

WINDSTREAM HOLDINGS, INC.

Form 10-Q

November 07, 2016

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 September 30, 2016

or

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

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

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

(501) 748-7000
(Registrants'
telephone number,
including area
code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Windstream Holdings, Inc. Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Windstream Services, LLC Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

As of October 31, 2016, 96,114,653 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 77.

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*No reportable information under this item.

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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		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Revenues and sales:				
Service revenues	\$1,318.9	\$1,451.2	\$3,990.8	\$4,210.2
Product sales	26.0	47.4	87.1	128.1
Total revenues and sales	1,344.9	1,498.6	4,077.9	4,338.3
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	677.5	703.9	2,013.5	2,069.1
Cost of products sold	21.5	41.5	74.6	111.8
Selling, general and administrative	190.1	215.8	590.8	656.5
Depreciation and amortization	321.0	350.5	934.0	1,033.0
Merger and integration costs	2.9	3.1	10.5	74.5
Restructuring charges	2.5	5.3	12.8	15.7
Total costs and expenses	1,215.5	1,320.1	3,636.2	3,960.6
Operating income	129.4	178.5	441.7	377.7
Dividend income on CS&L common stock	—	17.6	17.6	30.6
Other income (expense), net	0.6	(0.2)	(2.5)	7.9
Net (loss) gain on disposal of investment in CS&L common stock	(2.1)	—	15.2	—
Net (loss) gain on early extinguishment of debt	(20.1)	7.6	(18.0)	(35.8)
Other-than-temporary impairment loss on investment in CS&L common stock	—	—	(181.9)	—
Interest expense	(216.4)	(230.2)	(653.5)	(588.8)
Loss before income taxes	(108.6)	(26.7)	(381.4)	(208.4)
Income tax benefit	(42.4)	(19.5)	(84.8)	(95.3)
Net loss	\$(66.2)	\$(7.2)	\$(296.6)	\$(113.1)
Basic and diluted loss per share:				
Net loss	(\$.72)	(\$.08)	(\$3.19)	(\$1.16)

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		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net loss	\$(66.2)	\$(7.2)	\$(296.6)	\$(113.1)
Other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding (loss) gain arising during the period	—	(200.4)	156.1	(309.7)
Gain on disposal recognized in the period	—	—	(51.5)	—
Other-than-temporary impairment loss recognized in the period	—	—	181.9	—
Change in available-for-sale securities	—	(200.4)	286.5	(309.7)
Interest rate swaps:				
Unrealized loss on designated interest rate swaps	(5.9)	(25.4)	(17.5)	(13.1)
Amortization of net unrealized losses on de-designated interest rate swaps	0.8	2.9	3.0	10.0
Income tax benefit	1.9	8.7	5.6	1.2
Change in interest rate swaps	(3.2)	(13.8)	(8.9)	(1.9)
Postretirement and pension plans:				
Change in net actuarial gain (loss) for employee benefit plans	0.1	—	0.5	(0.6)
Plan curtailment	—	(3.0)	(5.5)	(16.4)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.1	0.2	0.2	0.7
Amortization of prior service credits	(0.3)	(0.8)	(0.9)	(3.4)
Income tax benefit	—	1.6	2.2	7.5
Change in postretirement and pension plans	(0.1)	(2.0)	(3.5)	(12.2)
Other comprehensive (loss) income	(3.3)	(216.2)	274.1	(323.8)
Comprehensive loss	\$(69.5)	\$(223.4)	\$(22.5)	\$(436.9)

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)	September 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 61.4	\$ 31.3
Accounts receivable (less allowance for doubtful accounts of \$29.3 and \$33.1, respectively)	649.7	643.9
Inventories	80.3	79.5
Prepaid expenses and other	129.6	120.6
Total current assets	921.0	875.3
Goodwill	4,213.6	4,213.6
Other intangibles, net	1,365.3	1,504.7
Net property, plant and equipment	5,238.8	5,279.8
Investment in CS&L common stock	—	549.2
Other assets	84.9	95.5
Total Assets	\$ 11,823.6	\$ 12,518.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$ 13.4	\$ 5.9
Current portion of long-term lease obligations	164.5	152.7
Accounts payable	327.8	430.1
Advance payments and customer deposits	183.9	193.9
Accrued taxes	77.6	84.1
Accrued interest	93.1	78.4
Other current liabilities	288.1	322.0
Total current liabilities	1,148.4	1,267.1
Long-term debt	4,852.7	5,164.6
Long-term lease obligations	4,875.7	5,000.4
Deferred income taxes	199.7	287.4
Other liabilities	496.8	492.2
Total liabilities	11,573.3	12,211.7
Commitments and Contingencies (See Note 14)		
Shareholders' Equity:		
Common stock, \$.0001 par value, 166.7 shares authorized, 96.1 and 96.7 shares issued and outstanding, respectively	—	—
Additional paid-in capital	569.3	602.9
Accumulated other comprehensive loss	(10.3) (284.4
Accumulated deficit	(308.7) (12.1
Total shareholders' equity	250.3	306.4
Total Liabilities and Shareholders' Equity	\$ 11,823.6	\$ 12,518.1

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

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WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net loss	\$(296.6)	\$(113.1)
Adjustments to reconcile net loss to net cash provided from operations:		
Depreciation and amortization	934.0	1,033.0
Provision for doubtful accounts	33.1	37.1
Share-based compensation expense	31.8	42.9
Deferred income taxes	(80.0)	(103.3)
Net gain on disposal of investment in CS&L common stock	(15.2)	—
Noncash portion of net loss on early extinguishment of debt	(51.9)	(15.0)
Other-than-temporary impairment loss on investment in CS&L common stock	181.9	—
Amortization of unrealized losses on de-designated interest rate swaps	3.0	10.0
Plan curtailment	(5.5)	(16.5)
Other, net	1.2	(13.0)
Changes in operating assets and liabilities, net		
Accounts receivable	(35.9)	(58.9)
Prepaid income taxes	(9.7)	4.3
Prepaid expenses and other	17.9	(9.1)
Accounts payable	(91.3)	(37.9)
Accrued interest	14.8	34.2
Accrued taxes	(6.4)	(2.0)
Other current liabilities	18.3	8.2
Other liabilities	(10.9)	(3.8)
Other, net	(10.5)	(40.8)
Net cash provided from operating activities	622.1	756.3
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(753.4)	(744.4)
Proceeds from the sale of property	6.3	—
Grant funds received for broadband stimulus projects	—	23.5
Network expansion funded by Connect America Fund - Phase I	—	(67.4)
Change in restricted cash	—	6.7
Other, net	(6.5)	8.9
Net cash used in investing activities	(753.6)	(772.7)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(44.1)	(354.1)
Payment received from CS&L in spin-off	—	1,035.0
Repayments of debt and swaps	(2,919.6)	(2,098.6)
Proceeds of debt issuance	3,340.0	1,620.0
Debt issuance costs	(12.3)	(4.3)
Stock repurchases	(28.9)	(20.0)
Payments under long-term lease obligations	(113.2)	(59.3)
Payments under capital lease obligations	(53.1)	(24.7)
Other, net	(7.2)	(8.2)

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Net cash provided from financing activities	161.6	85.8
Increase in cash and cash equivalents	30.1	69.4
Cash and Cash Equivalents:		
Beginning of period	31.3	27.8
End of period	\$61.4	\$97.2
Supplemental Cash Flow Disclosures:		
Interest paid, net of interest capitalized	\$629.3	\$545.0
Income taxes paid, net	\$8.3	\$0.8

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

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WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 2015	\$ 602.9	\$ (284.4)	\$ (12.1)	\$306.4
Net loss	—	—	(296.6)	(296.6)