

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, | December 31, |
|---|------------|--------------|
| | 2018 | 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 |
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| 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 | |