

WINDSTREAM CORP  
Form 10-Q  
November 04, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**  
**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number 1-32422

**WINDSTREAM CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-0792300  
(I.R.S. Employer  
Identification No.)

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

72212  
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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.  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).  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):

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).  YES  NO

Number of common shares outstanding as of October 31, 2010: 483,698,665

The Exhibit Index is located on page 51.

**Table of Contents**

**WINDSTREAM CORPORATION**

**FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income (Unaudited)</u>	2
<u>Consolidated Balance Sheets – September 30, 2010 (Unaudited) and December 31, 2009</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	4
<u>Consolidated Statements of Shareholders’ Equity (Unaudited)</u>	5
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	47
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	48
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	*
Item 3. <u>Defaults Upon Senior Securities</u>	*
Item 4. <u>Reserved</u>	*
Item 5. <u>Other Information</u>	*
Item 6. <u>Exhibits</u>	49

\* No reportable information under this item.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues and sales:</b>				
Service revenues	\$ 939.0	\$ 704.9	\$ 2,665.4	\$ 2,140.2
Product sales	26.8	29.4	65.6	102.0
Total revenues and sales	965.8	734.3	2,731.0	2,242.2
<b>Costs and expenses:</b>				
Cost of services (exclusive of depreciation and amortization included below)	350.4	254.5	978.6	759.7
Cost of products sold	23.5	26.0	57.7	89.9
Selling, general, administrative and other	130.1	86.1	368.3	261.2
Depreciation and amortization	179.9	133.8	503.0	399.1
Restructuring charges	0.2	7.5	0.7	7.5
Merger and integration costs	11.5	1.0	51.5	2.4
Total costs and expenses	695.6	508.9	1,959.8	1,519.8
<b>Operating income</b>	<b>270.2</b>	<b>225.4</b>	<b>771.2</b>	<b>722.4</b>
Other income (expense), net	(3.0)	(2.2)	(4.2)	(0.8)
Interest expense	(132.3)	(97.5)	(378.9)	(295.0)
Income before income taxes	134.9	125.7	388.1	426.6
Income taxes	49.7	45.7	149.8	167.6
Net income	\$ 85.2	\$ 80.0	\$ 238.3	\$ 259.0
<b>Basic and diluted earnings per share</b>				
Net income	\$ .18	\$ .18	\$ .51	\$ .59

See the accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****CONSOLIDATED BALANCE SHEETS**

(Millions)	(Unaudited) September 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 155.2	\$ 1,062.9
Accounts receivable (less allowance for doubtful accounts of \$27.5 and \$18.5, respectively)	348.5	291.7
Inventories	33.6	26.1
Deferred income taxes	21.3	21.7
Prepaid expenses and other	108.2	53.6
Assets held for sale	40.0	
<b>Total current assets</b>	<b>706.8</b>	<b>1,456.0</b>
Goodwill	3,187.9	2,344.4
Other intangibles, net	1,682.1	1,253.3
Net property, plant and equipment	4,438.7	3,992.6
Other assets	116.7	99.1
<b>Total Assets</b>	<b>\$ 10,132.2</b>	<b>\$ 9,145.4</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 130.5	\$ 23.8
Current portion of interest rate swaps	44.7	45.8
Accounts payable	137.2	120.7
Advance payments and customer deposits	121.1	95.2
Accrued dividends	121.2	109.2
Accrued taxes	71.3	60.6
Accrued interest	107.2	156.0
Other current liabilities	131.4	98.0
<b>Total current liabilities</b>	<b>864.6</b>	<b>709.3</b>
Long-term debt	6,555.8	6,271.4
Deferred income taxes	1,563.9	1,372.0
Other liabilities	532.5	532.0
<b>Total liabilities</b>	<b>9,516.8</b>	<b>8,884.7</b>
<b>Commitments and Contingencies (See Note 7)</b>		
<b>Shareholders Equity:</b>		
Common stock, \$0.0001 par value, 1,000.0 shares authorized, 483.7 and 436.8 shares issued and outstanding, respectively	0.1	
Additional paid-in capital	556.1	83.6
Accumulated other comprehensive loss	(208.6)	(208.3)
Retained earnings	267.8	385.4
<b>Total shareholders equity</b>	<b>615.4</b>	<b>260.7</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 10,132.2</b>	<b>\$ 9,145.4</b>

See the accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Millions)	Nine Months Ended September 30,	
	2010	2009
<b>Cash Provided from Operations:</b>		
Net income	\$ 238.3	\$ 259.0
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	503.0	399.1
Provision for doubtful accounts	34.0	32.4
Stock-based compensation expense	12.2	14.3
Pension expense	46.5	68.8
Deferred taxes	59.8	92.4
Other, net	10.5	8.2
Pension contribution	(41.0)	(2.5)
Changes in operating assets and liabilities, net:		
Accounts receivable	(28.1)	(10.5)
Prepaid and other expenses	(38.0)	(20.9)
Accounts payable	(34.9)	(17.0)
Other current liabilities	21.1	1.0
Accrued interest	(39.5)	(74.4)
Other liabilities	(26.0)	(10.6)
Other, net	(6.4)	2.1
Net cash provided from operations	711.5	741.4
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(272.7)	(206.8)
Acquisition of NuVox, net of cash acquired	(198.4)	
Acquisition of Iowa Telecom, net of cash acquired	(253.6)	
Other, net	2.8	0.3
Net cash used in investing activities	(721.9)	(206.5)
<b>Cash Flows from Financing Activities:</b>		
Dividends paid on common shares	(343.8)	(328.6)
Stock repurchase		(43.5)
Repayment of debt	(1,335.2)	(160.7)
Proceeds of debt issuance, net of discount	812.0	
Debt issuance costs	(11.6)	
Other, net	(18.7)	(8.7)
Net cash used in financing activities	(897.3)	(541.5)
Decrease in cash and cash equivalents	(907.7)	(6.6)
<b>Cash and Cash Equivalents:</b>		
Beginning of period	1,062.9	296.6
End of period	\$ 155.2	\$ 290.0
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid	\$ 420.6	\$ 367.5
Income taxes paid, net of refunds	\$ 121.6	\$ 95.0

See the accompanying notes to unaudited interim consolidated financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)**

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2009	\$ 83.6	\$ (208.3)	\$ 385.4	\$ 260.7
Net income			238.3	238.3
Other comprehensive income, net of tax: (see Note 10)				
Change in employee benefit plans		7.3		7.3
Unrealized holding losses on interest rate swaps		(7.6)		(7.6)
Comprehensive income (loss)		(0.3)	238.3	238.0
Stock-based compensation expense (see Note 12)	12.2			12.2
Stock issued to NuVox shareholders (see Note 3)	185.0			185.0
Stock issued to Iowa Telecom shareholders (see Note 3)	280.8			280.8
Other	(5.4)			(5.4)
Dividends of \$0.75 per share declared to stockholders			(355.9)	(355.9)
Balance at September 30, 2010	\$ 556.2	\$ (208.6)	\$ 267.8	\$ 615.4

See the accompanying notes to unaudited interim consolidated financial statements.



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**Table of Contents**

**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Preparation of Interim Financial Statements:**

**Formation of Windstream** - On July 17, 2006, Alltel Corporation, which has subsequently merged with Verizon Communications, Inc. ( Alltel ), completed the spin off of its wireline telecommunications division, which immediately merged with and into Valor Communications Group Inc. ( Valor ), with Valor continuing as the surviving corporation. The resulting company was renamed Windstream Corporation ( Windstream , we , or the Company ), which is a customer-focused telecommunications company that provides phone, high-speed Internet and digital television services. The Company also offers a wide range of IP-based voice and data services and advanced phone systems and equipment to businesses and government agencies. As of September 30, 2010, the Company served approximately 3.3 million access lines and 1.3 million high-speed Internet customers located primarily in rural areas across 23 states.

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission ( 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 at December 31, 2009 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 presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for 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 Windstream s Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the SEC on February 24, 2010.

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States, 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 and accompanying notes 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 accompanying notes, and such differences could be material.

Certain amounts previously reported have been reclassified to conform to the current year presentation of the consolidated financial statements. These changes and reclassifications did not impact net or comprehensive income.

**2. Accounting Changes:**

**Recently Adopted Authoritative Guidance**

**Fair Value Measurements** - Effective January 1, 2010, Windstream adopted revised authoritative guidance for fair value measurements. This guidance required companies to disclose the reason for significant transfers of fair value measurements between Levels 1 and 2 in the fair value hierarchy. In addition, it clarified and expanded disclosure requirements on the valuation techniques and significant inputs used in Level 2 and 3 fair value measurements. The amended guidance also requires companies to disclose changes in valuation techniques between periods, along with the reason for the change. The Company s fair value measurement disclosures are contained in Note 6.

**Recently Issued Authoritative Guidance**

**Revenue Arrangements with Multiple Element Deliverables** - On September 23, 2009, the Financial Accounting Standards Board ( FASB ) reached a consensus on accounting for revenue arrangements with multiple deliverables. The consensus addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect this guidance to have a material

impact on its consolidated financial statements.

Fair Value Measurement - In January 2010, the FASB issued authoritative guidance related to fair value measurements. This guidance requires separate disclosure for purchase, sale, issuance and settlement activity in the reconciliation of Level 3 fair value measurements. This guidance is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****3. Acquisitions and Dispositions:**

**Acquisition of Iowa Telecom** - On June 1, 2010, we completed our previously announced acquisition of Iowa Telecommunications Services, Inc. ( Iowa Telecom ), based in Newton, Iowa. This acquisition provides Windstream with a sizable operating presence in the upper Midwest. As of June 1, 2010, Iowa Telecom provided service to approximately 208,000 incumbent local exchange carrier ( ILEC ) access lines, 39,000 competitive local exchange carrier ( CLEC ) access lines, 96,000 high-speed Internet customers and 25,000 digital television customers in Iowa and Minnesota. Pursuant to the merger agreement, each share of Iowa Telecom common stock was converted into the right to receive 0.804 shares of our common stock and \$7.90 in cash. We paid \$253.6 million in cash, net of cash acquired, and issued approximately 26.7 million shares of our common stock valued at \$280.8 million on the date of issuance. In addition, we repaid outstanding indebtedness, including related interest rate swap liabilities, of Iowa Telecom of approximately \$628.9 million. The cash portion of the purchase price and debt repayment were funded through cash on hand, principally unspent funds from the \$1,100.0 million debt offering completed in 2009, and through a draw down of approximately \$375.0 million against our revolving line of credit.

**Acquisition of NuVox** - On February 8, 2010, we completed our previously announced acquisition of NuVox, Inc. ( NuVox ), a competitive local exchange carrier based in Greenville, South Carolina. Consistent with the Company's focus on growing revenues from business customers, the completion of the NuVox acquisition added approximately 104,000 data and integrated solution connections in 16 states and provides opportunities for significant operating efficiencies with contiguous Windstream markets. In accordance with the NuVox merger agreement, Windstream acquired all of the issued and outstanding shares of NuVox common stock for \$198.4 million in cash, net of cash acquired, and issued approximately 18.7 million shares of Windstream common stock valued at \$185.0 million on the date of issuance. Windstream also repaid outstanding indebtedness of NuVox, including related interest rate swap liabilities, of approximately \$281.3 million.

**Acquisition of Lexcom** - On December 1, 2009, Windstream acquired all of the issued and outstanding shares of Lexcom, Inc. ( Lexcom ) for approximately \$138.7 million in cash, net of cash acquired. As of the date of acquisition, Lexcom served approximately 22,000 access lines, 9,000 high-speed Internet customers and 12,000 cable television customers in North Carolina. This acquisition increased Windstream's presence in North Carolina and provided opportunities for operating synergies with contiguous Windstream markets.

**Acquisition of D&E** - On November 10, 2009, Windstream acquired D&E Communications, Inc. ( D&E ), which as of the date of acquisition served approximately 110,000 ILEC access lines, 35,000 CLEC access lines, 45,000 high-speed Internet customers and 9,000 cable television customers. This acquisition increased Windstream's presence in Pennsylvania and provides opportunities for operating synergies with contiguous Windstream markets. Pursuant to the merger agreement, Windstream acquired all of the issued and outstanding shares of D&E common stock for \$56.6 million, net of cash acquired, and issued 9.4 million shares of Windstream common stock valued at \$94.6 million on the date of issuance. Windstream also repaid outstanding indebtedness of D&E totaling \$182.4 million.

These transactions have been accounted for as business acquisitions with Windstream serving as the accounting acquirer. We are conducting the appraisals necessary to assess the fair values of the assets acquired and liabilities assumed and the amount of goodwill recognized as of their respective acquisition dates. The valuations of certain assets and liabilities of both NuVox and Iowa Telecom, primarily deferred income taxes and certain acquired contingencies, were not complete as of September 30, 2010. As such, the valuations of assets and liabilities acquired from NuVox and Iowa Telecom are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the acquisition date. Upon finalization, which is expected to occur prior to December 31, 2010, any changes to the preliminary valuation of assets acquired and liabilities assumed may result in significant adjustments to the fair value of goodwill.

The costs of the acquisitions were allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with amounts exceeding fair value recognized as goodwill. Goodwill associated with the acquired businesses is not expected to be tax deductible, and is attributable to the workforce of acquired businesses and synergies expected to arise with contiguous Windstream markets after the acquisitions. The fair values of the assets acquired and liabilities assumed were determined using income, cost, and market approaches. Acquired wireless



**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****3. Acquisitions and Dispositions, Continued:**

licenses, which have been designated as held for sale, were valued using a market approach, while identified intangible assets consisting primarily of franchise rights and customer lists were valued primarily on the basis of the present value of future cash flows, which is an income approach. Significant assumptions utilized in the income approach were based on Company 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 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 the long-term debt and related interest rate swap agreements assumed were determined based on quoted prices for the repayment of these instruments.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed related to the acquisitions of NuVox and Iowa Telecom. Adjustments to the preliminary assessment of fair value assets and liabilities of NuVox and Iowa Telecom were primarily associated with changes in deferred taxes that existed as of the date of acquisition.

(Millions)	NuVox Adjusted Preliminary Allocation	Iowa Telecom Adjusted Preliminary Allocation
<b>Fair value of assets acquired:</b>		
Assets held for sale (a)	\$	\$ 23.0
Other current assets	64.8	37.4
Property, plant and equipment	241.7	334.8
Goodwill	272.6	566.4
Franchise rights (b)		230.0
Cable franchise rights (b)		5.6
Customer lists (c)	180.0	130.6
Trade name (d)	4.2	3.2
Other assets		11.8
<b>Total assets acquired</b>	<b>763.3</b>	<b>1,342.8</b>
<b>Fair value of liabilities assumed:</b>		
Current maturities of long-term debt	(260.7)	(610.2)
Other current liabilities	(63.7)	(45.1)
Deferred income taxes on acquired assets	(28.7)	(124.9)
Other liabilities	(26.8)	(28.2)
<b>Total liabilities assumed</b>	<b>(379.9)</b>	<b>(808.4)</b>
Common stock issued (inclusive of additional paid-in capital)	(185.0)	(280.8)
<b>Cash paid, net of cash acquired</b>	<b>\$ 198.4</b>	<b>\$ 253.6</b>

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- (a) The Company has designated wireless licenses acquired from Iowa Telecom as held for sale.
- (b) Franchise rights will be amortized on a straight-line basis over an estimated life of 15 to 30 years.
- (c) Customer lists will be amortized using the sum-of-years digit methodology over an estimated useful life of nine years.
- (d) Trade names will be amortized on a straight-line basis over an estimated useful life of one year.

The accompanying consolidated financial statements reflect the combined operations of Windstream, Iowa Telecom, NuVox, Lexcom and D&E for the periods following the respective dates of acquisition. Efforts to integrate the operations of these businesses are ongoing. Employee severance and transaction costs incurred in conjunction with

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****3. Acquisitions and Dispositions, Continued:**

these acquisitions have been expensed to merger and integration expense in the accompanying consolidated statements of income in accordance with the revised authoritative guidance for business combinations (see Note 9). In addition, the Company does not consider the acquisitions of Iowa Telecom, NuVox, Lexcom and D&E (the acquired businesses) to be significant, individually or in the aggregate, and therefore has not provided separate disclosure of the pro forma financial results, post-acquisition revenue or net income for these businesses.

During the second quarter of 2010, certain wireless licenses acquired from D&E and Iowa Telecom were designated as held for sale and are included in assets held for sale in the accompanying September 30, 2010 consolidated balance sheet at their carrying amount of \$39.6 million, which was based on their estimated fair value at acquisition date. These assets are available for immediate sale in their present condition, and an active program to locate a buyer has been initiated.

Disposition of Out-of-Territory Product Distribution - On August 21, 2009, Windstream completed the sale of its out-of-territory product distribution operations to Walker and Associates of North Carolina, Inc. ( Walker ) for approximately \$5.3 million in total consideration. The out-of-territory product distribution operations primarily consisted of product inventory with a carrying value of \$4.9 million and customer relationships outside of Windstream's telecommunications operating territories. These operations were not central to the Company's strategic goals in its core communications business. Product revenues from these operations totaled \$8.1 million and \$38.5 million during the three and nine month periods ended September 30, 2009, respectively, with related cost of products sold of \$7.6 million and \$34.3 million for the same periods in 2009.

**4. Goodwill and Other Intangible Assets:**

As of January 1, 2010, the Company completed its annual impairment review of goodwill in accordance with authoritative guidance and determined that no write-down in the carrying value was required. The Company assesses impairment of its goodwill by evaluating the carrying value of its shareholder's equity against the current fair market value of its outstanding equity, where the current fair market value of the Company's equity is equal to its current market capitalization plus a control premium of 20 percent, estimated through a review of market observable transactions.

The following table summarizes the changes in the carrying amount of goodwill during the nine months ended September 30, 2010:

(Millions)	
Balance at December 31, 2009	\$ 2,344.4
Acquisition of Iowa Telecom (see Note 3)	566.4
Acquisition of NuVox (see Note 3)	272.6
Adjustment of D&E (a)	2.2
Adjustment of Lexcom (a)	2.3
Balance at September 30, 2010	\$ 3,187.9

- (a) Adjustments to the carrying value of D&E and Lexcom goodwill were attributable to adjustments in the fair values of assets acquired and liabilities assumed in these acquisitions recognized during the first quarter of 2010.





**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****4. Goodwill and Other Intangible Assets, Continued:**

Intangible assets subject to amortization were as follows:

(Millions)	September 30, 2010			December 31, 2009		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights (a)	\$ 1,285.1	\$ (61.2)	\$ 1,223.9	\$ 1,055.1	\$ (32.3)	\$ 1,022.8
Customer lists (a)	703.7	(266.2)	437.5	393.1	(193.7)	199.4
Cable franchise rights (a)	39.8	(23.3)	16.5	34.1	(22.4)	11.7
Wireless licenses (b)				16.6		16.6
Other (a)	10.5	(6.3)	4.2	3.2	(0.4)	2.8
Balance	\$ 2,039.1	\$ (357.0)	\$ 1,682.1	\$ 1,502.1	\$ (248.8)	\$ 1,253.3

(a) Increases in the gross cost of intangible assets for the nine month period ended September 30, 2010 were associated with the acquisitions of NuVox and Iowa Telecom, as previously discussed in Note 3.

(b) During the second quarter of 2010, the Company reclassified the \$16.6 million of wireless licenses acquired from D&E to assets held for sale in the accompanying September 30, 2010 consolidated balance sheet.

Amortization expense for intangible assets subject to amortization was \$42.3 million and \$108.2 million for the three and nine months ended September 30, 2010, respectively, as compared to \$19.1 million and \$59.4 million for the same periods in 2009. Amortization expense on intangible assets is estimated to be \$41.0 million for the remainder of 2010. Estimated amortization for each of the fiscal years ending December 31, 2011, 2012, 2013 and 2014 is \$148.8 million, \$132.7 million, \$111.7 million and \$97.5 million, respectively.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****5. Debt and Derivative Instruments:**

Long-term debt was as follows:

(Millions)	September 30, 2010	December 31, 2009
<b>Issued by Windstream Corporation:</b>		
Senior secured credit facility, Tranche A - variable rates, due July 17, 2011 (a)	\$ 100.9	\$ 114.4
Senior secured credit facility, Tranche A2 - variable rates, due July 17, 2013 (a)	182.4	168.9
Senior secured credit facility, Tranche B - variable rates, due July 17, 2013	287.6	289.8
Senior secured credit facility, Tranche B2 - variable rates, due December 17, 2015	1,067.2	1,075.3
<b>Debentures and notes, without collateral:</b>		
2016 Notes 8.625%, due August 1, 2016 (b)	1,746.0	1,746.0
2017 Notes 7.875%, due November 1, 2017	1,100.0	1,100.0
2013 Notes 8.125%, due August 1, 2013	800.0	800.0
2019 Notes 7.000%, due March 15, 2019 (b)	500.0	500.0
2018 Notes 8.125%, due September 1, 2018 (b) (c)	400.0	
<b>Issued by subsidiaries of the Company:</b>		
Valor Telecommunications Enterprises LLC and Valor Telecommunications Finance Corp. - 7.75%, due February 15, 2015 (b) (d)	400.0	400.0
Windstream Holdings of the Midwest, Inc. - 6.75%, due April 1, 2028 (b) (d)	100.0	100.0
<b>Debentures and notes, without collateral:</b>		
Windstream Georgia Communications LLC - 6.50%, due November 15, 2013	40.0	40.0
Discount on long-term debt, net of premiums	(37.8)	(39.2)
	6,686.3	6,295.2
Less current maturities	(130.5)	(23.8)
<b>Total long-term debt</b>	<b>\$ 6,555.8</b>	<b>\$ 6,271.4</b>

(a) Effective October 18, 2010, the Company extended the maturity of an additional \$13.5 million of the Tranche A of the senior secured credit facilities outstanding to Tranche A2, which will be due July 17, 2013. This extension is reflected in the table above and in the accompanying balance sheet as of September 30, 2010.

(b) Certain of the Company's debentures and notes are callable by the Company at various premiums on early redemption.

(c) On July 19, 2010, the Company issued \$400.0 million in aggregate principal amount of 8.125 percent senior unsecured notes due September 1, 2018 at an issue price of 99.248 percent to yield 8.25 percent. Proceeds from the issuance were used to repay borrowings against our line of credit, which together with cash on hand, was used to pay the cash portion of the Iowa Telecom and NuVox purchase prices and to repay the outstanding debt of these businesses.

(d)

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The Company's collateralized Valor debt is equally and ratably secured with debt under the senior secured credit facilities. Debt held by Windstream Holdings of the Midwest, Inc., a subsidiary of the Company, is secured solely by the assets of that subsidiary.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****5. Debt and Derivative Instruments, Continued:**

During the first nine months of 2010, the Company borrowed and later repaid \$415.0 million under the revolving line of credit in its senior secured credit facility. At September 30, 2010, the amount available for borrowing under the revolving line of credit was \$491.4 million. Letters of credit are deducted in determining the total amount available for borrowing under the revolving line 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 \$500.0 million. The variable interest rate on our revolving line of credit ranged from 1.6 percent to 2.6 percent, and the weighted average rate was 2.4 percent during the nine months ended September 30, 2010. Of the \$500.0 million available under the revolving line of credit, \$481.8 million will expire July 17, 2013, due to an extension of an additional \$25.0 million, \$22.5 million and \$25.0 million on July 13, 2010, August 17, 2010 and October 25, 2010, respectively, and \$18.2 million is set to expire on July 17, 2011.

The terms of the credit facility and indentures include customary covenants that, among other things, require Windstream to maintain certain financial ratios and restrict its 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, as well as restrictions on capital expenditures, which must not exceed a specified amount for any fiscal year. The Company was in compliance with these covenants as of September 30, 2010.

In addition, certain of the Company's debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under the Company's 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 of Windstream's outstanding voting stock, or breach of certain other conditions set forth in the borrowing agreements. The Company was in compliance with these covenants as of September 30, 2010.

Maturities for debt outstanding as of September 30, 2010 for each of the twelve month periods ended September 30, 2011, 2012, 2013, 2014 and 2015 are \$130.5 million, \$35.3 million, \$1,268.1 million, \$20.8 million and \$410.8 million, respectively.

Interest expense was as follows for the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
Interest expense related to long-term debt	\$ 119.2	\$ 83.6	\$ 338.0	\$ 258.2
Impacts of interest rate swaps	13.6	14.3	42.0	38.0
Other interest expense	0.1		0.3	0.1
Less capitalized interest expense	(0.6)	(0.4)	(1.4)	(1.3)
<b>Total interest expense</b>	<b>\$ 132.3</b>	<b>\$ 97.5</b>	<b>\$ 378.9</b>	<b>\$ 295.0</b>

Windstream has entered into four identical pay fixed, receive variable interest rate swap agreements totaling \$1,600.0 million in notional value in order to mitigate the interest rate risk inherent in its variable rate senior secured credit facilities. The four interest rate swap agreements amortize quarterly to a notional value of \$906.3 million at maturity on July 17, 2013. The variable rate received resets on the seventeenth day of each quarter to the three-month LIBOR (London-Interbank Offered Rate). The Company's interest rate swap agreements are designated as cash flow hedges of the interest rate risk created by the variable interest rate paid on Tranche B of the senior secured credit facilities, which has varying dates of maturities from July 17, 2013 to December 17, 2015. The variable interest rate paid on Tranche B is based on the three-month LIBOR, and it also resets on the seventeenth day of each quarter.

After the completion of a refinancing transaction in February 2007, a portion of one of the four interest rate swap agreements with a notional value of \$125.0 million (\$91.2 million as of September 30, 2010) was de-designated as the corresponding hedged item was repaid. Therefore,

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the undesignated portion of the swap agreement was no longer an effective hedge of the variable interest rate paid on Tranche B.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****5. Debt and Derivative Instruments, Continued:**

Set forth below is information related to the Company's interest rate swap agreements:

(Millions, except for percentages)	September 30, 2010	December 31, 2009
Unamortized notional value:		
Designated portion	\$ 1,021.3	\$ 1,078.7
Undesignated portion	\$ 91.2	\$ 96.3
Fair value of interest rate swap agreements (see Note 6):		
Designated portion	\$ (120.5)	\$ (107.8)
Undesignated portion	\$ (10.8)	\$ (9.6)
Weighted average fixed rate paid	5.60%	5.60%
Variable rate received	0.52%	0.28%

The effectiveness of the Company's cash flow hedges is assessed each quarter using the Change in Variable Cash Flow Method. This method utilizes the matched terms principle of measuring effectiveness, and requires the floating-rate leg of the swap and the hedged variable cash flows of the asset or liability to be based on the same interest rate index. It also requires the variable interest rates of both instruments to reset on the same dates. Furthermore, there should be no other differences in the terms of the hedge and the hedged item, and the likelihood of default by the interest rate swap counterparties must be assessed as being unlikely in order to conclude that there is no ineffectiveness in the hedging relationship. The Company performs and documents this assessment each quarter, and it concluded at September 30, 2010 that there was no ineffectiveness to be recognized in earnings in any of its four interest rate swap agreements that are designated as hedges.

The Company recognizes all derivative instruments at fair value in the accompanying consolidated balance sheets as either assets or liabilities depending on the rights or obligations under the related contracts. Changes in fair value of these derivative instruments were as follows for the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
Change in fair value of effective portion, net of tax (a)	\$ (1.8)	\$ (4.7)	\$ (7.9)	\$ 11.8
Change in fair value of undesignated portion (b)	\$ (0.3)	\$ (0.6)	\$ (1.2)	\$ 1.8

(a) Included as a component of other comprehensive income (loss), which will be reclassified into earnings as the hedged transaction affects earnings.

(b) Represents non-cash income (loss) recorded in other income (expense), net in the accompanying unaudited interim consolidated statements of income.

Net amounts due related to designated interest rate swap agreements are recorded as adjustments to interest expense in the accompanying unaudited interim consolidated statements of income when earned or payable.

**6. 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

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****6. Fair Value Measurements, Continued:**

Assets and liabilities are classified into the hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Company's non-financial assets and liabilities include goodwill, intangible assets and asset retirement obligations that are measured at fair value on a non-recurring basis. No event occurred during the nine months ended September 30, 2010 requiring these non-financial assets or liabilities to be recognized at fair value (see Note 4).

The Company's 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.

The fair values of the Company's cash equivalents and interest rate swaps were determined using the following inputs:

(Millions)	September 30, 2010	December 31, 2009
<b>Level 1 measurements:</b>		
Cash equivalents (a)	\$	\$ 1,062.9
<b>Level 2 measurements:</b>		
Interest rate swaps (b) (See Note 5)	\$ (131.3)	\$ (117.4)

(a) Recognized at fair value in cash and cash equivalents on the unaudited consolidated balance sheet as of September 30, 2010 and consolidated balance sheet as of December 31, 2009.

(b) Recognized at fair value in current portion of interest rate swaps and other liabilities on the unaudited consolidated balance sheet as of September 30, 2010 and consolidated balance sheet as of December 31, 2009.

The Company's cash equivalents are primarily highly liquid, actively traded money market funds with next day access. The fair values of the interest rate swaps were determined based on the present value of expected future cash flows using LIBOR swap rates which are observable at commonly quoted intervals for the full term of the swaps using discount rates appropriate with consideration given to the Company's non-performance risk. As of September 30, 2010 and December 31, 2009, the fair value of the Company's interest rate swaps were reduced by \$4.7 million and \$5.3 million, respectively, to reflect the Company's non-performance risk. The Company's non-performance risk is assessed based on the current trading discount of its Tranche B senior secured credit facility as the swap agreements are secured by the same collateral. In addition, the Company routinely monitors and updates its evaluation of counterparty risk, and based on such evaluation has determined that the swap agreements continue to meet the requirements of an effective cash flow hedge. The counterparty to each of the four swap agreements is a bank with a current credit rating at or above A+.

The fair value and carrying value of the Company's long-term debt, including current maturities, was as follows:



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(Millions)	September 30, 2010	December 31, 2009
Fair value	\$ 6,927.8	\$ 6,340.7
Carrying value	\$ 6,686.3	\$ 6,295.2

The fair value of the corporate bonds was calculated based on quoted market prices of the specific issuances in an active market when available. When an active market is not available for certain bonds, bank notes and revolving line of credit, the fair market value is determined based on bid prices and broker quotes. In calculating the fair market value of the Windstream Holdings of the Midwest, Inc. and Windstream Georgia Communications LLC bonds, an appropriate market price for the same or similar instruments in an active market is used considering credit quality, nonperformance risk and maturity of the instrument.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****7. Commitments and Contingencies:**

The Company is party to various legal proceedings. Although the ultimate resolution of these various proceedings cannot be determined at this time, management of the Company does not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on the future consolidated results of income, cash flows or financial condition of the Company.

In addition, management of the Company is currently not aware of any environmental matters that, individually or in the aggregate, would have a material effect on the consolidated financial condition or results of operations of the Company.

**8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions:**

Windstream maintains a non-contributory qualified defined benefit pension plan. Prior to establishing the pension plan pursuant to the spin off in 2006, the Company's employees participated in a substantially equivalent plan maintained by Alltel. Future benefit accruals for all eligible nonbargaining employees covered by the pension plan ceased as of December 31, 2005 (December 31, 2010 for employees who had attained age 40 with two years of service as of December 31, 2005). The Company also maintains supplemental executive retirement plans that provide unfunded, non-qualified supplemental retirement benefits to a select group of current and former management employees. Additionally, the Company provides postretirement healthcare and life insurance benefits for eligible employees. Employees share in, and the Company funds, the costs of these plans as benefits are paid.

The components of pension expense (including provision for executive retirement agreements) were as follows for the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
Benefits earned during the year	\$ 3.9	\$ 3.3	\$ 11.8	\$ 10.0
Interest cost on benefit obligation	15.2	14.3	45.5	42.9
Amortization of net actuarial loss	11.4	17.8	34.3	53.4
Amortization of prior service credit			(0.1)	(0.1)
Expected return on plan assets	(15.0)	(12.4)	(45.0)	(37.4)
Net periodic benefit expense	\$ 15.5	\$ 23.0	\$ 46.5	\$ 68.8

The components of postretirement expense were as follows for the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
Benefits earned during the year	\$	\$ 0.1	\$ 0.1	\$ 0.1
Interest cost on benefit obligation	1.2	2.1	3.8	6.3
Amortization of net actuarial loss	0.2		0.5	
Amortization of prior service credit	(2.0)	(0.8)	(6.2)	(2.4)
Net periodic benefit expense (income)	\$ (0.6)	\$ 1.4	\$ (1.8)	\$ 4.0

Windstream contributed \$6.5 million to the postretirement plan during the nine months ended September 30, 2010, and expects to contribute an additional \$4.2 million for postretirement benefits throughout the remainder of 2010, excluding amounts that will be funded by participant contributions to the plans. The Company contributed \$41.0 million to the pension plan during the three months ended September 30, 2010 and

does not expect to make any additional contributions throughout the remainder of 2010.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****9. Merger, Integration and Restructuring Charges:**

Costs triggered by strategic transactions, including transaction, rebranding and system conversion costs are unpredictable by nature and primarily include charges for accounting, legal, broker fees and other miscellaneous costs associated with the completed acquisitions of the acquired businesses. These costs are considered indirect or general and are expensed when incurred in accordance with authoritative guidance on business combinations. Restructuring charges, consisting primarily of severance and employee benefit costs, are triggered by the Company's continued evaluation of its operating structure and identification of opportunities for increased operational efficiency and effectiveness. These costs should not necessarily be viewed as non-recurring, are reviewed regularly by the Company's decision makers and are included as a component of compensation targets.

The following is a summary of the merger, integration and restructuring charges recorded during the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
<b>Merger and integration costs</b>				
Transaction costs associated with acquisitions (a)	\$ 4.1	\$ 1.0	\$ 25.3	\$ 2.4
Employee related transition costs (b)	3.5		19.5	
Computer system and conversion costs	1.6		3.2	
Signage and other rebranding costs	2.3		3.5	
<b>Total merger and integration costs</b>	<b>11.5</b>	<b>1.0</b>	<b>51.5</b>	<b>2.4</b>
<b>Restructuring charges (c)</b>	<b>0.2</b>	<b>7.5</b>	<b>0.7</b>	<b>7.5</b>
<b>Total merger, integration and restructuring charges</b>	<b>\$ 11.7</b>	<b>\$ 8.5</b>	<b>\$ 52.2</b>	<b>\$ 9.9</b>

- (a) During the first nine months of 2010, the Company incurred acquisition related costs for accounting, legal, broker fees and other miscellaneous costs associated with the acquisitions of Iowa Telecom, NuVox, Lexcom and D&E, as well as the pending acquisition of Q-Comm Corporation ( Q-Comm ). See Note 14 for discussion of the pending acquisition. In the first nine months of 2009, the Company incurred \$2.4 million in acquisition costs associated with the acquisitions of D&E and Lexcom.
- (b) During the nine months ended September 30, 2010, the Company incurred \$19.5 million in employee transition costs, primarily severance related, in conjunction with the integration of D&E, Lexcom, NuVox and Iowa Telecom.
- (c) During the nine months ended September 30, 2010, the Company recorded \$0.7 million in severance charges in conjunction with restructuring of its warehouse and assignment operations. During the nine months ended September 30, 2009, the Company incurred \$7.5 million in severance and employee benefit costs primarily related to a workforce reduction initiated to better align the Company's focus on high-speed Internet and enterprise opportunities.

The following is a summary of activity related to the liabilities associated with the Company's merger, integration and restructuring charges for the nine months ended September 30, 2010:

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(Millions)

Balance, beginning of period	\$ 6.6
Merger, integration and restructuring charges	52.2
Cash outlays during the period	(54.6)

Balance, end of period \$ 4.2

As of September 30, 2010, the Company had unpaid merger, integration and restructuring liabilities totaling \$4.2 million, which included \$1.9 million of accrued severance and related employee costs primarily associated with the integration of acquired businesses. This liability is included in other current liabilities in the accompanying unaudited interim consolidated balance sheet. The severance and related employee costs will be paid as positions are eliminated. Each of these payments will be funded through operating cash flows.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****10. Comprehensive Income (Loss):**

Comprehensive income was as follows for the three and nine month periods ended September 30:

(Millions)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
Net income	\$ 85.2	\$ 80.0	\$ 238.3	\$ 259.0
Other comprehensive income:				
Defined benefit pension plans:				
Change in net actuarial loss for employee benefit plans			(2.0)	(11.2)
Amounts included in net periodic benefit cost:				
Amortization of prior service credits			(0.1)	(0.1)
Amortization of net actuarial loss	11.4	17.8	34.3	53.4
Income tax expense	(4.4)	(6.8)	(12.4)	(16.1)
Change in pension plan	7.0	11.0	19.8	26.0
Postretirement plan:				
Change in net actuarial gain (loss) for employee benefit plans			(6.7)	12.9
Amounts included in net periodic benefit cost:				
Amortization of prior service credits	(2.0)	(0.8)	(6.2)	(2.4)
Amortization of net actuarial loss	0.2		0.5	
Income tax (expense) benefit	0.7	0.3	(0.1)	(4.8)
Change in postretirement plan	(1.1)	(0.5)	(12.5)	5.7
Change in employee benefit plans	5.9	10.5	7.3	31.7
Interest rate swaps:				
Unrealized holding gain (loss) on interest rate swaps	(2.9)	(7.4)	(12.3)	20.2
Income tax (expense) benefit	1.1	2.8	4.7	(8.1)
Unrealized holding gain (loss) on interest rate swaps	(1.8)	(4.6)	(7.6)	12.1
Comprehensive income	\$ 89.3	\$ 85.9	\$ 238.0	\$ 302.8

Accumulated other comprehensive loss was as follows:

(Millions)	September 30, 2010	December 31, 2009
Pension and postretirement plans	\$ (133.1)	\$ (140.4)

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Unrealized holding losses on interest rate swaps:		
Designated portion	(74.4)	(66.5)
Undesignated portion	(1.1)	(1.4)
Accumulated other comprehensive loss	\$ (208.6)	\$ (208.3)

### 11. Earnings per Share:

Basic earnings per share was computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding during each period. Windstream's non-vested restricted shares that contain 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 basic earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings attributable to common shares and participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Earnings per common share was computed by dividing the sum of distributed and undistributed earnings allocated to common shareholders by the weighted average number of common

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****11. Earnings per Share, Continued:**

shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating non-vested restricted shares based on the pro-rata weighted average shares outstanding during the period.

Beginning in the first quarter of 2010, all new restricted stock grants that contain performance based vesting provisions also contain a forfeitable right to 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 September 30, 2010, the performance conditions have not been satisfied for these shares.

Following is a reconciliation of net income and weighted average shares used in computing both basic and diluted earnings per share for the three and nine month periods ended September 30:

(Millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
<b>Basic and diluted earnings per share:</b>				
Numerator:				
Net income	\$ 85.2	\$ 80.0	\$ 238.3	\$ 259.0
Net income allocable to participating non-vested restricted shares	(0.8)	(0.7)	(2.2)	(2.9)
<b>Adjusted net income attributable to common shares</b>	<b>\$ 84.4</b>	<b>\$ 79.3</b>	<b>\$ 236.1</b>	<b>\$ 256.1</b>
Denominator:				
Basic shares outstanding				
Weighted average basic shares outstanding	483.5	436.4	465.1	437.8
Weighted average participating non-vested restricted shares	(3.8)	(3.4)	(2.9)	(4.0)
<b>Weighted average shares outstanding for basic earnings per share</b>	<b>479.7</b>	<b>433.0</b>	<b>462.2</b>	<b>433.8</b>
<b>Basic and diluted earnings per share</b>	<b>\$.18</b>	<b>\$.18</b>	<b>\$.51</b>	<b>\$.59</b>

The calculation of basic earnings per share excludes income attributable to participating non-vested restricted shares from the numerator and excludes the dilutive impact of participating non-vested restricted shares from the denominator.

**12. Stock-Based Compensation Plans:**

Under the Amended and Restated 2006 Equity Incentive Plan (the Incentive Plan), the Company may issue a maximum of 20.0 million equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. Restricted stock, restricted stock units and stock appreciation rights were limited to 18.5 million of the total awards issuable under the Incentive Plan. As of September 30, 2010, the Incentive Plan had remaining capacity of 11.4 million awards, of which 9.9 million were issuable in the form of restricted stock, restricted stock units or stock appreciation rights.

During the nine months ended September 30, 2010, the Windstream board of directors approved grants of restricted stock to officers, executives, non-employee directors and certain management employees. These grants include the standard annual grants to this employee and director group as a key component of their annual incentive compensation plan and a one-time grant to executive officers, other than the CEO, and select members of executive management. The one-time grant was approved to provide a retention incentive for certain executives. The retention grant



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was approved August 3, 2010 and totaled 516,075 shares. For performance based shares granted, the operating target for the first vesting period was approved by the board of directors in February 2010. While achievement of these performance targets remains uncertain, management has determined that it is probable that such targets will be met for fiscal year 2010.

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****12. Stock-Based Compensation Plans, Continued:**

Restricted stock activity for the nine months ended September 30, 2010 was as follows:

	(Thousands) Number of Shares	Weighted Average Fair Value Per Share
Non-vested at December 31, 2009	2,890.7	\$9.90
Granted	2,334.7	\$10.62
Vested	(1,256.3)	\$10.54
Forfeited	(47.8)	\$9.78
Non-vested at September 30, 2010	3,921.3	\$10.12

The vesting periods and grant date fair value of shares issued during the nine months ended September 30, 2010 were as follows:

(Thousands)	Common Shares
Vest ratably over remaining service period, up to four years (a)	222.4
Vest ratably over a three-year service period	876.7
Vest contingently over a three-year performance period	596.9
Vest three years from date of grant, service based	566.6
Vest one year from date of grant, service based (b)	72.1
Total granted	2,334.7
Grant date fair value (Millions)	\$ 24.8

(a) In conjunction with the acquisition of Iowa Telecom, Windstream granted 222,400 restricted shares to former Iowa Telecom employees to replace outstanding unvested Iowa Telecom restricted shares held by these same employees as of acquisition date. The vesting provisions of the original grants were retained, including provisions requiring accelerated vesting upon an involuntary termination following a change of control.

(b) Represents shares granted to non-employee directors.

The weighted average grant date fair value for restricted stock granted during the three and nine month periods ended September 30, 2010 was \$6.1 million and \$24.8 million, respectively, compared to \$1.4 million and \$16.2 million for the same periods in 2009. At September 30, 2010, unrecognized compensation expense for non-vested Windstream restricted shares was \$23.5 million. The unrecognized compensation expense for these non-vested restricted shares has a remaining weighted average vesting period of 1.6 years. Stock-based compensation expense was \$4.7 million and \$12.2 million for the three and nine month periods ended September 30, 2010, respectively as compared to \$3.7 million and \$14.3 million for the same periods of 2009.



**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****13. Supplemental Guarantor Information:**

In connection with the issuance of the 2013 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes and the 2019 Notes ( the guaranteed notes ), certain of the Company's wholly-owned subsidiaries (the Guarantors ) provide guarantees of those debentures. These guarantees are full and unconditional as well as joint and several. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to the Company. The remaining subsidiaries (the Non-Guarantors ) of Windstream are not guarantors of the guaranteed notes. Following the acquisitions of acquired businesses, the guaranteed notes were amended to include certain subsidiaries of the acquired businesses as guarantors.

The following information presents condensed consolidated statements of income for the three and nine month periods ended September 30, 2010 and 2009, condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009, and condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009 of the parent company, the Guarantors, and the Non-Guarantors. Investments in consolidated subsidiaries are held primarily by the parent company in the net assets of its subsidiaries and have been presented using the equity method of accounting.

**Condensed Consolidated Statement of Income (Unaudited)**  
**Three Months Ended September 30, 2010**

(Millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Revenues and sales:</b>					
Service revenues	\$	\$ 265.1	\$ 678.5	\$ (4.6)	\$ 939.0
Product sales		12.6	14.2		26.8
Total revenues and sales		277.7	692.7	(4.6)	965.8
<b>Costs and expenses:</b>					
Cost of services		87.3	266.4	(3.3)	350.4
Cost of products sold		12.5	11.0		23.5
Selling, general, administrative and other	0.6	29.1	101.7	(1.3)	130.1
Depreciation and amortization		75.7	104.2		179.9
Merger, integration and restructuring			11.7		11.7
Total costs and expenses	0.6	204.6	495.0	(4.6)	695.6
<b>Operating income</b>	(0.6)	73.1	197.7		270.2
Earnings from consolidated subsidiaries	144.4	24.9	0.9	(170.2)	
Other income (expense), net	(1.3)	46.0	(47.7)		(3.0)
Intercompany interest income (expense)	38.0	(23.7)	(14.3)		
Interest expense	(130.3)	(1.8)	(0.2)		(132.3)
Income before income taxes	50.2	118.5	136.4	(170.2)	134.9
Income tax expense (benefit)	(35.0)	33.9	50.8		49.7
Net income	\$ 85.2	\$ 84.6	\$ 85.6	\$ (170.2)	\$ 85.2

**Table of Contents****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****13. Supplemental Guarantor Information, Continued:**

(Millions)	Condensed Consolidated Statement of Income (Unaudited)				
	Three Months Ended September 30, 2009				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Revenues and sales:</b>					
Service revenues	\$	\$ 185.1	\$ 522.1	\$ (2.3)	\$ 704.9
Product sales		16.8	12.6		29.4
Total revenues and sales		201.9	534.7		