions prescribed by the EarthLink equity plans that were assumed by us in the Merger. In the aggregate, on a post-reverse stock split basis, Windstream Holdings issued 17.6 million shares of its common stock and 1.0 million of replacement equity awards. Windstream also assumed \$435.3 million aggregate principal amount of EarthLink’s long-term debt, which we refinanced, as further discussed in Note 5. The Merger qualifies as a tax-free reorganization for U.S. federal income tax purposes and is valued at approximately \$1.1 billion.

The results of EarthLink’s operations are included in our consolidated results of operations beginning on February 27, 2017. For the three and six month periods ended June 30, 2017, our consolidated results of operations include revenues and sales of \$225.0 million and \$307.1 million and operating income of \$6.8 million and \$4.0 million attributable to EarthLink. We incurred \$6.6 million and \$11.0 million of merger and integration expenses during the three and six month periods ended June 30, 2018, respectively, as compared to \$13.4 million and \$66.5 million for the same period in 2017 related to the completion of the Merger (see Note 10).

The following unaudited pro forma consolidated results of operations of Windstream for the three and six month periods ended June 30, 2017 assume that the Merger occurred as of January 1, 2016:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(Millions)		
Revenues and sales	\$1,491.6	\$3,006.8
Operating income	\$104.3	\$168.5
Net loss	\$(70.4 )	\$(168.1 )
Loss per share	(\$1.89 )	(\$4.57 )

The pro forma information presents our historical results of operations adjusted to include EarthLink, with the results prior to the merger closing date adjusted to include the pro forma effect of the elimination of transactions between Windstream and EarthLink, the adjustment to revenues and sales to change EarthLink's reporting of USF fees billed to customers and the related payments from a net basis to a gross basis to conform to Windstream's reporting of such customer billings, the adjustment to depreciation and amortization expense associated with the estimated acquired fair value of property, plant and equipment and intangible assets, the adjustment to interest expense to reflect the refinancing of EarthLink's long-term debt obligations, the impact of merger expenses related to the acquisition and the related income tax effects of the pro forma adjustments.

The pro forma results are presented for illustrative purposes only and do not reflect either the realization of potential cost savings or any additional integration costs. These pro forma results do not purport to be indicative of the results that would have been obtained if the Merger had occurred as of the date indicated, nor do the pro forma results intend to be a projection of results that may be obtained in the future.



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. 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 liabilities, and the excess of the total purchase price over the amounts assigned to net identifiable assets has been recorded as goodwill.

Changes in the carrying amount of goodwill were as follows:

(Millions)

Balance at December 31, 2017:	
Goodwill	\$4,683.2
Accumulated impairment loss	(1,840.8 )
Balance at December 31, 2017, net	2,842.4
Changes during the period:	
Broadview measurement period adjustments	(0.7 )
MASS acquisition	32.2
Balance at June 30, 2018:	
Goodwill	4,714.7
Accumulated impairment loss	(1,840.8 )
Balance at June 30, 2018, net	\$2,873.9

Goodwill assigned to our operating segments and changes in the carrying amount of goodwill by reportable segment were as follows:

(Millions)	Consumer & Small Business	Enterprise	Wholesale	Consumer CLEC	Total
Balance at December 31, 2017:					
Goodwill	\$2,321.2	\$ 961.8	\$ 1,297.1	\$ 103.1	\$4,683.2
Accumulated impairment loss	(1,417.8 )	—	(423.0 )	—	(1,840.8 )
Balance at December 31, 2017, net	903.4	961.8	874.1	103.1	2,842.4
Changes during the period:					
Broadview measurement period adjustments	—	(0.7 )	—	—	(0.7 )
MASS acquisition	—	32.2	—	—	32.2
Balance at June 30, 2018:					
Goodwill	2,321.2	993.3	1,297.1	103.1	4,714.7
Accumulated impairment loss	(1,417.8 )	—	(423.0 )	—	(1,840.8 )
Balance at June 30, 2018, net	\$903.4	\$ 993.3	\$ 874.1	\$ 103.1	\$2,873.9

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible assets were as follows at:

(Millions)	June 30, 2018			December 31, 2017		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	\$1,285.1	\$ (393.2 )	\$ 891.9	\$1,285.1	\$ (371.8 )	\$ 913.3
Customer lists	2,114.6	(1,711.5 )	403.1	2,104.6	(1,626.6 )	478.0
Cable franchise rights	17.3	(9.7 )	7.6	17.3	(9.1 )	8.2
Trade names	29.0	(4.3 )	24.7	29.0	(2.2 )	26.8
Developed technology and software	33.0	(12.0 )	21.0	33.0	(7.1 )	25.9
Patents	10.7	(9.6 )	1.1	10.6	(8.4 )	2.2
Balance	\$3,489.7	\$ (2,140.3 )	\$ 1,349.4	\$3,479.6	\$ (2,025.2 )	\$ 1,454.4

Intangible asset amortization methodology and useful lives were as follows as of June 30, 2018:

Intangible Assets	Amortization Methodology	Estimated Useful Life
Franchise rights	straight-line	30 years
Customer lists	sum of years digits	5.5 - 15 years
Cable franchise rights	straight-line	15 years
Trade names	straight-line	1-10 years
Developed technology and software	straight-line	3-5 years
Patents	straight-line	3 years

Amortization expense for intangible assets subject to amortization was \$56.6 million and \$115.1 million for the three and six month periods ended June 30, 2018, respectively, as compared to \$63.9 million and \$112.7 million for the same periods in 2017. Amortization expense for intangible assets subject to amortization was estimated to be as follows for each of the five years ended December 31:

Year (Millions)
2018\$ 225.1
2019\$ 181.8
2020\$ 140.6
2021\$ 105.0
2022\$ 73.2

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt:

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, 2018	December 31, 2017
Issued by Windstream Services:		
Senior secured credit facility, Tranche B6 – variable rates, due March 29, 2021 (a)	\$1,186.6	\$ 1,192.6
Senior secured credit facility, Tranche B7 – variable rates, due February 17, 2024	571.3	574.2
Senior secured credit facility, Revolving line of credit – variable rates, due April 24, 2020	975.0	775.0
Senior First Lien Notes – 8.625%, due October 31, 2025 (b) (d)	600.0	600.0
Debentures and notes, without collateral:		
2020 Notes – 7.750%, due October 15, 2020 (d)	492.9	492.9
2021 Notes – 7.750%, due October 1, 2021 (d)	88.9	88.9
2022 Notes – 7.500%, due June 1, 2022 (d)	41.6	41.6
2023 Notes – 7.500%, due April 1, 2023 (d)	120.4	120.4
2023 Notes – 6.375%, due August 1, 2023 (d)	1,147.6	1,147.6
2024 Notes – 8.750%, due December 15, 2024 (d)	684.3	834.3
Issued by subsidiaries of Windstream Services:		
Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028 (c) (d)	100.0	100.0
Net discount on long-term debt (e)	(57.5 )	(61.6 )
Unamortized debt issuance costs (e)	(65.3 )	(62.0 )
	5,885.8	5,843.9
Less current maturities	(17.9 )	(169.3 )
Total long-term debt	\$5,867.9	\$ 5,674.6

If the maturity of the revolving line of credit is not extended prior to April 24, 2020, the maturity date of the Tranche B6 term loan will be April 24, 2020; provided further, if the 2020 Notes have not been repaid or refinanced prior to July 15, 2020 with indebtedness having a maturity date no earlier than March 29, 2021, the maturity date of the Tranche B6 term loan will be July 15, 2020.

(b) The notes are guaranteed by each of our domestic subsidiaries that guarantees debt under Windstream Services' senior secured credit facility. The notes and the guarantees are secured by a first priority lien on Windstream Services' and the guarantors' assets that secure the obligations under the senior secured credit facility.

(c) These bonds are secured equally with the senior secured credit facility with respect to the assets of Windstream Holdings of the Midwest, Inc.

(d) Windstream Services may call the remaining aggregate principal amounts of these debentures and notes at various premiums upon early redemption.

(e)

The net discount balance and unamortized debt issuance costs are amortized using the interest method over the life of the related debt instrument.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt, Continued:

Senior Secured Credit Facility - The amended credit facility provides that Windstream Services may seek to obtain incremental revolving or term loans in an unlimited amount subject to maintaining a maximum secured leverage ratio and other customary conditions, including obtaining commitments and pro forma compliance with financial maintenance covenants consisting of a maximum debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio and a minimum interest coverage ratio. In addition, Windstream Services may request extensions of the maturity date under any of its existing revolving or term loan facilities. On February 17, 2017, Windstream Services issued an aggregate principal amount of \$580.0 million in borrowings under Tranche B7 of its senior secured credit facility, the proceeds of which were used to pay down amounts outstanding under Tranche B5, including accrued interest, and to pay related fees and expenses. The incremental Tranche B7 term loan matures on February 17, 2024 and was issued at a price of 99.5 percent of the principal amount of the loan.

Interest rates applicable to the Tranche B7 term loan are, at Windstream Services’ option, equal to either a base rate plus a margin of 2.25 percent per annum or LIBOR plus a margin of 3.25 percent per annum. LIBOR for the Tranche B7 term loan shall at no time be less than 0.75 percent. The Tranche B7 term loan is subject to quarterly amortization payments in an aggregate amount equal to 0.25 percent of the initial principal amount of such term loans, with the remaining balance payable at maturity. At the time of repayment, unamortized debt issuance and discount related to Tranche B5 totaled \$6.3 million, of which \$1.2 million were included in the loss on debt extinguishment, while the remaining \$5.1 million continue to be deferred and amortized to interest expense over the remaining life of Tranche B7 in accordance with debt modification accounting. On the date of closing of the merger with EarthLink, Windstream Services amended its existing senior secured credit agreement to provide for the issuance of an aggregate principal amount of \$450.0 million in incremental borrowings under Tranche B6, the proceeds of which were used to repay amounts outstanding under EarthLink’s credit facility and to redeem EarthLink’s outstanding 8.875 percent Senior Notes due 2019 and 7.375 percent Senior Secured Notes due 2020. The incremental loans were issued at a price of 99.0 percent of the principal amount of the loan. The incremental loans are repayable at any time.

Revolving line of credit - Under the amended senior secured credit facility, Windstream Services may obtain revolving loans and may issue up to \$50.0 million of letters of credit, which upon issuance reduce the amount available for other extensions 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. Borrowings under the revolving line of credit may be used for permitted acquisitions, working capital and other general corporate purposes of Windstream Services and its subsidiaries. Windstream Services will pay a commitment fee on the unused portion of the commitments under the revolving credit facility that will range from 0.40 percent to 0.50 percent per annum, depending on the debt to consolidated EBITDA ratio of Windstream Services and its subsidiaries. Revolving loans made under the credit facility are not subject to interim amortization and such loans are not required to be repaid prior to April 24, 2020, other than to the extent the outstanding borrowings exceed the aggregate commitments under the revolving credit facility. Interest rates applicable to loans under the revolving line of credit are, at Windstream Services’ option, equal to either a base rate plus a margin ranging from 0.25 percent to 1.00 percent per annum or LIBOR plus a margin ranging from 1.25 percent to 2.00 percent per annum, based on the debt to consolidated EBITDA ratio of Windstream Services and its subsidiaries.

During the first six months of 2018, Windstream Services borrowed \$450.0 million under the revolving line of credit in its senior secured credit facility and retired \$250.0 million of these borrowings through June 30, 2018. Borrowings under the revolving line of credit include \$150.0 million for the one-time mandatory redemption payment applicable to the 2024 Notes paid on February 26, 2018. Considering letters of credit of \$23.4 million, the amount available for borrowing under the revolving line of credit was \$251.6 million at June 30, 2018.

During the first six months of 2018, the variable interest rate on the revolving line of credit ranged from 3.70 percent to 6.00 percent, and the weighted average rate on amounts outstanding was 3.94 percent during the period. Comparatively, the variable interest rate ranged from 2.65 percent to 5.25 percent during the first six months of 2017, with a weighted average rate on amounts outstanding during the period of 2.95 percent.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt, Continued:

## Consent Solicitation and Amendments to 2025 Notes and Senior Secured Credit Facility

During the second quarter of 2018, Windstream Services and Windstream Finance Corp. (together the “issuers”) received the requisite consents to amend the indenture governing the 8.625 percent senior first lien notes due October 31, 2025 (“2025 Notes”). Holders of the 2025 Notes who validly delivered (and did not validly revoke) consents to the amendments to the indenture received a one-time consent payment equal to \$2.50 per \$1,000 principal amount of 2025 Notes provided that such consent was received prior to the expiration of the consent solicitation on June 6, 2018. The purpose of the consent solicitation was (i) to permit the issuers and guarantors under the indenture to issue or incur indebtedness on a junior lien basis (which indebtedness is currently permitted by the indenture to be incurred on a first-priority lien basis) and (ii) to authorize the collateral agent under the indenture to enter into a junior lien intercreditor agreement upon the issuance or incurrence of junior lien secured indebtedness by the issuers and the guarantors under the indenture. In conjunction with receiving the requisite consents, the amendments to the indenture became effective and operative. All holders of the 2025 Notes are bound by the terms thereof, even if they did not deliver consents to the amendments. Except for the amendments, all existing terms of the 2025 Notes and the Indenture remain unchanged.

Concurrent with the consent solicitation, Windstream Services also sought and obtained an amendment to its senior secured credit facility to, among other things, (i) permit the issuance or incurrence of second-priority lien secured indebtedness, (ii) allow Windstream Services to use the proceeds from the issuance or incurrence of such second-priority lien secured indebtedness and other secured indebtedness to repay certain of its outstanding secured and unsecured indebtedness, (iii) permit the execution of a first-lien/second-lien intercreditor agreement, (iv) allow for the incurrence of first-priority lien secured indebtedness if the proceeds of such indebtedness are used to prepay or repay revolving loans or term loans under the senior secured credit facility (and, for revolving loans, permanently reduce the commitments), even if Windstream Services does not meet the typical test of having a pro forma first lien leverage ratio of not more than 2.25 to 1.0, and (v) limit the ability of Windstream Services to declare and pay dividends in some respects.

In completing the consent solicitation and amendments, Windstream Services incurred \$11.5 million in fees, consisting of \$8.8 million in consent fees payable to lenders and \$2.7 million in arrangement, legal and other third-party fees. In accordance with debt modification accounting, the \$2.7 million in arrangement, legal and other third-party fees were expensed as additional interest expense and the \$8.8 million in consent fees were capitalized as debt issuance costs and amortized over the respective terms of the 2025 Notes and senior secured credit facility.

## Net Loss on Early Extinguishment of Debt

The net loss on early extinguishment of debt was as follows for the six months ended June 30, 2017:

(Millions)

EarthLink 2019 and 2020 Notes:

Premium on early redemption	\$(18.3)
Unamortized premium recorded in the Merger	16.3
Loss on early extinguishment of EarthLink 2019 and 2020 Notes	(2.0 )
Senior secured credit facility:	
Unamortized discount on original issuance	(0.3 )
Unamortized debt issuance costs on original issuance	(0.9 )
Loss on early extinguishment of senior secured credit facility	(1.2 )

Net loss on early extinguishment of debt	\$(3.2 )
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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt, Continued:

Maturities for long-term debt outstanding as of June 30, 2018, excluding \$57.5 million of unamortized net discount and \$65.3 million of unamortized debt issuance costs, were as follows:

Twelve-month period ended: (Millions)

June 30, 2019	\$ 17.9
June 30, 2020	992.9
June 30, 2021	1,661.2
June 30, 2022	136.3
June 30, 2023	126.1
Thereafter	3,074.2
Total	\$ 6,008.6

## Interest Expense

Interest expense was as follows:

(Millions)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Interest expense - long-term debt	\$ 105.7	\$ 88.4	\$ 207.6	\$ 174.3
Interest expense - long-term lease obligations:				
Telecommunications network assets	117.4	121.7	235.9	244.5
Real estate contributed to pension plan	1.6	1.6	3.1	3.1
Impact of interest rate swaps	(0.6 )	3.2	—	6.0
Interest on capital leases and other	1.0	1.3	2.5	2.4
Less capitalized interest expense	(0.7 )	(1.8 )	(1.6 )	(4.1 )
Total interest expense	\$ 224.4	\$ 214.4	\$ 447.5	\$ 426.2

## 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, including restricted payments to Windstream Holdings by Windstream Services. As of June 30, 2018, 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. The 2024 Notes include certain provisions that prohibit Windstream Services' ability to issue restricted payments to Windstream Holdings, if its consolidated leverage ratio, as defined in the 2024 Notes, exceeds 3.50 to 1.0, except for purposes of allowing restricted payments to Windstream Holdings for the purposes of making rent payments under the master lease with Uniti and to pay certain administrative expenses. 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 ownership interest in Windstream Services subject to meeting additional conditions, 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, 2018.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt, Continued:

As further discussed in Note 15, on September 22, 2017, Windstream Services received a purported notice of default dated September 21, 2017 (the “Original Notice”) from a noteholder that claims to hold greater than 25 percent in aggregate principal amount of the 6.375 percent 2023 Notes issued under the indenture dated January 23, 2013 (as amended and supplemented, the “2013 Indenture”), between Windstream Services, as issuer, Windstream Finance Corp., as co-issuer, the guarantors party thereto and U.S. Bank National Association, as trustee (the “Trustee”). The Original Notice alleged that the transfer of certain assets and the subsequent lease of those assets in connection with the spin-off of Uniti in April 2015 constituted a “sale and leaseback transaction” (as defined in the 2013 Indenture) which did not comply with the Sale and Leaseback covenant under the 2013 Indenture. The Original Notice further alleged that Windstream Services violated the restricted payment covenant under the 2013 Indenture by not delivering an officers’ certificate as required by the 2013 Indenture and that it made a restricted payment in reliance on the restricted payment builder basket during the pendency of an alleged default which is prohibited by the 2013 Indenture.

On November 6, 2017, Windstream Services completed an exchange of certain of its existing senior notes for additional 6.375 percent 2023 Notes and received consents from holders representing a majority of the outstanding aggregate principal amount of the 6.375 percent 2023 Notes to certain waivers and amendments relating to the defaults alleged in the Original Notice (the “Exchange and Consent Transactions”). On November 6, 2017, Windstream Services, the co-issuer, the guarantors party thereto and the Trustee executed a supplemental indenture to the 2013 Indenture giving effect to such waivers and amendments.

Additionally during the fourth quarter of 2017, Windstream Services completed consent solicitations with respect to its 2020 Notes, 2021 Notes, 2022 Notes, April 2023 Notes and the existing 6.375 percent 2023 Notes (collectively “the Windstream Services Notes”), pursuant to which noteholders agreed to waive alleged defaults with respect to the transactions related to the spin-off of Uniti and amend the indentures governing the Windstream Services Notes to give effect to such waivers and amendments. Windstream Services received such consents from the holders representing a majority of the outstanding aggregate principal amount of the Windstream Services Notes. Windstream Services, the trustee under the indentures governing the Windstream Services Notes and the other parties to such indentures executed supplemental indentures giving effect to the waivers and amendments pursuant to the consent solicitation. The waivers and amendments are now effective and operative and, as such, are binding on all holders of the Windstream Services Notes. Consent delivered pursuant to the consent solicitations may not be revoked. As a result of the debt exchanges and the consent transactions, Windstream Services has been, and remains, in compliance with all of the covenants under the 2013 Indenture.

## 6. Derivatives:

Windstream Services enters into interest rate swap agreements to mitigate the interest rate risk inherent in its variable rate senior secured credit facility. Derivative instruments are accounted for in accordance with authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on whether the derivative has been designated as, qualifies as and is effective as a hedge.

Windstream Services does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges. For our derivatives which have been designated and qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest expense in the same periods during which the hedged transaction affects

earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on Windstream Services' variable-rate debt.

Windstream Services is party to six pay fixed, receive variable interest rate swap agreements. Windstream Services has designated each of the six swaps as cash flow hedges of the interest rate risk inherent in borrowings outstanding under its senior secured credit facility due to changes in the LIBOR benchmark interest rate. The variable rate received on the six swaps is based on one-month LIBOR and resets on the seventeenth day of each month. All of the interest rate swap agreements mature on October 17, 2021. Three of the interest rate swaps are off-market swaps, meaning they contain an embedded financing element, which the swap counterparties recover through an incremental charge in the fixed rate over what would be charged for an at-market swap. As such, a portion of the cash payment on the swaps represents the rate that Windstream Services would pay on a hypothetical at-market interest rate swap and is recognized in interest expense. The remaining portion represents the repayment of the embedded financing element and reduces the initial swap liability. These three swaps have a total notional value of \$675.0 million and the average fixed interest rate paid is 2.984 percent. The fourth interest rate swap agreement has a notional value of \$200.0 million and the fixed interest rate paid is 1.1275 percent. The remaining two interest rate swap agreements have a total notional value of \$500.0 million and the fixed interest rate paid is 1.8812 percent.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 6. Derivatives, Continued:

All of the swaps are hedging probable variable cash flows which extend up to one year beyond the maturity of certain components of Windstream Services' variable rate debt. Consistent with past practice, Windstream Services expects to extend or otherwise replace these components of its debt with variable rate debt.

As a result of previous refinancing transactions, Windstream Services de-designated certain interest rate swaps and froze the accumulated net gains and losses in accumulated other comprehensive income related to those swaps. The frozen balance is amortized from accumulated other comprehensive income to interest expense over the remaining life of the original swaps.

All derivative instruments are recognized at fair value in the accompanying consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the related contracts.

Set forth below is information related to interest rate swap agreements:

(Millions, except for percentages)	June 30, December 31,	
	2018	2017
Designated portion, measured at fair value:		
Other current assets	\$4.8	\$ 1.2
Other assets	\$19.3	\$ 10.6
Other current liabilities	\$3.7	\$ 7.8
Other non-current liabilities	\$1.6	\$ 10.5
Accumulated other comprehensive income	\$55.6	\$ 33.7
De-designated portion, unamortized value:		
Accumulated other comprehensive income	\$(3.7 )	\$ (5.4 )
Weighted average fixed rate paid	0.23 %	0.82 %
Variable rate received	2.09 %	1.49 %

Prior to the adoption of ASU 2017-12, effective as of January 1, 2018, derivatives were assessed for effectiveness each quarter and any ineffectiveness was recognized in other income, net in our consolidated statements of operations. There was \$(0.1) million ineffectiveness recognized on the cash flow hedges for both the three and six month periods ended June 30, 2017.

All or a portion of the change in fair value of Windstream Services' interest rate swap agreements recorded in accumulated other comprehensive income may be recognized in earnings in certain situations. If Windstream Services extinguishes all of its variable rate debt, or a portion of its variable rate debt such that the variable rate interest received on the swaps exceeds the variable rate interest paid on its debt, all or a portion of the change in fair value of the swaps may be recognized in earnings. In addition, the change in fair value of the swaps may be recognized in earnings if Windstream Services determines it is no longer probable that it will have future variable rate cash flows to hedge against or if a swap agreement is terminated prior to maturity. Windstream Services has assessed the counterparty risk and determined that no substantial risk of default exists as of June 30, 2018. Each counterparty is a bank with a current credit rating at or above A, as determined by Moody's Investors Service, Standard & Poor's Corporation and Fitch Ratings.

Windstream Services expects to recognize net gains of \$7.7 million, net of taxes, in interest expense in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements and the interest settlements for its six interest swap agreements at June 30, 2018. Payments on the swaps are presented in the financing

activities section of the accompanying consolidated statements of cash flows due to the embedded financing element discussed above.

Changes in derivative instruments were as follows for the six month periods ended June 30:

(Millions)	2018	2017
Changes in fair value, net of tax (a)	\$14.7	\$(1.2)
Amortization of net unrealized losses on de-designated interest rate swaps, net of tax (a)	\$1.2	\$1.8

Included as a component of other comprehensive income (loss) and will be reclassified into earnings as the hedged (a) transaction affects earnings. For 2017, this amount reflects only the effective portion of the change in fair value of the cash flow hedges.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 6. Derivatives, Continued:

The agreements with each of the derivative counterparties contain cross-default provisions, whereby if Windstream Services were to default on certain indebtedness, it could also be declared in default on its derivative obligations and may be required to net settle any outstanding derivative liability positions with its counterparties at the swap termination value of \$6.0 million including accrued interest and excluding the credit valuation adjustment to measure non-performance risk. In addition, certain of the agreements with the counterparties contain provisions where if a specified event or condition, such as a merger, occurs that materially changes Windstream Services' creditworthiness in an adverse manner, Windstream Services may be required to fully collateralize its derivative obligations. At June 30, 2018, Windstream Services had not posted any collateral related to its interest rate swap agreements.

## Balance Sheet Offsetting

Windstream Services is party to master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with counterparties. For financial statement presentation purposes, Windstream Services does not offset assets and liabilities under these arrangements.

The following tables presents the assets and liabilities subject to an enforceable master netting arrangement as of June 30, 2018 and December 31, 2017. Information pertaining to derivative assets was as follows:

(Millions)	Gross Amount of Recognized Assets	Net Amount of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
			Financial Instruments	Cash Collateral Received	
June 30, 2018:					
Interest rate swaps	\$ 24.1	\$ 24.1	\$ (3.4 )	\$	—\$ 20.7
December 31, 2017:					
Interest rate swaps	\$ 11.8	\$ 11.8	\$ (2.9 )	\$	—\$ 8.9

Information pertaining to derivative liabilities was as follows:

(Millions)	Gross Amount of Recognized Liabilities	Net Amount of Liabilities Presented in	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
			Financial Instruments	Cash Collateral Received	

		the Consolidated Balance Sheets		
June 30, 2018:				
Interest rate swaps	\$ 5.3	\$ 5.3	\$ (3.4 )	\$ —\$ 1.9
December 31, 2017:				
Interest rate swaps	\$ 18.3	\$ 18.3	\$ (2.9 )	\$ —\$ 15.4



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 7. Fair Value Measurements:

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants. Authoritative guidance defines the following three tier hierarchy for assessing the inputs used in fair value measurements:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than quoted prices in active markets for identical assets or liabilities

Level 3 – Unobservable inputs

The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority is given to unobservable inputs (level 3 measurement). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the determination of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Our non-financial assets and liabilities, including property, plant and equipment, goodwill, intangible assets and asset retirement obligations, are measured at fair value on a non-recurring basis. No event occurred during the six-month period ended June 30, 2018 requiring our non-financial assets and liabilities to be subsequently recognized at fair value. Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, accounts receivable and accounts payable was estimated by management to approximate fair value due to the relatively short period of time to maturity for those instruments. Cash equivalents, long-term debt and interest rate swaps are measured at fair value on a recurring basis. Cash equivalents were not significant as of June 30, 2018 or December 31, 2017.

The fair values of interest rate swaps and long-term debt were determined using the following inputs at:

(Millions)	June 30, 2018	December 31, 2017
Recorded at Fair Value in the Financial Statements:		
Derivatives - Interest rate swap assets - Level 2	\$24.1	\$ 11.8
Derivatives - Interest rate swap liabilities - Level 2	\$5.3	\$ 18.3
Not Recorded at Fair Value in the Financial Statements: (a)		
Long-term debt, including current maturities - Level 2	\$4,908.2	\$ 4,824.2

Recognized at carrying value of \$5,951.1 million and \$5,905.9 million in long-term debt, including current (a) maturities, and excluding unamortized debt issuance costs, in the accompanying consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively.

The fair values of interest rate swaps are determined based on the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swaps and also incorporate credit valuation adjustments to appropriately reflect both Windstream Services' own non-performance risk and non-performance risk of the respective counterparties. As of June 30, 2018 and December 31, 2017, the fair values of the interest rate swaps were reduced by \$0.9 million and \$4.8 million, respectively, to reflect non-performance risk.

In calculating the fair value of Windstream Services' long-term debt, the fair value of the debentures and notes was calculated based on quoted market prices of the specific issuances in an active market when available. The fair value

of the other debt obligations was estimated based on appropriate market interest rates applied to the debt instruments. In calculating the fair value of the Windstream Holdings of the Midwest, Inc. notes, an appropriate market price of similar instruments in an active market considering credit quality, nonperformance risk and maturity of the instrument was used.

We do not have any assets or liabilities measured for purposes of the fair value hierarchy at fair value using significant unobservable inputs (Level 3). We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the six-month period ended June 30, 2018.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 8. Employee Benefit Plans and Postretirement Benefits:

We maintain a non-contributory qualified defined benefit pension plan. Future benefit accruals for all eligible nonbargaining employees covered by the pension plan have ceased. We also maintain supplemental executive retirement plans that provide unfunded, non-qualified supplemental retirement benefits to a select group of management employees. Additionally, we provide postretirement healthcare and life insurance benefits for eligible employees. Employees share in, and we fund, the costs of these plans as benefits are paid.

The components of pension benefit (income) expense, including provision for executive retirement agreements, were as follows:

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
(Millions)	2018	2017	2018	2017
Benefits earned during the period (a)	\$ 1.0	\$ 2.0	\$ 1.9	\$ 4.1
Interest cost on benefit obligation (b)	10.4	11.5	20.6	23.1
Net actuarial gain	(5.6 )	(2.3 )	(5.6 )	(2.3 )
Amortization of prior service credit (b)	(1.2 )	(0.1 )	(2.4 )	(0.2 )
Expected return on plan assets (b)	(14.0 )	(13.6 )	(28.3 )	(27.2 )
Curtailment gain (b)	(2.7 )	—	(2.7 )	—
Net periodic benefit income	\$(12.1)	\$(2.5)	\$(16.5)	\$(2.5)

(a) Included in cost of services and selling, general and administrative expense.

(b) Included in other income, net.

During the second quarter of 2018, we amended the qualified defined benefit pension plan for certain eligible bargaining participants, the effects of which (i) froze benefit accruals upon reaching 30 years of service, (ii) provided for an unreduced early retirement benefit for participants with 30 years of service and (iii) added a lump-sum payment option. Changes to these benefit provisions required re-measurement of the pension plan's funded status as of June 30, 2018 based on updated census data and actuarial assumptions, including the discount rate, which increased from 3.68 percent to 4.31 percent, and fair value of plan assets. As a result of the remeasurement, we recognized a curtailment gain of \$2.7 million, prior service credits of \$2.7 million and a net actuarial gain of \$5.6 million.

For 2018, the expected employer contributions for pension benefits consists of \$17.7 million to the qualified pension plan to satisfy our remaining 2017 and 2018 funding requirements and \$0.9 million necessary to fund the expected benefit payments of our unfunded supplemental executive retirement pension plans to avoid certain benefit restrictions. On January 12, 2018, we made our required quarterly employer contribution of \$5.2 million in cash to the qualified pension plan. On February 27, 2018, we contributed 0.8 million shares of our common stock with a value of approximately \$5.8 million to the qualified pension plan. We intend to fund the remaining 2018 contributions using our common stock, cash, or a combination thereof.

The components of postretirement benefits expense were as follows:

	Three	Six Months
	Months	Ended
	Ended	June 30,
	June 30,	

(Millions)	2018	2017	2018	2017
Interest cost on benefit obligation (a)	\$0.2	\$0.2	\$0.4	\$0.5
Amortization of net actuarial loss (a)	—	0.1	0.1	0.1
Amortization of prior service credit (a)	(0.1 )	(0.1 )	(0.2 )	(0.2 )
Net periodic benefit expense	\$0.1	\$0.2	\$0.3	\$0.4

(a)Included in other income, net.

We contributed \$0.7 million to the postretirement plan during the six-month period ended June 30, 2018, excluding amounts that were funded by participant contributions to the plan.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 8. Employee Benefit Plans and Postretirement Benefits, Continued:

We also sponsor an employee savings plan under section 401(k) of the Internal Revenue Code, which covers substantially all salaried employees and certain bargaining unit employees. Windstream matches on an annual basis up to a maximum of 4.0 percent of employee pre-tax contributions to the plan for employees contributing up to 5.0 percent of their eligible pre-tax compensation. We recorded expenses of \$5.8 million and \$12.1 million in the three and six month periods ended June 30, 2018, respectively, as compared to \$4.7 million and \$11.5 million for the same periods in 2017 related to our matching contribution under the employee savings plan, which was included in cost of services and selling, general and administrative expenses in our consolidated statements of operations. Expense related to our 2018 and 2017 matching contribution expected to be made in Windstream Holdings common stock is included in share-based compensation expense in the accompanying consolidated statements of cash flow. In March 2018, we contributed 3.4 million shares of our common stock with a fair value of \$26.9 million to the plan for the 2017 annual matching contribution.

## 9. Share-Based Compensation Plans:

All share-based compensation award information presented has been retrospectively adjusted to reflect the effects of the one-for-five reverse stock split, which became effective on May 25, 2018 (see Note 1).

In May 2018, our stockholders approved amendments to our Amended and Restated 2006 Equity Incentive Plan (the "Incentive Plan") which (i) extended the term of the Incentive Plan through February 6, 2023 and (ii) increased the maximum number of shares authorized for issuance or delivery under the Incentive Plan on a post-reverse stock split basis from 4.9 million to 6.8 million. Under the Incentive Plan, we may issue equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. As of June 30, 2018, the Incentive Plan had remaining capacity of approximately 2.2 million awards.

Stock Options – At December 31, 2017, we had fewer than 0.1 million of vested stock option awards outstanding, all of which had been issued in conjunction with past acquisitions as replacement awards to former employees of the acquired companies. Substantially all of these options have exercise prices that are significantly higher than the current market price of our common stock and therefore are not likely to be exercised during the next twelve months. Prior to 2018, no other stock options had been granted by us. In February 2018, our Board of Directors granted 1.1 million stock options to certain officers, executives and other key management employees. Under terms of the grant award, the stock options vest ratably over a three-year period from the date of grant and the exercise price of the option equals the market value of our common stock on the date of grant. The maximum term for each option granted is 10 years. Our practice is to issue new shares of common stock upon the exercise of stock options. We measure the cost of employee stock options based on the grant-date fair value and recognize that cost on a straight-line basis over the period in which a recipient is required to provide services in exchange for the options, which is equal to the vesting period.

The weighted average fair value of stock options granted during the six-month period ended June 30, 2018 was \$4.25 per share using the Black-Scholes option-pricing model and the following weighted average assumptions:

Expected life	6.1	years
Expected volatility	58.7	%
Dividend yield	—	
Risk-free interest rate	2.6	%

Because we do not have historical exercise experience for non-replacement stock options to reasonably estimate future exercise patterns, we used the simplified method available under current SEC rules to derive the expected life assumption, which was computed based on the average of the vesting and contractual terms of the stock options. Expected volatility was based on the historical volatility of our common stock using the weighted average of historical daily price changes of our common stock including the most recent period equal to the expected life of the stock option on the date of grant. The expected dividend yield reflects the elimination of our quarterly common stock dividend in the third quarter of 2017. The risk-free interest rate was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Plans, Continued:

The following table summarizes stock option activity as of June 30, 2018:

	(Thousands) Number of Shares Underlying Options	Weighted Average Exercise Price	(Years) Weighted Average Remaining Contractual Life	(Millions) Aggregate Intrinsic Value
Outstanding at December 31, 2017	34.2	\$ 68.20		
Granted	1,079.3	\$ 7.50		
Exercised	—	\$ —		
Canceled and forfeited	(13.7 )	\$ 85.04		
Outstanding at June 30, 2018	1,099.8	\$ 8.43	9.5	\$ —
Vested or expected to vest at June 30, 2018	1,002.7	\$ 8.52	9.5	\$ —
Exercisable at June 30, 2018	20.5	\$ 57.02	1.9	\$ —

The following table summarizes stock option information as of June 30, 2018:

Range of Exercise Prices	Options Outstanding (Thousands)		Options Exercisable (Thousands)	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$7.50 - \$7.60	1,079.3	\$ 7.50	—	\$ —
\$14.70 - \$35.05	1.4	\$ 22.58	1.4	\$ 22.58
\$47.10 - \$95.90	19.1	\$ 59.61	19.1	\$ 59.61
	1,099.8	\$ 8.43	20.5	\$ 59.61

At June 30, 2018, total unamortized compensation cost for non-vested stock option awards amounted to \$3.5 million and is expected to be recognized over a weighted average period of 2.7 years.

**Restricted Stock and Restricted Stock Units** – Our board of directors may approve grants of restricted stock and restricted stock units to officers, executives, non-employee directors and certain management employees. Grants may include time-based and performance-based awards. Time-based awards granted to employees generally vest over a service period of two or three years. Performance-based restricted stock units may vest in a number of shares from zero to 150.0 percent of their award based on attainment of specified targets over a three-year period.

The vesting periods and grant date fair value for restricted stock and restricted stock units issued were as follows for the six-month period ended June 30, 2018:

(Number of shares in thousands)

Service-based restricted stock and restricted units:

Vest one year from date of grant, service based - granted to non-employee directors	109.6
Vest immediately on date of grant, service based - granted to non-employee directors	41.1
Total granted	150.7
Grant date fair value (Dollars in millions)	\$ 1.1





## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Plans, Continued:

Service-based restricted stock and restricted unit activity for the six-month period ended June 30, 2018 was as follows:

	(Thousands) Underlying Number of Shares	Per Share Weighted Average Fair Value
Non-vested at December 31, 2017	1,022.8	\$ 31.45
Granted	150.7	\$ 7.30
Vested	(564.3 )	\$ 32.82
Forfeited	(45.6 )	\$ 31.83
Non-vested at June 30, 2018	563.6	\$ 23.58

Performance restricted stock unit activity for the six-month period ended June 30, 2018 was as follows:

	(Thousands) Underlying Number of Shares	Per Share Weighted Average Fair Value
Non-vested at December 31, 2017	520.7	\$ 32.90
Granted	—	\$ —
Vested	(103.7 )	\$ 36.09
Forfeited	(69.4 )	\$ 27.55
Non-vested at June 30, 2018	347.6	\$ 28.34

At June 30, 2018, unrecognized compensation expense for restricted stock and restricted stock units totaled \$13.1 million and is expected to be recognized over the weighted average vesting period of 1.3 years. The total fair value of shares vested was \$22.3 million for the six-month period ended June 30, 2018, as compared to \$34.2 million for the same period in 2017. Share-based compensation expense for restricted stock and restricted stock units was \$2.7 million and \$6.3 million for the three and six month periods ended June 30, 2018, respectively, as compared to \$10.9 million and \$20.9 million for the same periods in 2017.

In addition to including amounts related to restricted stock and restricted units, share-based compensation expense presented in the accompanying consolidated statements of cash flow also includes amounts related to the matching contribution to the employee savings plan for which payments to eligible participants are expected to be made in Windstream Holdings common stock.

A summary of share-based compensation expense was as follows:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Restricted stock, restricted units and stock options	\$2.7	\$10.9	\$6.3	\$20.9
Employee savings plan (See Note 8)	5.8	4.7	12.1	11.5
Share-based compensation expense	\$8.5	\$15.6	\$18.4	\$32.4



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 10. Merger, Integration and Other Costs and Restructuring Charges:

We incur costs to complete a merger or acquisition and integrate its operations into our business, which are presented as merger and integration expense in our consolidated results of operations. These costs include transaction costs, such as accounting, legal, consulting and broker fees; severance and related costs; IT and network conversion; rebranding and marketing; and contract termination fees. During 2017, we incurred investment banking fees, legal, accounting and other consulting fees, severance and employee benefit costs, contract and lease termination costs, and other integration expenses related to the merger with EarthLink. During the fourth quarter of 2017, we completed a network optimization project designed to consolidate traffic onto network facilities operated by us and reduce the usage of other carriers' networks in our acquired CLEC markets. In undertaking this initiative, we incurred in the first half of 2017, exit costs to migrate traffic to existing lower cost circuits and to terminate existing contracts prior to their expiration.

Restructuring charges are primarily incurred as a result of evaluations of our operating structure. Among other things, these evaluations explore opportunities to provide greater flexibility in managing and financing existing and future strategic operations, for task automation and the balancing of our workforce based on the current needs of our customers. Severance, lease exit costs and other related charges are included in restructuring charges.

During the first half of 2018, we completed restructurings of our workforce to improve our overall cost structure and gain operational efficiencies. In undertaking these efforts, we eliminated approximately 550 employees and incurred a restructuring charge of \$18.9 million, consisting of severance and employee benefit costs. During the first half of 2017, we completed reductions in our workforce eliminating approximately 375 positions in our ILEC small business and enterprise segments as well as in our engineering, finance and information technology workgroups to more efficiently manage our operations. In completing these workforce reductions, we incurred severance and other employee benefit costs of \$10.5 million.

A summary of the merger, integration and other costs and restructuring charges recorded was as follows:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Merger, integration and other costs:				
Information technology conversion costs	\$0.2	\$0.6	\$0.6	\$1.5
Costs related to merger with EarthLink (a)	6.6	13.4	11.0	66.5
Costs related to merger with Broadview (b)	1.5	—	3.4	—
Costs related to acquisition of MASS	0.6	—	1.2	—
Network optimization and contract termination costs	—	1.6	—	4.9
Legal fees related to REIT spin-off litigation (see Note 15)	4.8	0.5	4.8	0.5
Other costs	0.4	0.3	0.4	0.3
Total merger, integration and other costs	14.1	16.4	21.4	73.7
Restructuring charges	5.8	3.5	19.5	10.9
Total merger, integration and other costs and restructuring charges	\$19.9	\$19.9	\$40.9	\$84.6

For the three and six month periods ended June 30, 2018, these amounts include severance and employee benefit costs for EarthLink employees terminated after the Merger of \$1.8 million and \$4.8 million, respectively, contract (a) and lease termination costs of \$4.0 million and \$4.8 million, respectively, as a result of vacating certain facilities related to the acquired operations of EarthLink, and other miscellaneous expenses of \$0.8 million and \$1.4 million, respectively.

Comparatively, during the three and six month periods ended June 30, 2017, severance and employee benefit costs for employees terminated after the Merger were \$5.0 million and \$29.5 million, respectively. Share-based compensation expense of \$5.4 million and \$9.8 million attributable to the accelerated vesting of replacement equity awards for terminated EarthLink employees and other miscellaneous expenses were \$3.0 million and \$4.4 million, respectively. For the six month period of 2017, we also incurred investment banking, legal, accounting and other consulting fees of \$22.8 million,

(b) Includes severance and employee benefit costs for Broadview employees terminated after the acquisition of \$1.9 million and other miscellaneous expenses of \$1.5 million.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 10. Merger, Integration and Other Costs and Restructuring Charges, Continued:

After giving consideration to tax benefits on deductible items, merger, integration and other costs and restructuring charges increased our reported net loss \$14.8 million and \$30.5 million for the three and six month periods ended June 30, 2018, respectively, as compared to \$13.1 million and \$58.0 million for the same periods in 2017.

The following is a summary of the activity related to the liabilities associated with merger, integration and other costs and restructuring charges at June 30:

(Millions)	Merger, Integration and Other Charges	Restructuring Charges Severance and Benefit Costs	Other Exit Costs	Total
Balance at December 31, 2017	\$ 10.3	\$ 5.0	\$ 4.2	\$ 19.5
Expenses incurred in period	21.4	19.5	—	40.9
Cash outlays during the period	(16.7 )	(21.7 )	(1.3 )	(39.7 )
Balance at June 30, 2018	\$ 15.0	\$ 2.8	\$ 2.9	\$ 20.7

Payments of these liabilities will be funded through operating cash flows.

## 11. Accumulated Other Comprehensive Income:

Accumulated other comprehensive income balances, net of tax, were as follows:

(Millions)	June 30, December 31,	
	2018	2017
Pension and postretirement plans	\$ 9.0	\$ 4.0
Unrealized net gains on interest rate swaps:		
Designated portion	37.1	20.7
De-designated portion	(2.1 )	(3.3 )
Accumulated other comprehensive income	\$ 44.0	\$ 21.4

Changes in accumulated other comprehensive income balances, net of tax, were as follows:

(Millions)	Net Gains on Interest Rate Swaps	Pension and Postretirement Plans	Total
Balance at December 31, 2017	\$ 17.4	\$ 4.0	\$ 21.4
Cumulative effect of adoption of ASU 2017-12	1.7	—	1.7
Prior service credit arising during the period	—	2.7	2.7
Other comprehensive income before reclassifications	14.7	4.0	18.7
Amounts reclassified from other accumulated comprehensive income (a)	1.2	(1.7 )	(0.5 )
Balance at June 30, 2018	\$ 35.0	\$ 9.0	\$ 44.0

(a) See separate table below for details about these reclassifications.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 11. Accumulated Other Comprehensive Income, Continued:

Reclassifications out of accumulated other comprehensive income were as follows:

Details about Accumulated Other Comprehensive Income Components	(Millions) Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Consolidated Statements of Operations
	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	
Interest rate swaps:					
Amortization of net unrealized losses on de-designated interest rate swaps	\$0.8	\$1.4	\$1.7	\$2.9	Interest expense
	0.8	1.4	1.7	2.9	Loss before income taxes
	(0.3 )	(0.5 )	(0.5 )	(1.1 )	Income tax benefit
	0.5	0.9	1.2	1.8	Net loss
Pension and postretirement plans:					
Amortization of net actuarial loss	—	0.1	0.1	0.1	(a)
Amortization of prior service credits	(1.3 )	(0.2 )	(2.6 )	(0.4 )	(a)
	(1.3 )	(0.1 )	(2.5 )	(0.3 )	Loss before income taxes
	0.5	—	0.8	0.1	Income tax benefit
	(0.8 )	(0.1 )	(1.7 )	(0.2 )	Net loss
Total reclassifications for the period, net of tax	\$(0.3)	\$0.8	\$(0.5)	\$1.6	Net loss

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit expense (see Note 8).

## 12. Loss per Share:

All per share information presented has been retrospectively adjusted to reflect the effects of the one-for-five reverse stock split, which became effective on May 25, 2018 (see Note 1).

We compute basic loss per share by dividing net loss applicable to common shares by the weighted average number of common shares outstanding during each period. Our non-vested restricted shares containing a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares are considered participating securities, and the impact is included in the computation of loss per share pursuant to the two-class method. Calculations of loss per share under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator. Commencing in the third quarter of 2017, we eliminated our

quarterly common stock dividend. Dividends declared were \$.75 per share in each of the first two quarters of 2017, for a total of \$1.50 per share.

Diluted loss per share is computed by dividing net loss applicable to common shares by the weighted average number of common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon vesting of restricted stock units and from exercise of outstanding stock options and warrants. Diluted loss per share excludes all potentially dilutive securities because their effect is anti-dilutive.

We also issue performance-based restricted stock units as part of our share-based compensation plan. Certain of these restricted stock units contain a forfeitable right to receive dividends. Because dividends attributable to these shares are forfeited if the vesting provisions are not met, they are considered non-participating restricted shares and are not dilutive under the two-class method until the performance conditions have been satisfied. As of June 30, 2018, the performance conditions for the outstanding restricted stock units have not yet been satisfied. Restricted stock units, stock options and warrants are included in the computation of dilutive earnings (loss) per share using the treasury stock method.



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 12. Loss per Share, Continued:

A reconciliation of net loss and number of shares used in computing basic and diluted loss per share was as follows:

(Millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic and diluted loss per share:				
Numerator:				
Net loss	\$(93.7 )	\$(68.1 )	\$(215.1)	\$(179.4)
Income allocable to participating securities	—	(0.7 )	—	(1.3 )
Net loss attributable to common shares	\$(93.7 )	\$(68.8 )	\$(215.1)	\$(180.7)
Denominator:				
Basic and diluted shares outstanding				
Weighted average shares outstanding	40.7	38.1	39.0	32.1
Weighted average participating securities	—	(0.6 )	—	(0.7 )
Weighted average basic and diluted shares outstanding	40.7	37.5	39.0	31.4
Basic and diluted loss per share:				
Net loss	(\$2.30)	(\$1.83)	(\$5.51)	(\$5.75)

We have excluded from the computation of diluted shares the effect of restricted stock units and options to purchase shares of our common stock because their inclusion would have an anti-dilutive effect due to our reported net losses for the three and six month periods ended June 30, 2018 and 2017. We had 0.9 million restricted stock units and 1.1 million stock options outstanding as of June 30, 2018, compared to 0.9 million restricted stock units and fewer than 0.1 million stock options outstanding at June 30, 2017.

## 13. Segment Information:

Effective November 1, 2017, we reorganized our business operations and changed the composition of our business segments. Prior period segment information has been revised to reflect these changes, which had no impact on our consolidated results of operations. We disaggregate our operations between customers located in service areas in which we are the incumbent local exchange carrier (“ILEC”) and provide services over network facilities operated by us and those customers located in service areas in which we are a competitive local exchange carrier (“CLEC”) and provide services over network facilities primarily leased from other carriers. We have further disaggregated our CLEC operations between enterprise, wholesale and consumer customers. Following our reorganization, we now operate and report the following four segments:

**Consumer & Small Business** – We manage as one business our residential and small business operations in those markets in which we are the ILEC due to the similarities with respect to service offerings, marketing strategies and customer service delivery. Products and services offered to customers include traditional local and long-distance voice services, high-speed Internet services, and value-added services such as security and online back-up, which are delivered primarily over network facilities operated by us. We offer consumer video services through relationships with DirecTV and Dish Network LLC and we also own and operate cable television franchises in some of our service areas. We offer Kinetic, a premium broadband and video entertainment offering in several of our markets.

Residential customers can bundle voice, high-speed Internet and video services, to provide one convenient billing solution and receive bundle discounts. Small Business services offer a wide range of advanced Internet, voice, and web conferencing products. These services are equipped to deliver high-speed Internet with competitive speeds, value added services to enhance business productivity and options to bundle services for a global business solution to meet our small business customer needs.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Segment Information, Continued:

Enterprise – Products and services offered to our business customers include integrated voice and data services, which deliver voice and broadband services over a single Internet connection, data transport services, multi-site networking services which provide a fast and private connection between business locations, Software Defined Wide Area Network (“SD-WAN”), which optimizes application performance, Unified Communications as a Service (“UCaaS”), a next generation voice solution, as well as a variety of other data services, including cloud computing and collocation and managed services as an alternative to traditional information technology infrastructure.

Wholesale – Our wholesale operations are focused on providing network bandwidth to other telecommunications carriers, network operators, and content providers. These services include special access services, which provide access and network transport services to end users, Ethernet and Wave transport up to 100 Gbps, and dark fiber and collocation services. Wholesale services also include fiber-to-the-tower connections to support the wireless backhaul market. In addition, we offer voice and data carrier services to other communications providers and to larger-scale purchasers of network capacity. We also offer traditional services including special access services and Time Division Multiplexing (“TDM”) private line transport. The combination of these services allow wholesale customers to provide voice and data services to their customers through the use of our network or in combination with their own networks.

Consumer CLEC – Products and services offered to customers include traditional voice and long-distance services, nationwide Internet access services, both dial-up and high-speed, as well as value added services including online backup and various e-mail services.

We evaluate performance of the segments based on contribution margin or segment income, which is computed as segment revenues and sales less segment operating expenses. Segment revenues are based upon each customer’s classification to an individual segment and include all services provided to that customer. Segment revenues also include revenue from federal and state universal service funds, CAF Phase II support, funds received from federal access recovery mechanisms, revenues from providing switched access services, including usage-based revenues from long-distance companies and other carriers for access to our network to complete long-distance calls, reciprocal compensation received from wireless and other local connecting carriers for the use of network facilities, certain surcharges assessed to our customers, including billings for our required contributions to federal and state USF programs, and product sales to contractors. There are no differences between total segment revenues and sales and total consolidated revenues and sales.

Segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers; selling, general and administrative expenses that are directly associated with specific segment customers or activities; and certain allocated expenses which include network expenses, facilities expenses and other expenses, such as vehicle and real estate-related expenses. Operating expenses associated with regulatory and other revenues have also been assigned to our segments. We do not assign depreciation and amortization expense, goodwill impairment, merger, integration and other costs, restructuring charges, share-based compensation, pension expense, business transformation expenses and costs related to network optimization projects to our segments, because these expenses are centrally managed and are not monitored by or reported to the chief operating decision maker (“CODM”) by segment. Similarly, certain costs related to centrally-managed administrative functions, such as accounting and finance, information technology, network management, legal and human resources, are not assigned to our segments. Interest expense and net loss on early extinguishment of debt have also been excluded from segment operating results because we manage our financing activities on a total company basis and have not assigned any long-term debt obligations to the segments. Other income, net, and income tax benefit are not monitored as a part of our segment operations and, therefore, these items also have been excluded from our segment operating results.

Asset information by segment is not monitored or reported to the CODM and therefore has not been presented. All of our customers are located in the United States and we do not have any single customer that provides more than 10 percent of our total consolidated revenues and sales.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Segment Information, Continued:

The following table summarizes our segment results:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Consumer &amp; Small Business:</b>				
Revenues and sales	\$472.5	\$504.9	\$949.0	\$1,009.3
Costs and expenses	198.9	215.9	393.5	431.3
Segment income	\$273.6	\$289.0	\$555.5	\$578.0
<b>Enterprise:</b>				
Revenues and sales	\$743.1	\$738.4	\$1,489.2	\$1,400.2
Cost and expenses	581.9	596.7	1,182.2	1,134.5
Segment income	\$161.2	\$141.7	\$307.0	\$265.7
<b>Wholesale:</b>				
Revenues and sales	\$182.4	\$196.6	\$366.2	\$375.4
Costs and expenses	53.6	61.6	109.1	113.3
Segment income	\$128.8	\$135.0	\$257.1	\$262.1
<b>Consumer CLEC:</b>				
Revenues and sales	\$46.4	\$51.7	\$94.3	\$72.4
Costs and expenses	19.9	25.7	40.5	35.7
Segment income	\$26.5	\$26.0	\$53.8	\$36.7
Total segment revenues and sales	\$1,444.4	\$1,491.6	\$2,898.7	\$2,857.3
Total segment costs and expenses	854.3	899.9	1,725.3	1,714.8
Total segment income	\$590.1	\$591.7	\$1,173.4	\$1,142.5

The following table reconciles segment income to consolidated net loss:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total segment income	\$590.1	\$591.7	\$1,173.4	\$1,142.5
Depreciation and amortization	(370.7 )	(362.4 )	(752.5 )	(700.9 )
Other unassigned operating expenses	(131.1 )	(126.8 )	(263.6 )	(295.0 )
Other income, net	12.0	4.2	9.7	6.8
Net loss on early extinguishment of debt	—	—	—	(3.2 )
Interest expense	(224.4 )	(214.4 )	(447.5 )	(426.2 )
Income tax benefit	30.4	39.6	65.4	96.6
Net loss	\$(93.7 )	\$(68.1 )	\$(215.1 )	\$(179.4 )

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information:

Debentures and notes, without collateral, issued by Windstream Services, LLC

In connection with the issuance of the 7.750 percent senior notes due October 15, 2020, the 7.750 percent senior notes due October 1, 2021, the 7.500 percent senior notes due June 1, 2022, the 7.500 percent senior notes due April 1, 2023, the 6.375 percent senior notes due August 1, 2023, 8.750 percent senior notes due December 15, 2024, and the 8.625 percent senior first lien notes due October 31, 2025 (“the guaranteed notes”), certain of Windstream Services’ wholly-owned subsidiaries (the “Guarantors”), provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. All personal property assets and related operations of the Guarantors are pledged as collateral on the senior secured credit facility of Windstream Services. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Windstream Services. The remaining subsidiaries of Windstream Services (the “Non-Guarantors”) are not guarantors of the guaranteed notes. Windstream Holdings is not a guarantor of any Windstream Services debt instruments.

Following the acquisitions, the acquired legal entities of EarthLink, Broadview and MASS have been designated as either Guarantors or Non-Guarantors. Accordingly, the financial information presented herein includes the acquired EarthLink operations beginning on February 27, 2017, the acquired Broadview operations beginning on July 28, 2017, and the acquired MASS operations as of March 27, 2018.

The following information presents condensed consolidating and combined statements of comprehensive income (loss) for the three and six month periods ended June 30, 2018 and 2017, condensed consolidating and combined balance sheets as of June 30, 2018 and December 31, 2017, and condensed consolidating and combined statements of cash flows for the three and six month periods ended June 30, 2018 and 2017 of Windstream Services, the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by Windstream Services and other subsidiaries, and have been presented using the equity method of accounting.

(Millions)	Condensed Consolidating Statement of Comprehensive Income (Loss) (Unaudited)				
	Three Months Ended June 30, 2018				
	Windstream Services	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$ 292.0	\$ 1,160.3	\$ (27.7 )	\$ 1,424.6
Product sales	—	18.4	1.4	—	19.8
Total revenues and sales	—	310.4	1,161.7	(27.7 )	1,444.4
Costs and expenses:					
Cost of services	—	138.0	611.8	(27.0 )	722.8
Cost of products sold	—	15.8	2.4	—	18.2
Selling, general and administrative	—	47.5	177.0	(0.7 )	223.8
Depreciation and amortization	1.1	124.1	245.5	—	370.7
Merger, integration and other costs	—	—	14.1	—	14.1
Restructuring charges	—	1.6	4.2	—	5.8
Total costs and expenses	1.1	327.0	1,055.0	(27.7 )	1,355.4
Operating (loss) income	(1.1 )	(16.6 )	106.7	—	89.0
(Losses) earnings from consolidated subsidiaries	(25.4 )	67.0	19.6	(61.2 )	—

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Other (expense) income, net	(0.1 )	(0.2 )	12.3	—	12.0
Intercompany interest income (expense)	13.8	(10.3 )	(3.5 )	—	—
Interest expense	(103.5)	(35.8 )	(85.1 )	—	(224.4 )
(Loss) income before income taxes	(116.3)	4.1	50.0	(61.2 )	(123.4 )
Income tax (benefit) expense	(23.1 )	(15.0 )	7.9	—	(30.2 )
Net (loss) income	\$(93.2)	\$ 19.1	\$ 42.1	\$ (61.2 )	\$ (93.2 )
Comprehensive (loss) income	\$(83.1)	\$ 19.1	\$ 42.1	\$ (61.2 )	\$ (83.1 )

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidating Statement of Comprehensive Income (Loss) (Unaudited) Three Months Ended June 30, 2017				Consolidated
	Windstream Services	Guarantors	Non- Guarantors	Eliminations	
Revenues and sales:					
Service revenues	\$—	\$ 311.8	\$ 1,179.0	\$ (25.2 )	\$ 1,465.6
Product sales	—	23.3	2.7	—	26.0
Total revenues and sales	—	335.1	1,181.7	(25.2 )	1,491.6
Costs and expenses:					
Cost of services	—	144.1	630.9	(24.3 )	750.7
Cost of products sold	—	22.5	7.2	—	29.7
Selling, general and administrative	—	44.7	181.8	(0.9 )	225.6
Depreciation and amortization	2.2	119.1	241.1	—	362.4
Merger, integration and other costs	—	(1.8 )	18.2	—	16.4
Restructuring charges	—	3.7	(0.2 )	—	3.5
Total costs and expenses	2.2	332.3	1,079.0	(25.2 )	1,388.3
Operating (loss) income	(2.2 )	2.8	102.7	—	103.3
(Losses) earnings from consolidated subsidiaries	(24.1 )	15.2	39.5	(30.6 )	—
Other (expense) income, net	(0.2 )	0.9	3.5	—	4.2
Intercompany interest income (expense)	21.8	(10.4 )	(11.4 )	—	—
Interest expense	(89.8 )	(36.8 )	(87.8 )	—	(214.4 )
(Loss) income before income taxes	(94.5 )	(28.3 )	46.5	(30.6 )	(106.9 )
Income tax (benefit) expense	(26.9 )	(16.1 )	3.7	—	(39.3 )
Net (loss) income	\$(67.6)	\$(12.2)	\$42.8	\$ (30.6)	\$(67.6)
Comprehensive (loss) income	\$(69.2)	\$(12.2)	\$42.8	\$ (30.6)	\$(69.2)



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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidating Statement of Comprehensive Income (Loss) (Unaudited) Six Months Ended June 30, 2018				
	Windstream Services	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$ 586.7	\$ 2,329.1	\$ (55.8 )	\$ 2,860.0
Product sales	—	36.1	2.6	—	38.7
Total revenues and sales	—	622.8	2,331.7	(55.8 )	2,898.7
Costs and expenses:					
Cost of services	—	265.7	1,248.7	(54.7 )	1,459.7
Cost of products sold	—	31.0	4.0	—	35.0
Selling, general and administrative	—	86.3	366.9	(1.1 )	452.1
Depreciation and amortization	2.7	247.7	502.1	—	752.5
Merger, integration and other costs	—	—	21.4	—	21.4
Restructuring charges	—	3.1	16.4	—	19.5
Total costs and expenses	2.7	633.8	2,159.5	(55.8 )	2,740.2
Operating (loss) income	(2.7 )	(11.0 )	172.2	—	158.5
(Losses) earnings from consolidated subsidiaries	(79.3 )	70.7	38.6	(30.0 )	—
Other income (expense), net	0.4	(0.5 )	9.8	—	9.7
Intercompany interest income (expense)	30.6	(20.8 )	(9.8 )	—	—
Interest expense	(204.3 )	(71.9 )	(171.3 )	—	(447.5 )
(Loss) income before income taxes	(255.3 )	(33.5 )	39.5	(30.0 )	(279.3 )
Income tax (benefit) expense	(41.1 )	(24.8 )	0.8	—	(65.1 )
Net (loss) income	\$(214.2)	\$ (8.7 )	\$ 38.7	\$ (30.0 )	\$ (214.2 )
Comprehensive (loss) income	\$(193.3)	\$ (8.7 )	\$ 38.7	\$ (30.0 )	\$ (193.3 )

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidating Statement of Comprehensive Income (Loss) (Unaudited) Six Months Ended June 30, 2017				
	Windstream Services	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$ 578.7	\$ 2,275.3	\$ (44.0 )	\$ 2,810.0
Product sales	—	42.9	4.4	—	47.3
Total revenues and sales	—	621.6	2,279.7	(44.0 )	2,857.3
Costs and expenses:					
Cost of services	—	261.6	1,215.4	(42.5 )	1,434.5
Cost of products sold	—	41.2	9.3	—	50.5
Selling, general and administrative	—	83.1	357.5	(1.5 )	439.1
Depreciation and amortization	4.9	209.9	486.1	—	700.9
Merger, integration and other costs	—	1.0	72.7	—	73.7
Restructuring charges	—	5.0	5.9	—	10.9
Total costs and expenses	4.9	601.8	2,146.9	(44.0 )	2,709.6
Operating (loss) income	(4.9 )	19.8	132.8	—	147.7
(Losses) earnings from consolidated subsidiaries	(94.9 )	(0.7 )	32.3	63.3	—
Other income, net	—	1.1	5.7	—	6.8
Net loss on early extinguishment of debt	(1.2 )	(2.0 )	—	—	(3.2 )
Intercompany interest income (expense)	48.0	(22.1 )	(25.9 )	—	—
Interest expense	(174.6 )	(76.3 )	(175.3 )	—	(426.2 )
Loss before income taxes	(227.6 )	(80.2 )	(30.4 )	63.3	(274.9 )
Income tax benefit	(48.9 )	(29.9 )	(17.4 )	—	(96.2 )
Net loss	\$(178.7)	\$(50.3 )	\$(13.0 )	\$ 63.3	\$(178.7 )
Comprehensive loss	\$(177.4)	\$(50.3 )	\$(13.0 )	\$ 63.3	\$(177.4 )

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidating Balance Sheet (Unaudited)				
	As of June 30, 2018				
	Windstream Services	Guarantors	Non- Guarantors	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$—	\$ 0.6	\$ 44.7	\$—	\$ 45.3
Accounts receivable, net	—	176.7	450.5	(3.3)	623.9
Notes receivable - affiliate	—	5.0	—	(5.0)	—
Affiliates receivable, net	—	54.9	1,880.2	(1,935.1)	—
Inventories	—	68.3	16.7	—	85.0
Prepaid expenses and other	22.5	46.0	112.5	—	181.0
Total current assets	22.5	351.5	2,504.6	(1,943.4)	935.2
Investments in consolidated subsidiaries	5,456.6	678.1	578.5	(6,713.2)	—
Notes receivable - affiliate	—	305.1	—	(305.1)	—
Goodwill	657.2	1,712.7	504.0	—	2,873.9
Other intangibles, net	464.6	413.2	471.6	—	1,349.4
Net property, plant and equipment	5.2	1,300.9	3,850.5	—	5,156.6
Deferred income taxes	—	477.2	186.2	(247.2)	416.2
Other assets	32.6	17.7	58.2	—	108.5
Total Assets	\$6,638.7	\$ 5,256.4	\$ 8,153.6	\$ (9,208.9)	\$ 10,839.8
<b>Liabilities and Equity (Deficit)</b>					
<b>Current Liabilities:</b>					
Current maturities of long-term debt	\$17.9	\$—	\$—	\$—	\$ 17.9
Current portion of long-term lease obligations	—	58.6	141.5	—	200.1
Accounts payable	—	248.8	246.4	—	495.2
Affiliates payable, net	1,935.1	—	—	(1,935.1)	—
Notes payable - affiliate	—	—	5.0	(5.0)	—
Advance payments and customer deposits	—	39.2	163.8	(3.3)	199.7
Accrued taxes	0.2	18.5	68.8	—	87.5
Accrued interest	60.0	1.7	0.5	—	62.2
Other current liabilities	4.3	84.7	189.9	—	278.9
Total current liabilities	2,017.5	451.5	815.9	(1,943.4)	1,341.5
Long-term debt	5,768.3	99.6	—	—	5,867.9
Long-term lease obligations	—	1,320.0	3,220.5	—	4,540.5
Notes payable - affiliate	—	—	305.1	(305.1)	—
Deferred income taxes	247.2	—	—	(247.2)	—
Other liabilities	12.2	54.3	429.9	—	496.4
Total liabilities	8,045.2	1,925.4	4,771.4	(2,495.7)	12,246.3
<b>Commitments and Contingencies (See Note 15)</b>					
<b>Equity (Deficit):</b>					
Common stock	—	39.4	81.9	(121.3)	—
Additional paid-in capital	1,237.5	3,958.6	1,395.2	(5,353.8)	1,237.5
Accumulated other comprehensive income	44.0	—	9.0	(9.0)	44.0
(Accumulated deficit) retained earnings	(2,688.0)	(667.0)	1,896.1	(1,229.1)	(2,688.0)
Total equity (deficit)	(1,406.5)	3,331.0	3,382.2	(6,713.2)	(1,406.5)

Total Liabilities and Equity (Deficit)	\$6,638.7	\$ 5,256.4	\$ 8,153.6	\$(9,208.9 )	\$ 10,839.8
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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 14. Supplemental Guarantor Information, Continued:

## Condensed Consolidating Balance Sheet (Unaudited)

As of December 31, 2017

(Millions)	Windstream Services	Guarantors	Non- Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$—	\$ 2.5	\$ 40.9	\$—	\$ 43.4
Accounts receivable, net	—	185.2	461.1	(3.3 )	643.0
Notes receivable - affiliate	—	5.0	—	(5.0 )	—
Affiliates receivable, net	—	18.3	1,949.8	(1,968.1 )	—
Inventories	—	76.9	16.1	—	93.0
Prepaid expenses and other	26.8	44.3	83.2	—	154.3
Total current assets	26.8	332.2	2,551.1	(1,976.4 )	933.7
Investments in consolidated subsidiaries	5,603.7	575.9	401.0	(6,580.6 )	—
Notes receivable - affiliate	—	306.9	—	(306.9 )	—
Goodwill	657.2	1,712.8	472.4	—	2,842.4
Other intangibles, net	479.8	461.7	512.9	—	1,454.4
Net property, plant and equipment	5.8	1,318.3	4,067.7	—	5,391.8
Deferred income taxes	—	460.7	205.2	(295.1 )	370.8
Other assets	24.5	15.5	51.2	—	91.2
Total Assets	\$6,797.8	\$ 5,184.0	\$ 8,261.5	\$ (9,159.0 )	\$ 11,084.3
Liabilities and Equity (Deficit)					