

WINDSTREAM HOLDINGS, INC.

Form 10-Q

May 04, 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
X 1934

For the quarterly period ended March 31, 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

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 May 1, 2018, 204,577,765 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 86.

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*No reportable information under this item.

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WINDSTREAM HOLDINGS, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

| (Millions, except per share amounts) | Three Months Ended | |
|--|--------------------|------------|
| | March 31, | |
| | 2018 | 2017 |
| Revenues and sales: | | |
| Service revenues | \$1,435.4 | \$1,344.4 |
| Product sales | 18.9 | 21.3 |
| Total revenues and sales | 1,454.3 | 1,365.7 |
| Costs and expenses: | | |
| Cost of services (exclusive of depreciation and amortization included below) | 736.9 | 683.8 |
| Cost of products sold | 16.8 | 20.8 |
| Selling, general and administrative | 228.8 | 213.8 |
| Depreciation and amortization | 381.8 | 338.5 |
| Merger, integration and other costs | 7.3 | 57.3 |
| Restructuring charges | 13.7 | 7.4 |
| Total costs and expenses | 1,385.3 | 1,321.6 |
| Operating income | 69.0 | 44.1 |
| Other (expense) income, net | (2.3) | 2.6) |
| Net loss on early extinguishment of debt | — | (3.2) |
| Interest expense | (223.1) | (211.8) |
| Loss before income taxes | (156.4) | (168.3) |
| Income tax benefit | (35.0) | (57.0) |
| Net loss | \$(121.4) | \$(111.3) |
| Basic and diluted loss per share: | | |
| Net loss | (\$.65) | (\$.89) |

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 March 31, | |
|--|------------------------------------|-----------|
| | 2018 | 2017 |
| Net loss | \$(121.4) | \$(111.3) |
| Other comprehensive income (loss): | | |
| Interest rate swaps: | | |
| Unrealized gain on designated interest rate swaps | 14.8 | 3.4 |
| Amortization of net unrealized losses on de-designated interest rate swaps | 0.9 | 1.5 |
| Income tax expense | (4.0) | (1.9) |
| Change in interest rate swaps | 11.7 | 3.0 |
| Postretirement and pension plans: | | |
| Amounts included in net periodic benefit cost: | | |
| Amortization of net actuarial loss | 0.1 | — |
| Amortization of prior service credits | (1.3) | (0.2) |
| Income tax benefit | 0.3 | 0.1 |
| Change in postretirement and pension plans | (0.9) | (0.1) |
| Other comprehensive income | 10.8 | 2.9 |
| Comprehensive loss | \$(110.6) | \$(108.4) |

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

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WINDSTREAM HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (Millions, except par value) | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$60.5 | \$ 43.4 |
| Accounts receivable (less allowance for doubtful accounts of \$26.4 and \$29.7, respectively) | 594.8 | 643.0 |
| Inventories | 90.3 | 93.0 |
| Prepaid expenses and other | 197.9 | 153.1 |
| Total current assets | 943.5 | 932.5 |
| Goodwill | 2,868.0 | 2,842.4 |
| Other intangibles, net | 1,405.9 | 1,454.4 |
| Net property, plant and equipment | 5,263.6 | 5,391.8 |
| Deferred income taxes | 389.8 | 370.8 |
| Other assets | 110.5 | 92.4 |
| Total Assets | \$10,981.3 | \$ 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 | 194.3 | 188.6 |
| Accounts payable | 444.1 | 494.0 |
| Advance payments and customer deposits | 199.9 | 207.3 |
| Accrued taxes | 75.7 | 89.5 |
| Accrued interest | 87.1 | 52.6 |
| Other current liabilities | 269.0 | 342.1 |
| Total current liabilities | 1,288.0 | 1,543.4 |
| Long-term debt | 5,929.3 | 5,674.6 |
| Long-term lease obligations | 4,592.8 | 4,643.3 |
| Other liabilities | 508.4 | 521.9 |
| Total liabilities | 12,318.5 | 12,383.2 |
| Commitments and Contingencies (See Note 15) | | |
| Shareholders' Deficit: | | |
| Common stock, \$.0001 par value, 375.0 shares authorized, 204.6 and 182.7 shares issued and outstanding, respectively | — | — |
| Additional paid-in capital | 1,228.9 | 1,191.9 |
| Accumulated other comprehensive income | 33.9 | 21.4 |
| Accumulated deficit | (2,600.0) | (2,512.2) |
| Total shareholders' deficit | (1,337.2) | (1,298.9) |
| Total Liabilities and Shareholders' Deficit | \$10,981.3 | \$ 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) | Three Months Ended March 31, | |
|---|------------------------------------|-----------|
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$(121.4) | \$(111.3) |
| Adjustments to reconcile net loss to net cash provided from operations: | | |
| Depreciation and amortization | 381.8 | 338.5 |
| Provision for doubtful accounts | 5.6 | 9.6 |
| Share-based compensation expense | 9.9 | 16.8 |
| Deferred income taxes | (34.7) | (55.2) |
| Net loss on early extinguishment of debt | — | 3.2 |
| Other, net | 10.8 | 2.2 |
| Changes in operating assets and liabilities, net | | |
| Accounts receivable | 43.7 | 33.8 |
| Prepaid income taxes | (3.0) | (5.6) |
| Prepaid expenses and other | (15.5) | (30.5) |
| Accounts payable | (36.3) | (61.5) |
| Accrued interest | 34.7 | 29.9 |
| Accrued taxes | (16.7) | (2.3) |
| Other current liabilities | (25.5) | (5.3) |
| Other liabilities | (1.7) | 2.4 |
| Other, net | 7.6 | (11.0) |
| Net cash provided from operating activities | 239.3 | 153.7 |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (217.6) | (243.4) |
| Cash acquired from EarthLink | — | 5.0 |
| Acquisition of MASS | (37.6) | — |
| Other, net | 0.4 | (2.5) |
| Net cash used in investing activities | (254.8) | (240.9) |
| Cash Flows from Financing Activities: | | |
| Dividends paid to shareholders | — | (23.7) |
| Proceeds from issuance of stock | — | 9.6 |
| Repayments of debt and swaps | (217.1) | (1,154.6) |
| Proceeds from debt issuance | 313.0 | 1,315.6 |
| Debt issuance costs | (2.8) | (7.0) |
| Payments under long-term lease obligations | (44.9) | (40.6) |
| Payments under capital lease obligations | (13.1) | (8.7) |
| Other, net | (2.5) | (11.0) |
| Net cash provided from financing activities | 32.6 | 79.6 |
| Increase (decrease) in cash and cash equivalents | 17.1 | (7.6) |
| Cash and Cash Equivalents: | | |
| Beginning of period | 43.4 | 59.1 |
| End of period | \$60.5 | \$51.5 |
| Supplemental Cash Flow Disclosures: | | |
| Interest paid, net of interest capitalized | \$184.9 | \$168.9 |

Income taxes refunded, net \$(3.2) \$(0.2)

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 | — | — | (121.4) | (121.4) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in postretirement and pension plans | — | (0.9) | — | (0.9) |
| Amortization of unrealized losses on de-designated interest rate swaps | — | 0.7 | — | 0.7 |
| Change in designated interest rate swaps | — | 11.0 | — | 11.0 |
| Comprehensive income (loss) | — | 10.8 | (121.4) | (110.6) |
| Share-based compensation | 4.3 | — | — | 4.3 |
| 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 | (1.4) | — | — | (1.4) |
| Balance at March 31, 2018 | \$ 1,228.9 | \$ 33.9 | \$ (2,600.0) | \$(1,337.2) |

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| (Millions) | Three Months Ended | |
|--|--------------------|------------|
| | March 31, | |
| | 2018 | 2017 |
| Revenues and sales: | | |
| Service revenues | \$1,435.4 | \$1,344.4 |
| Product sales | 18.9 | 21.3 |
| Total revenues and sales | 1,454.3 | 1,365.7 |
| Costs and expenses: | | |
| Cost of services (exclusive of depreciation and amortization included below) | 736.9 | 683.8 |
| Cost of products sold | 16.8 | 20.8 |
| Selling, general and administrative | 228.3 | 213.5 |
| Depreciation and amortization | 381.8 | 338.5 |
| Merger, integration and other costs | 7.3 | 57.3 |
| Restructuring charges | 13.7 | 7.4 |
| Total costs and expenses | 1,384.8 | 1,321.3 |
| Operating income | 69.5 | 44.4 |
| Other (expense) income, net | (2.3) | 2.6 |
| Net loss on early extinguishment of debt | — | (3.2) |
| Interest expense | (223.1) | (211.8) |
| Loss before income taxes | (155.9) | (168.0) |
| Income tax benefit | (34.9) | (56.9) |
| Net loss | \$(121.0) | \$(111.1) |

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 Ended March 31, | |
|--|------------------------------------|-----------|
| | 2018 | 2017 |
| Net loss | \$(121.0) | \$(111.1) |
| Other comprehensive income (loss): | | |
| Interest rate swaps: | | |
| Unrealized gain on designated interest rate swaps | 14.8 | 3.4 |
| Amortization of net unrealized losses on de-designated interest rate swaps | 0.9 | 1.5 |
| Income tax expense | (4.0) | (1.9) |
| Change in interest rate swaps | 11.7 | 3.0 |
| Postretirement and pension plans: | | |
| Amounts included in net periodic benefit cost: | | |
| Amortization of net actuarial loss | 0.1 | — |
| Amortization of prior service credits | (1.3) | (0.2) |
| Income tax benefit | 0.3 | 0.1 |
| Change in postretirement and pension plans | (0.9) | (0.1) |
| Other comprehensive income | 10.8 | 2.9 |
| Comprehensive loss | \$(110.2) | \$(108.2) |

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

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WINDSTREAM SERVICES, LLC

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (Millions) | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$60.5 | \$ 43.4 |
| Accounts receivable (less allowance for doubtful accounts of \$26.4 and \$29.7, respectively) | 594.8 | 643.0 |
| Inventories | 90.3 | 93.0 |
| Prepaid expenses and other | 197.9 | 153.1 |
| Total current assets | 943.5 | 932.5 |
| Goodwill | 2,868.0 | 2,842.4 |
| Other intangibles, net | 1,405.9 | 1,454.4 |
| Net property, plant and equipment | 5,263.6 | 5,391.8 |
| Deferred income taxes | 389.8 | 370.8 |
| Other assets | 110.5 | 92.4 |
| Total Assets | \$10,981.3 | \$ 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 | 194.3 | 188.6 |
| Accounts payable | 444.1 | 494.0 |
| Advance payments and customer deposits | 199.9 | 207.3 |
| Accrued taxes | 75.7 | 89.5 |
| Accrued interest | 87.1 | 52.6 |
| Other current liabilities | 269.0 | 342.1 |
| Total current liabilities | 1,288.0 | 1,543.4 |
| Long-term debt | 5,929.3 | 5,674.6 |
| Long-term lease obligations | 4,592.8 | 4,643.3 |
| Other liabilities | 508.4 | 521.9 |
| Total liabilities | 12,318.5 | 12,383.2 |
| Commitments and Contingencies (See Note 15) | | |
| Member Deficit: | | |
| Additional paid-in capital | 1,223.7 | 1,187.1 |
| Accumulated other comprehensive income | 33.9 | 21.4 |
| Accumulated deficit | (2,594.8) | (2,507.4) |
| Total member deficit | (1,337.2) | (1,298.9) |
| Total Liabilities and Member Deficit | \$10,981.3 | \$ 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) | Three Months Ended March 31, | |
|---|------------------------------------|-----------|
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$(121.0) | \$(111.1) |
| Adjustments to reconcile net loss to net cash provided from operations: | | |
| Depreciation and amortization | 381.8 | 338.5 |
| Provision for doubtful accounts | 5.6 | 9.6 |
| Share-based compensation expense | 9.9 | 16.8 |
| Deferred income taxes | (34.7) | (55.2) |
| Net loss on early extinguishment of debt | — | 3.2 |
| Other, net | 10.8 | 2.2 |
| Changes in operating assets and liabilities, net | | |
| Accounts receivable | 43.7 | 33.8 |
| Prepaid income taxes | (3.0) | (5.6) |
| Prepaid expenses and other | (15.5) | (30.5) |
| Accounts payable | (36.3) | (61.5) |
| Accrued interest | 34.7 | 29.9 |
| Accrued taxes | (16.7) | (2.3) |
| Other current liabilities | (25.4) | (6.1) |
| Other liabilities | (1.7) | 2.4 |
| Other, net | 7.6 | (11.0) |
| Net cash provided from operating activities | 239.8 | 153.1 |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (217.6) | (243.4) |
| Cash acquired from EarthLink | — | 5.0 |
| Acquisition of MASS | (37.6) | — |
| Other, net | 0.4 | (2.5) |
| Net cash used in investing activities | (254.8) | (240.9) |
| Cash Flows from Financing Activities: | | |
| Distributions to Windstream Holdings, Inc. | (0.5) | (24.3) |
| Contribution from Windstream Holdings, Inc. | — | 9.6 |
| Repayments of debt and swaps | (217.1) | (1,154.6) |
| Proceeds from debt issuance | 313.0 | 1,315.6 |
| Debt issuance costs | (2.8) | (7.0) |
| Payments under long-term lease obligations | (44.9) | (40.6) |
| Payments under capital lease obligations | (13.1) | (8.7) |
| Other, net | (2.5) | (9.8) |
| Net cash provided from financing activities | 32.1 | 80.2 |
| Increase (decrease) in cash and cash equivalents | 17.1 | (7.6) |
| Cash and Cash Equivalents: | | |
| Beginning of period | 43.4 | 59.1 |
| End of period | \$60.5 | \$51.5 |
| Supplemental Cash Flow Disclosures: | | |
| Interest paid, net of interest capitalized | \$184.9 | \$168.9 |

Income taxes refunded, net \$(3.2) \$(0.2)

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 | — | — | (121.0) | (121.0) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in postretirement and pension plans | — | (0.9) | — | (0.9) |
| Amortization of unrealized losses on de-designated interest rate swaps | — | 0.7 | — | 0.7 |
| Change in designated interest rate swaps | — | 11.0 | — | 11.0 |
| Comprehensive income (loss) | — | 10.8 | (121.0) | (110.2) |
| Share-based compensation | 4.3 | — | — | 4.3 |
| Contributions from Windstream Holdings, Inc.: | | | | |
| 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 | (1.4) | — | — | (1.4) |
| Distributions payable to Windstream Holdings, Inc. | (0.4) | — | — | (0.4) |
| Balance at March 31, 2018 | \$ 1,223.7 | \$ 33.9 | \$ (2,594.8) | \$(1,337.2) |

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.

Windstream Holdings and its domestic subsidiaries, including Windstream Services, file a consolidated federal income tax return. As such, Windstream Services and its subsidiaries are not separate taxable entities for federal and certain state income tax purposes. In instances when Windstream Services does not file a separate return, income taxes as presented within the accompanying consolidated financial statements attribute current and deferred income taxes of

Windstream Holdings to Windstream Services and its subsidiaries in a manner that is systematic, rational and consistent with the asset and liability method. Income tax provisions presented for Windstream Services and its subsidiaries are prepared under the “separate return method.” The separate return method represents a hypothetical computation assuming that the reported revenue and expenses of Windstream Services and its subsidiaries were incurred by separate taxable entities.

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

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 |
|----------------------------|----------------------|-------------------------------|--------------------|
| Assets | | | |
| Accounts receivable | \$643.0 | \$ — | \$643.0 |
| Prepaid expenses and other | \$153.1 | \$ 26.0 | \$179.1 |
| Other assets | \$92.4 | \$ 20.9 | \$113.3 |

| | | | |
|--|-------------|------------|-------------|
| Deferred income taxes | \$370.8 | \$ (12.0) | \$358.8 |
| Liabilities | | | |
| 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) |

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

The impact of adoption of ASU 2014-09 on our consolidated statement of operations and consolidated balance sheets is as follows:

| (Millions) | Three Months Ended March 31, 2018 | | |
|--|--------------------------------------|---|----------------|
| | Under ASC 605 | Effect of Adoption of ASU 2014-09 | As reported |
| Revenue and sales | | | |
| Service revenues | \$1,434.4 | \$ 1.0 | \$1,435.4 |
| Product sales | \$18.9 | \$ — | \$18.9 |
| Costs and expenses | | | |
| Cost of services | \$736.4 | \$ 0.5 | \$736.9 |
| Selling, general and administrative | \$228.2 | \$ 0.6 | \$228.8 |
| Income tax benefit | \$(35.0) | \$ — | \$(35.0) |
| Net loss | \$(121.3) | \$ (0.1) | \$(121.4) |
| | March 31, 2018 | | |
| (Millions) | Effect of | | |
| | Under ASC 605 | Adoption of ASU 2014-09 | As reported |
| Assets | | | |
| Accounts receivable | \$594.8 | \$ — | \$ 594.8 |
| Prepaid expenses and other | \$165.5 | \$ 32.4 | \$ 197.9 |
| Other assets | \$96.2 | \$ 14.3 | \$ 110.5 |
| Deferred income taxes | \$401.8 | \$ (12.0) | \$ 389.8 |
| Liabilities | | | |
| Advance payments and customer deposits | \$200.4 | \$ (0.5) | \$ 199.9 |
| Other current liabilities | \$268.9 | \$ 0.1 | \$ 269.0 |
| Other liabilities | \$508.5 | | |