WINDSTREAM HOLDINGS, INC.
Form 10-Q
November 07, 2013

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, 2013
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 Corporation	Delaware	001-36093	20-0792300

4001 Rodney Parham Road Little Rock, Arkansas	72212
(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. ý YES ¨ NO
Windstream Corporation ý 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.	ý YES	¨ NO
Windstream Corporation	ý YES	¨ NO

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

Windstream Holdings, Inc.	Large accelerated filer ý	Accelerated filer ¨
	Non-accelerated filer ¨	Smaller reporting company ¨
Windstream Corporation	Large accelerated filer ý	Accelerated filer ¨
	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
Windstream Holdings, Inc. ¨ YES ý NO
Windstream Corporation ¨ YES ý NO

As of October 31, 2013, 596,073,169 shares of common stock of Windstream Holdings, Inc. and 1,000 shares of common stock of Windstream Corporation were outstanding. All of Windstream Corporation's outstanding common stock, for which there is no trading market, is held by Windstream Holdings, Inc.

This Form 10-Q is a combined quarterly report being filed separately by two registrants:Windstream Holdings, Inc. and Windstream Corporation. Windstream Corporation is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Corporation 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 Corporation, and the term "Windstream Corp." shall refer to Windstream Corporation and its subsidiaries.
The Exhibit Index is located on page 75.

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*No reportable information under this item.

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WINDSTREAM HOLDINGS, INC.
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FORM 10-Q
PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per share amounts)	2013	2012	2013	2012
Revenues and sales:				
Service revenues:				
Business	$916.2	$906.4	$2,743.3	$2,694.8
Consumer	323.6	333.6	978.7	1,005.2
Wholesale	147.8	181.9	450.4	539.0
Other	60.3	64.0	180.5	202.3
Total service revenues	1,447.9	1,485.9	4,352.9	4,441.3
Product sales	55.7	59.5	157.2	176.8
Total revenues and sales	1,503.6	1,545.4	4,510.1	4,618.1
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	645.0	671.4	1,933.1	1,987.3
Cost of products sold	47.9	56.8	141.7	159.3
Selling, general and administrative	246.1	229.4	725.2	719.5
Depreciation and amortization	338.4	326.4	1,000.3	958.5
Merger and integration costs	5.1	12.7	17.0	54.4
Restructuring charges	1.5	12.1	9.1	23.3
Total costs and expenses	1,284.0	1,308.8	3,826.4	3,902.3
Operating income	219.6	236.6	683.7	715.8
Other (expense) income, net	(5.6)	(5.3)	(5.0)	4.6
(Loss) gain on early extinguishment of debt	(14.7)	—	(28.5)	1.9
Interest expense	(148.8)	(155.4)	(479.7)	(465.4)
Income from continuing operations before income taxes	50.5	75.9	170.5	256.9
Income taxes	19.9	29.1	47.9	98.0
Income from continuing operations	30.6	46.8	122.6	158.9
Discontinued operations	—	—	—	(0.7)
Net income	$30.6	$46.8	$122.6	$158.2
Basic and diluted earnings per share:				
From continuing operations	$.05	$.08	$.20	$.27
From discontinued operations	—	—	—	—
Net income	$.05	$.08	$.20	$.27

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Net income	$30.6	$46.8	$122.6	$158.2
Other comprehensive (loss) income:				
Interest rate swaps:				
Changes in designated interest rate swaps	(6.9)	(18.8)	21.6	(23.6)
Amortization of unrealized losses on de-designated interest rate swaps	6.0	11.3	31.6	33.0
Income tax benefit (expense)	0.4	2.9	(20.3)	(3.6)
Unrealized holding (losses) gains on interest rate swaps	(0.5)	(4.6)	32.9	5.8
Postretirement and pension plans:				
Change in net actuarial gain for postretirement plan	—	0.6	4.2	3.8
Plan curtailment	(6.5)	—	(31.8)	(9.6)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.5	0.6	1.3	1.8
Amortization of prior service credits	(2.2)	(3.1)	(7.0)	(9.1)
Income tax benefit	3.2	0.5	13.0	4.8
Change in postretirement and pension plans	(5.0)	(1.4)	(20.3)	(8.3)
Other comprehensive (loss) income	(5.5)	(6.0)	12.6	(2.5)
Comprehensive income	$25.1	$40.8	$135.2	$155.7

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	September 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$73.4	$132.0
Restricted cash	13.5	26.5
Accounts receivable (less allowance for doubtful accounts of $40.8 and $42.6, respectively)	634.8	614.1
Inventories	68.5	75.0
Deferred income taxes	96.2	249.5
Prepaid income taxes	19.0	23.3
Prepaid expenses and other	179.2	179.7
Total current assets	1,084.6	1,300.1
Goodwill	4,340.9	4,340.9
Other intangibles, net	2,090.5	2,311.3
Net property, plant and equipment	5,781.0	5,862.7
Other assets	189.7	167.0
Total Assets	$13,486.7	$13,982.0
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current maturities of long-term debt	$86.0	$866.0
Current portion of interest rate swaps	29.6	29.0
Accounts payable	389.5	363.7
Advance payments and customer deposits	223.6	223.3
Accrued dividends	150.7	148.9
Accrued taxes	104.3	104.3
Accrued interest	153.1	113.6
Other current liabilities	298.9	319.6
Total current liabilities	1,435.7	2,168.4
Long-term debt	8,760.8	8,099.8
Deferred income taxes	1,810.4	1,896.3
Other liabilities	625.0	712.7
Total liabilities	12,631.9	12,877.2
Commitments and Contingencies (See Note 6)		
Shareholders’ Equity:		
Common stock, $0.0001 par value, 1,000.0 shares authorized, 596.1 and 588.2 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	835.7	1,098.3
Accumulated other comprehensive income	19.0	6.4
Retained earnings	—	—
Total shareholders’ equity	854.8	1,104.8
Total Liabilities and Shareholders’ Equity	$13,486.7	$13,982.0

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(Millions)	2013	2012
Cash Provided from Operations:		
Net income	$122.6	$158.2
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	1,000.3	958.5
Provision for doubtful accounts	49.8	41.7
Share-based compensation expense	34.0	19.3
Deferred income taxes	59.6	91.9
Unamortized net premium on retired debt	(38.1)	(16.2)
Amortization of unrealized losses on de-designated interest rate swaps	31.6	33.0
Plan curtailment and other, net	(18.5)	(25.7)
Changes in operating assets and liabilities, net		
Accounts receivable	(70.5)	(71.8)
Income tax receivable	0.6	122.2
Prepaid income taxes	3.7	(7.4)
Prepaid expenses and other	(23.7)	(33.1)
Accounts payable	25.8	(2.2)
Accrued interest	39.5	(5.5)
Accrued taxes	—	(10.2)
Other current liabilities	(47.0)	(4.3)
Other liabilities	(16.4)	(2.1)
Other, net	7.4	(2.7)
Net cash provided from operations	1,160.7	1,243.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(666.0)	(809.4)
Broadband network expansion funded by stimulus grants	(28.8)	(68.8)
Changes in restricted cash	13.0	(18.2)
Grant funds received for broadband stimulus projects	53.5	26.5
Disposition of wireless assets	—	57.0
Other, net	—	7.0
Net cash used in investing activities	(628.3)	(805.9)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(444.6)	(440.5)
Repayment of debt and swaps	(4,093.2)	(1,848.6)
Proceeds of debt issuance	3,997.5	1,775.0
Debt issuance costs	(29.7)	(19.0)
Payment under capital lease obligations	(13.8)	(15.3)
Other, net	(7.2)	(1.5)
Net cash used in financing activities	(591.0)	(549.9)
Decrease in cash and cash equivalents	(58.6)	(112.2)
Cash and Cash Equivalents:		
Beginning of period	132.0	227.0
End of period	$73.4	$114.8
Supplemental Cash Flow Disclosures:		

Interest paid	$417.4	$448.9
Income taxes paid (refunded), net	$4.4	$(103.8)

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2012	$1,098.4	$6.4	$—	$1,104.8
Net income	—	—	122.6	122.6
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	(20.3)	—	(20.3)
Amortization of unrealized losses on de-designated interest rate swaps	—	19.5	—	19.5
Changes in designated interest rate swaps	—	13.4	—	13.4
Comprehensive income	—	12.6	122.6	135.2
Share-based compensation expense	20.2	—	—	20.2
Stock options exercised	0.7	—	—	0.7
Stock issued to 401(k) plan	20.4	—	—	20.4
Stock issued to Windstream Pension Plan	27.8	—	—	27.8
Taxes withheld on vested restricted stock and other	(8.2)	—	—	(8.2)
Dividends of $0.75 per share declared to shareholders	(323.5)	—	(122.6)	(446.1)
Balance at September 30, 2013	$835.8	$19.0	$—	$854.8

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

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WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Revenues and sales:				
Service revenues:				
Business	$916.2	$906.4	$2,743.3	$2,694.8
Consumer	323.6	333.6	978.7	1,005.2
Wholesale	147.8	181.9	450.4	539.0
Other	60.3	64.0	180.5	202.3
Total service revenues	1,447.9	1,485.9	4,352.9	4,441.3
Product sales	55.7	59.5	157.2	176.8
Total revenues and sales	1,503.6	1,545.4	4,510.1	4,618.1
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	645.0	671.4	1,933.1	1,987.3
Cost of products sold	47.9	56.8	141.7	159.3
Selling, general and administrative	246.1	229.4	725.2	719.5
Depreciation and amortization	338.4	326.4	1,000.3	958.5
Merger and integration costs	5.1	12.7	17.0	54.4
Restructuring charges	1.5	12.1	9.1	23.3
Total costs and expenses	1,284.0	1,308.8	3,826.4	3,902.3
Operating income	219.6	236.6	683.7	715.8
Other (expense) income, net	(5.6)	(5.3)	(5.0)	4.6
(Loss) gain on early extinguishment of debt	(14.7)	—	(28.5)	1.9
Interest expense	(148.8)	(155.4)	(479.7)	(465.4)
Income from continuing operations before income taxes	50.5	75.9	170.5	256.9
Income taxes	19.9	29.1	47.9	98.0
Income from continuing operations	30.6	46.8	122.6	158.9
Discontinued operations	—	—	—	(0.7)
Net income	$30.6	$46.8	$122.6	$158.2

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

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WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Net income	$30.6	$46.8	$122.6	$158.2
Other comprehensive income (loss):				
Interest rate swaps:				
Changes in designated interest rate swaps	(6.9)	(18.8)	21.6	(23.6)
Amortization of unrealized losses on de-designated interest rate swaps	6.0	11.3	31.6	33.0
Income tax benefit (expense)	0.4	2.9	(20.3)	(3.6)
Unrealized holding (losses) gains on interest rate swaps	(0.5)	(4.6)	32.9	5.8
Postretirement and pension plans:				
Change in net actuarial gain for postretirement plan	—	0.6	4.2	3.8
Plan curtailment	(6.5)	—	(31.8)	(9.6)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.5	0.6	1.3	1.8
Amortization of prior service credits	(2.2)	(3.1)	(7.0)	(9.1)
Income tax benefit	3.2	0.5	13.0	4.8
Change in postretirement and pension plans	(5.0)	(1.4)	(20.3)	(8.3)
Other comprehensive (loss) income	(5.5)	(6.0)	12.6	(2.5)
Comprehensive income	$25.1	$40.8	$135.2	$155.7

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

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WINDSTREAM CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value and number of shares)	September 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$73.4	$132.0
Restricted cash	13.5	26.5
Accounts receivable (less allowance for doubtful accounts of $40.8 and $42.6, respectively)	634.8	614.1
Inventories	68.5	75.0
Deferred income taxes	96.2	249.5
Prepaid income taxes	19.0	23.3
Prepaid expenses and other	179.2	179.7
Total current assets	1,084.6	1,300.1
Goodwill	4,340.9	4,340.9
Other intangibles, net	2,090.5	2,311.3
Net property, plant and equipment	5,781.0	5,862.7
Other assets	189.7	167.0
Total Assets	$13,486.7	$13,982.0
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current maturities of long-term debt	$86.0	$866.0
Current portion of interest rate swaps	29.6	29.0
Accounts payable	389.5	363.7
Payable to Windstream Holdings, Inc.	150.7	—
Advance payments and customer deposits	223.6	223.3
Accrued dividends	—	148.9
Accrued taxes	104.3	104.3
Accrued interest	153.1	113.6
Other current liabilities	298.9	319.6
Total current liabilities	1,435.7	2,168.4
Long-term debt	8,760.8	8,099.8
Deferred income taxes	1,810.4	1,896.3
Other liabilities	625.0	712.7
Total liabilities	12,631.9	12,877.2
Commitments and Contingencies (See Note 6)		
Shareholders’ Equity:		
Common stock, 1,000 shares issued and outstanding	—	—
Common stock, $0.0001 par value, 1.0 billion shares authorized, 588.2 million shares issued and outstanding at December 31, 2012	—	0.1
Additional paid-in capital	835.8	1,098.3
Accumulated other comprehensive income	19.0	6.4
Retained earnings	—	—
Total shareholders’ equity	854.8	1,104.8
Total Liabilities and Shareholders’ Equity	$13,486.7	$13,982.0

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

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WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Nine Months Ended September 30, 2013	2012
Cash Provided from Operations:		
Net income	$122.6	$158.2
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	1,000.3	958.5
Provision for doubtful accounts	49.8	41.7
Share-based compensation expense	34.0	19.3
Deferred income taxes	59.6	91.9
Unamortized net premium on retired debt	(38.1)	(16.2)
Amortization of unrealized losses on de-designated interest rate swaps	31.6	33.0
Plan curtailment and other, net	(18.5)	(25.7)
Changes in operating assets and liabilities, net		
Accounts receivable	(70.5)	(71.8)
Income tax receivable	0.6	122.2
Prepaid income taxes	3.7	(7.4)
Prepaid expenses and other	(23.7)	(33.1)
Accounts payable	25.8	(2.2)
Accrued interest	39.5	(5.5)
Accrued taxes	—	(10.2)
Other current liabilities	(47.0)	(4.3)
Other liabilities	(16.4)	(2.1)
Other, net	7.4	(2.7)
Net cash provided from operations	1,160.7	1,243.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(666.0)	(809.4)
Broadband network expansion funded by stimulus grants	(28.8)	(68.8)
Changes in restricted cash	13.0	(18.2)
Grant funds received for broadband stimulus projects	53.5	26.5
Disposition of wireless assets	—	57.0
Other, net	—	7.0
Net cash used in investing activities	(628.3)	(805.9)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(444.6)	(440.5)
Repayment of debt and swaps	(4,093.2)	(1,848.6)
Proceeds of debt issuance	3,997.5	1,775.0
Debt issuance costs	(29.7)	(19.0)
Payment under capital lease obligations	(13.8)	(15.3)
Other, net	(7.2)	(1.5)
Net cash used in financing activities	(591.0)	(549.9)
Decrease in cash and cash equivalents	(58.6)	(112.2)
Cash and Cash Equivalents:		
Beginning of period	132.0	227.0
End of period	$73.4	$114.8
Supplemental Cash Flow Disclosures:		

Interest paid	$417.4	$448.9
Income taxes paid (refunded), net	$4.4	$(103.8)

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

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WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2012	$1,098.4	$6.4	$—	$1,104.8
Net income	—	—	122.6	122.6
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	(20.3)	—	(20.3)
Amortization of unrealized losses on de-designated interest rate swaps	—	19.5	—	19.5
Changes in designated interest rate swaps	—	13.4	—	13.4
Comprehensive income	—	12.6	122.6	135.2
Share-based compensation expense	20.2	—	—	20.2
Stock options exercised	0.7	—	—	0.7
Stock issued to 401(k) plan	20.4	—	—	20.4
Stock issued to Windstream Pension Plan	27.8	—	—	27.8
Taxes withheld on vested restricted stock and other	(8.2)			(8.2)
Distributions payable to Windstream Holdings, Inc.	(118.8)	—	(30.6)	(149.4)
Dividends of $0.50 per share declared to shareholders	(204.7)	—	(92.0)	(296.7)
Balance at September 30, 2013	$835.8	$19.0	$—	$854.8

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

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 Corporation, and the term "Windstream Corp." shall refer to Windstream Corporation and its subsidiaries.

Change in Organizational Structure – On August 30, 2013, through the creation of a new holding company structure (the "Holding Company Formation"), Windstream Corporation ("Windstream Corp.") became a wholly-owned subsidiary of a new publicly traded parent company, Windstream Holdings, Inc. ("Windstream Holdings"). As the reorganization occurred at the parent company level, the remainder of our subsidiaries, operations and customers were not affected. Therefore, the operations of Windstream Corp. are the same as the operations of Windstream Holdings as of September 30, 2013. Accordingly, the historical financial statements reflect the effect of the Holding Company Formation for all periods presented.

The Holding Company Formation was effected through the merger of Windstream Corp. with and into WIN Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Windstream Holdings, with Windstream Corp. surviving the merger and becoming a direct, wholly-owned subsidiary of Windstream Holdings. At the effective time of the merger, each share of Windstream Corp. common stock, par value $0.0001 per share, issued and outstanding was automatically converted into and was deemed exchanged for one share of Windstream Holdings common stock, par value $0.0001 per share, having the same rights, powers, preferences, qualifications, limitations and restrictions as the Windstream Corp. common stock being converted and exchanged. As a result of the Holding Company Formation, Windstream Holdings common stock replaced the Windstream Corp. common stock on the Nasdaq Global Select Market and on September 3, 2013, began trading under the ticker symbol "WIN". Windstream Corp. common stock no longer trades on any stock market.

At the effective time of the merger, all unvested time-based and performance-based restricted stock and restricted stock units and all unexercised and unexpired options and warrants to purchase Windstream Corp. common stock then outstanding under Windstream Corp.'s equity compensation plans and any other equity incentive plans of Windstream Corp. then in existence which allows for the purchase, grant or issuance of Windstream Corp. common stock, whether or not then exercisable, were assumed by Windstream Holdings. Each restricted share, restricted stock unit, option or warrant assumed by Windstream Holdings under the Holding Company Formation will continue to have, and be subject to, the same terms and conditions as set forth in the applicable equity compensation plan and the applicable agreements thereunder immediately prior to the effective time of the merger.

Following the Holding Company Formation, Windstream Corp. and its guarantor subsidiaries remained the sole obligors on its outstanding debt obligations and, as a result will continue to 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 Corp.'s debt agreements. The existing Windstream Corp. board of directors and officers oversee both companies.

Description of Business – We are a leading provider of advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers in primarily rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 115,000 miles, a robust business sales division and 26 data centers offering managed services and cloud computing.

Business service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services to enterprise and small-business customers, and revenues from other carriers for special access circuits and fiber connections. Consumer service revenues are generated from the provision of high-speed Internet, voice and video services to consumers. Wholesale service revenues include switched access revenues, Universal Service Fund ("USF") revenues and voice and data services sold on a wholesale basis. Other service revenues include USF surcharge revenues, revenues from software, other miscellaneous services and consumer revenues generated in markets where we lease the connection to the customer premise. We no longer offer new consumer service in those areas.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

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, 2012, 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 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, 2012, which was filed with the SEC on February 20, 2013.

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

There are no significant differences between the consolidated results of operations, financial condition, and cash flows of Windstream Holdings and those of Windstream Corp. 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 Corp. to Windstream Holdings. Earnings per share data has not been presented for Windstream Corp., because following the Holding Company Formation, that entity has not issued publicly held common stock as defined in U.S. GAAP. Unless otherwise indicated, the note disclosures included herein pertain to both Windstream Holdings and Windstream Corp.

Supplemental Cash Flow Information – During the nine months ended September 30, 2013, we acquired equipment under capital leases of $50.8 million. We did not acquire any equipment under capital leases during the nine months ended September 30, 2012.

Revision of Prior Period Financial Statements – In connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, we became aware of and corrected an error in the accounting for certain promotional credits for new consumer customers. We have retrospectively adjusted financial information for all prior periods presented to reflect this correction. These errors were non-cash and did not affect our total operating cash flow for any period. We have concluded that the effect is immaterial to the unaudited quarterly financial information. See Notes 2 and 18 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 for further information.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

The following table presents the effect of the revision on our consolidated statements of income for the three and nine month periods ended September 30, 2012:

(Millions, except per share amounts)	Three Months Ended			Nine Months Ended		
	As Previously Reported	Effect of Revision	As Revised	As Previously Reported	Effect of Revision	As Revised
Consumer service revenues	$335.4	$(1.8)	$333.6	$1,010.0	$(4.8)	$1,005.2
Total service revenues	1,487.7	(1.8)	1,485.9	4,446.1	(4.8)	4,441.3
Product sales	64.7	(5.2)	59.5	189.3	(12.5)	176.8
Total revenues and sales	1,552.4	(7.0)	1,545.4	4,635.4	(17.3)	4,618.1
Selling, general, and administrative	225.4	4.0	229.4	713.4	6.1	719.5
Operating income	247.7	(11.1)	236.6	739.2	(23.4)	715.8
Income taxes	33.3	(4.2)	29.1	107.1	(9.1)	98.0
Income from continuing operations	53.7	(6.9)	46.8	173.2	(14.3)	158.9
Net income	53.7	(6.9)	46.8	172.5	(14.3)	158.2
Basic and diluted earnings per share:						
Net income	$.09	($.01)	$.08	$.29	($.02)	$.27

Additionally, certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications did not impact net income or comprehensive income.

Recently Adopted Accounting Standards

Balance Sheet Offsetting – Effective January 1, 2013, we adopted authoritative guidance related to balance sheet offsetting. This guidance requires enhanced disclosures for financial instruments and derivative instruments that are subject to an enforceable master netting arrangement. Other than the additional disclosure requirements, the adoption of these changes had no impact on our consolidated financial statements. See Note 4 for the required disclosures.

Comprehensive Income – Effective January 1, 2013, we adopted authoritative guidance requiring additional disclosure of the effect of significant reclassifications out of accumulated other comprehensive income in the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Other than the additional disclosure requirements, the adoption of these changes had no impact on our consolidated financial statements. See Note 9 for the required disclosures.

Recently Issued Authoritative Guidance

Unrecognized tax benefits - In July 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that requires that unrecognized tax benefits be classified as an offset to deferred tax assets to the extent of any net operating loss carryforwards, similar tax loss carryforwards, or tax credit carryforwards available at the reporting date in the applicable tax jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. An exception would apply if the tax law of the tax jurisdiction does not require us to use, and we do not intend to use, the deferred tax asset for such purpose. Accordingly, this guidance will have no impact to our consolidated financial statements.

There were no other accounting pronouncements recently issued that had or are expected to have a material impact on our consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets has been recorded as goodwill.

In accordance with authoritative guidance, goodwill is to be assigned to a company's reporting units and tested for impairment at least annually using a consistent measurement date, which for us is January 1st of each year. As of January 1, 2013, we determined that we have one reporting unit to test for impairment, which includes all of our operations. We assessed impairment of our goodwill based upon step one of the authoritative guidance by evaluating the carrying value of our shareholders' equity against the current fair market value of our outstanding equity, which was estimated to be equal to our current market capitalization plus a control premium of 20.0 percent. This premium is estimated through a review of recent market observable transactions involving telecommunications companies. As of January 1, 2013, the fair market value of our equity, both including and excluding the control premium, exceeded its carrying value, and accordingly, goodwill is considered not impaired and step two of the impairment test is unnecessary.

Intangible assets were as follows at:

(Millions)	September 30, 2013			December 31, 2012		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	$1,285.1	$(189.7)	$1,095.4	$1,285.1	$(157.6)	$1,127.5
Customer lists	1,914.0	(933.0)	981.0	1,914.0	(747.6)	1,166.4
Cable franchise rights	39.8	(26.8)	13.0	39.8	(25.9)	13.9
Other	37.9	(36.8)	1.1	37.9	(34.4)	3.5
Balance	$3,276.8	$(1,186.3)	$2,090.5	$3,276.8	$(965.5)	$2,311.3

Intangible asset amortization methodology and useful lives were as follows as of September 30, 2013:

Intangible Assets	Amortization Methodology	Estimated Useful Life
Franchise rights	straight-line	30 years
Customer lists	sum of years digits	9 - 15 years
Cable franchise rights	straight-line	15 years
Other	straight-line	1 - 3 years

Amortization expense for intangible assets subject to amortization was $72.5 million and $220.8 million for the three and nine month periods ended September 30, 2013, as compared to $85.7 million and $259.3 million for the same periods in 2012. Amortization expense for intangible assets is expected to be $70.4 million for the remainder of 2013. Amortization expense for intangible assets subject to amortization is estimated to be $256.2 million, $223.1 million, $185.0 million, $157.2 million and $130.2 million in 2014, 2015, 2016, 2017 and 2018, respectively.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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3. Long-term Debt and Capital Lease Obligations:

Windstream Holdings has no direct debt obligations. All debt, including the facilities described below, have been incurred by Windstream Corp. and its subsidiaries. Windstream Holdings is neither a guarantor of nor subject to the restrictive covenants imposed by such debt.

Long-term debt was as follows at:

(Millions)	September 30, 2013	December 31, 2012
Issued by Windstream Corp.:		
Senior secured credit facility, Tranche A2 – variable rates, due July 17, 2013	$—	$19.5
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016	392.7	408.8
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017	281.2	292.5
Senior secured credit facility, Tranche B – variable rates, due July 17, 2013	—	280.9
Senior secured credit facility, Tranche B2 – variable rates, due December 17, 2015	—	1,042.9
Senior secured credit facility, Tranche B3 – variable rates, due August 8, 2019	592.5	597.0
Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020	1,334.9	—
Senior secured credit facility, Revolving line of credit – variable rates, due December 17, 2015	700.0	—
Debentures and notes, without collateral:		
2013 Notes – 8.125%, due August 1, 2013	—	800.0
2017 Notes – 7.875%, due November 1, 2017	1,100.0	1,100.0
2018 Notes – 8.125%, due September 1, 2018	400.0	400.0
2019 Notes – 7.000%, due March 15, 2019	—	500.0
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021	950.0	450.0
2022 Notes – 7.500%, due June 1, 2022	500.0	500.0
2023 Notes – 7.500%, due April 1, 2023	600.0	600.0
2023 Notes – 6.375%, due August 1, 2023	700.0	—
Issued by subsidiaries of Windstream Corp.:		
Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028	100.0	100.0
Cinergy Communications Company – 6.58%, due January 1, 2022	2.1	2.1
PAETEC 2017 Notes – 8.875%, due June 30, 2017	—	650.0
Debentures and notes, without collateral:		
Windstream Georgia Communications LLC – 6.50%, due November 15, 2013	10.0	10.0
PAETEC 2018 Notes – 9.875%, due December 1, 2018	450.0	450.0
Premium on long-term debt, net	33.4	62.1
	8,846.8	8,965.8
Less current maturities	(86.0)	(866.0)
Total long-term debt	$8,760.8	$8,099.8

Senior Secured Credit Facility

On January 23, 2013, Windstream Corp. incurred new borrowings of $1,345.0 million under Tranche B4 of the senior secured credit facility due January 23, 2020; the proceeds of which were used to repay $19.5 million of Tranche A2 and $280.9 million of Tranche B due in July 2013 and $1,042.9 million of Tranche B2 of the senior secured credit facility due in December 2015, plus accrued interest. Debt issuance costs associated with the new borrowings were

$11.9 million. Of this amount, $5.7 million was recorded in other assets in the consolidated balance sheet and will be amortized into interest expense over the life of the borrowings. The remaining $6.2 million of debt issuance costs were recorded to interest expense in the first quarter of 2013 in accordance with debt modification accounting.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Long-term Debt and Capital Lease Obligations, Continued:

Revolving line of credit - During the first nine months of 2013, Windstream Corp. borrowed $1,435.0 million under the revolving line of credit in our senior secured credit facility and repaid $735.0 million of these borrowings through September 30, 2013. 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 $1,250.0 million. Considering letters of credit of $16.9 million, the amount available for borrowing under the revolving line of credit was $533.1 million at September 30, 2013.

The variable interest rate on the revolving line of credit ranged from 2.43 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.52 percent during the first nine months of 2013, as compared to variable interest rates during the first nine months of 2012, which ranged from 2.49 percent to 4.50 percent with a weighted average rate on amounts outstanding of 2.52 percent. The revolving line of credit will expire on December 17, 2015.

Debentures and Notes, without Collateral Issued in 2013

2021 Notes - On August 26, 2013, Windstream Corp. completed the private placement of $500.0 million in aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021, at an issue price of 103.500 percent to yield 7.171 percent. The notes have terms substantially identical to the terms of the existing 7.750 percent senior notes due 2021, but were issued under a separate indenture. Interest is paid semi-annually. Pursuant to a registration rights agreement, the notes will be exchanged at a later date for additional 7.750 percent senior notes due 2021 issued under the indenture governing the existing notes. For financial reporting purposes, both the newly issued and existing 7.750 percent senior notes due 2021 are collectively referred to as the "2021 Notes". Debt issuance costs associated with the new borrowings were $10.1 million, which were recorded in other assets on the balance sheet and will be amortized into interest expense over the life of the borrowings.

2023 Notes - On January 23, 2013, Windstream Corp. completed the private placement of $700.0 million in aggregate principal amount of 6.375 percent senior unsecured notes due August 1, 2023, at an issue price at par to yield 6.375 percent ("the 2023 Notes"). Interest is paid semi-annually. Debt issuance costs associated with the new borrowings were $13.9 million, which were recorded in other assets on the balance sheet and will be amortized into interest expense over the life of the borrowings.

Debentures and Notes Repaid in 2013

2013 Notes - On August 1, 2013, Windstream Corp. repaid at maturity all of the outstanding $800.0 million aggregate principal amount of these senior unsecured notes utilizing available borrowings under the revolving line of credit.

2019 Notes - On August 12, 2013, Windstream Corp. announced a tender offer to purchase for cash all of the outstanding $500.0 million aggregate principal amount of 7.000 percent senior unsecured notes due March 15, 2019 ("2019 Notes"). As of September 9, 2013, approximately $431.2 million of the 2019 Notes had been tendered. On or prior to the early tender deadline of August 23, 2013, Windstream Corp. paid total consideration of $1,027.83 per $1,000 aggregate principal amount of 2019 Notes, which included a $25 early tender payment, plus accrued and unpaid interest. For the period beginning after the early tender deadline, but on or prior to the expiration date, Windstream Corp. paid total consideration of $1,002.83 per $1,000 aggregate principal amount of 2019 Notes plus accrued and unpaid interest. On September 25, 2013, the redemption of the remaining $68.8 million outstanding principal amount was settled at a price equal to the stated rate in the indenture of 102.333 percent of the remaining principal thereof plus accrued and unpaid interest. Proceeds from the issuance of the 2021 Notes, together with available cash, were used to pay the consideration for the tender offer and to redeem the outstanding 2019 Notes, along with related fees and expenses.

PAETEC 2017 Notes - In connection with our acquisition of PAETEC Holding Corp ("PAETEC") on November 30, 2011, Windstream Corp. assumed $650.0 million of 8.875 percent notes due June 30, 2017 ("PAETEC 2017 Notes"). Interest was payable semi-annually.

On January 8, 2013, Windstream Corp. announced a tender offer to purchase for cash any and all of the outstanding $650.0 million aggregate principal amount of PAETEC 2017 Notes. As of February 6, 2013, approximately $588.5 million of the PAETEC 2017 Notes had been tendered. On or prior to the early tender deadline of January 22, 2013, Windstream Corp. paid total consideration of $1,080 per $1,000 aggregate principal amount of PAETEC 2017 Notes, which included a $30 early tender payment, plus accrued and unpaid interest. For the period beginning after the early tender deadline, but on or prior to the expiration date, Windstream Corp. paid total consideration of $1,050 per $1,000 aggregate principal amount of PAETEC 2017 Notes plus accrued and unpaid interest. The redemption of the remaining $61.5 million outstanding principal amount was

3. Long-term Debt and Capital Lease Obligations, Continued:

settled at a price equal to 100 percent of the remaining principal thereof, plus the applicable premium, and accrued and unpaid interest on February 25, 2013. Proceeds from the issuance of the 2023 Notes, together with available cash, were used to pay the consideration for the tender offer and to redeem all of the outstanding PAETEC 2017 Notes, along with related fees and expenses.

Premium on Long-term Debt, Net of Discounts

The premium on long-term debt, net of discounts is primarily due to the debt issuance premium recorded on the debt acquired in the PAETEC acquisition and the August 26, 2013 private placement of the additional 2021 Notes partially offset by the net discount recorded on certain debt obligations listed in the table above. The premium and discount balances are amortized using the interest method over the life of the related debt instrument.

Debt Compliance

The terms of Windstream Corp.'s credit facility and indentures include customary covenants that, among other things, require maintenance of certain financial ratios and restrict Windstream Corp.'s ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.5 to 0.0 and a minimum interest coverage ratio of 2.75 to 0.0. In addition, the covenants include restrictions on dividend and certain other types of payments. The terms of the indentures assumed in connection with the acquisition of PAETEC include restrictions on the ability of the subsidiary to incur additional indebtedness, including a maximum leverage ratio, with the most restrictive being 4.75 to 0.0. As of September 30, 2013, Windstream Corp. was in compliance with all of these covenants.

In addition, certain of Windstream Corp.'s debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under our 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 our outstanding voting stock, or breach of certain other conditions set forth in the borrowing agreements. Windstream Corp. and its subsidiaries were in compliance with these covenants as of September 30, 2013.

Maturities for debt outstanding as of September 30, 2013 for each of the twelve month periods ended September 30, 2014, 2015, 2016, 2017 and 2018 were $86.0 million, $92.6 million, $792.6 million, $491.0 million and $1,519.6 million, respectively.

(Loss) Gain on Extinguishment of Debt

During the third quarter of 2013, Windstream Corp. retired all $500.0 million of the outstanding 2019 Notes using proceeds from the private placement of the 2021 Notes. During the nine month period ended September 30, 2013, Windstream Corp. also retired all $650.0 million of the outstanding PAETEC 2017 Notes. The PAETEC 2017 Notes were purchased using proceeds of the 2023 Notes. Windstream Corp. also amended its senior secured credit facility including issuance of Tranche B4, the proceeds of which were used to repay Tranche A2, Tranche B and Tranche B2 during the first quarter. The retirements and a portion of the credit facility amendment were accounted for under the extinguishment method, and as a result, we recognized losses on extinguishment of debt of $14.7 million and $28.5 million during the three and nine month periods ended September 30, 2013.

During 2012, Windstream Corp. retired all $300.0 million of the outstanding 9.500 percent notes due July 15, 2015 ("PAETEC 2015 Notes"). The PAETEC 2015 Notes were purchased using borrowings on Windstream Corp.'s revolving line of credit. The retirements were accounted for under the extinguishment method, and as a result, we recognized a gain on extinguishment of debt of $1.9 million during the nine month period ended September 30, 2012.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Long-term Debt and Capital Lease Obligations, Continued:

The (loss) gain on extinguishment of debt was as follows for the three and nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions)	2013	2012	2013	2012
2019 Notes:				
Premium on early redemption	$(13.6)	$—	$(13.6)	$—
Third-party fees for early redemption	(0.5)	—	(0.5)	—
Unamortized debt issuance costs on original issuance	(0.6)	—	(0.6)	—
Loss on early extinguishment for 2019 Notes	(14.7)	—	(14.7)	—
Senior secured credit facility:				
Unamortized debt issuance costs on original issuance	—	—	(2.5)	—
Loss on early extinguishment for senior secured credit facility	—	—	(2.5)	—
PAETEC 2017 Notes:				
Premium on early redemption	—	—	(51.5)	—
Third-party fees for early redemption	—	—	(1.0)	—
Unamortized premium on original issuance	—	—	41.2	—
Loss on early extinguishment for PAETEC 2017 Notes	—	—	(11.3)	—
PAETEC 2015 Notes:				
Premium on early redemption	—	—	—	(14.3)
Unamortized premium on original issuance	—	—	—	16.2
Gain on early extinguishment for PAETEC 2015 Notes	—	—	—	1.9
Total (loss) gain on early extinguishment of debt	$(14.7)	$—	$(28.5)	$1.9

Capital Lease Obligations

We lease facilities and equipment for use in our operations. These facilities and equipment are included in outside communications plant in property, plant and equipment in the accompanying consolidated balance sheets. Lease agreements that include a bargain purchase option, transfer of ownership, contractual lease term equal to or greater than 75 percent of the remaining estimated economic life of the leased facilities or equipment or minimum lease payments equal to or greater than 90 percent of the fair value of the leased facilities or equipment are accounted for as capital leases in accordance with authoritative guidance for capital leases. These capital lease obligations are included in the accompanying consolidated balance sheets within other liabilities and other current liabilities.

Future minimum lease payments under capital lease obligations were as follows for the twelve months ended September 30:

Year	(Millions)
2014	$25.9
2015	21.3
2016	15.4
2017	7.4
2018	3.6
Thereafter	0.7
Total future payments	74.3
Less: Amounts representing interest	6.6
Present value of minimum lease payments	$67.7

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Long-term Debt and Capital Lease Obligations, Continued:

Interest Expense

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

	Three Months Ended		Nine Months Ended	
(Millions)	2013	2012	2013	2012
Interest expense related to long-term debt	$140.8	$144.9	$443.6	$429.7
Impact of interest rate swaps	9.2	13.3	40.3	41.1
Interest on capital leases and other obligations	0.8	0.7	2.1	2.5
Less capitalized interest expense	(2.0)	(3.5)	(6.3)	(7.9)
Total interest expense	$148.8	$155.4	$479.7	$465.4

4. Derivatives:

Windstream Corp. enters into interest rate swap agreements to mitigate the interest rate risk inherent in its variable rate senior secured credit facility. Derivative instruments are accounted for in accordance with authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on whether the derivative has been designated as, qualifies as and is effective as a hedge. Changes in fair value of the effective portions of cash flow hedges are recorded as a component of other comprehensive income (loss) in the current period. Any ineffective portion of the hedges is recognized in earnings in the current period.

In 2006, Windstream Corp. entered into four pay fixed, receive variable interest rate swap agreements to serve as cash flow hedges of the interest rate risk inherent in its senior secured credit facility. Windstream Corp. renegotiated the four interest rate swap agreements on December 3, 2010, and again on August 21, 2012, each time lowering the fixed interest rate paid and extending the maturity.

As a result of the August 21, 2012 transaction, Windstream Corp. reduced its fixed interest rate paid from 4.553 percent to 3.391 percent effective October 17, 2012. The fixed interest rate paid includes a component which serves to settle the liability existing on Windstream Corp. swaps at the time of the transaction. The variable rate received resets on the seventeenth day of each month to the one-month London Interbank Offered Rate ("LIBOR"). The swaps had a notional value of $900.0 million as of September 30, 2013, where it will remain until maturity on October 17, 2019.

On May 31, 2013, Windstream Corp. entered into six new pay fixed, receive variable interest rate swap agreements, designated as cash flow hedges of the previously unhedged interest rate risk inherent in its senior secured credit facilities. These swaps have a fixed notional value of $750.0 million and mature on June 17, 2016. The fixed rate paid ranges from 1.026 to 1.04 percent plus a fixed spread of 2.75 percent. The variable rate received resets on the seventeenth day of each month to the one-month LIBOR subject to a minimum rate of 0.75 percent.

The current swaps are designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable rate cash flows paid on Windstream Corp.'s senior secured credit facility, which have varying maturity dates from December 30, 2016 to January 23, 2020. The swaps are hedging probable variable cash flows which extend up to four years beyond the maturity of certain components of the variable rate debt. Consistent with past practice, Windstream Corp. expects to extend or otherwise replace these components of its debt with variable rate debt.

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Derivatives, Continued:

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

(Millions, except for percentages)	September 30, 2013	December 31, 2012
Designated portion, measured at fair value:		
Other current liabilities	$(29.6)	$(29.0)
Other non-current liabilities	$(53.5)	$(91.2)
Accumulated other comprehensive income (loss)	$21.6	$(14.7)
De-designated portion, unamortized value:		
Accumulated other comprehensive loss	$(29.1)	$(45.9)
Weighted average fixed rate paid	3.57%	4.26%
Variable rate received	0.18%	0.21%

Derivatives are assessed for effectiveness each quarter and any ineffectiveness is recognized in other (expense) income, net in our consolidated statements of income. Ineffectiveness of Windstream Corp.'s cash flow hedges amounted to $(0.7) million and $1.5 million for the three and nine month periods ended September 30, 2013.

Windstream Corp.'s original four swaps are off-market swaps, meaning they contain an embedded financing element, which the swap counterparties recover through an incremental charge in the fixed rate over what would be charged for an on-market swap. As such, a portion of the cash payment on the swaps represents the rate that Windstream Corp. would pay on a hypothetical on-market interest rate swap and is recognized in interest expense. The remaining portion represents the repayment of the embedded financing element and reduces the swap liability.

All or a portion of the change in fair value of Windstream Corp.'s interest rate swap agreements recorded in accumulated other comprehensive income may be recognized in earnings in certain situations. If Windstream Corp. extinguishs all of its variable rate debt, or a portion of its variable rate debt such that the variable rate interest received on Windstream Corp.'s swaps exceeds the variable rate interest paid on its debt, all or a portion of the change in fair value of the swaps would be recognized in earnings. In addition, the change in fair value of the swaps may be recognized in earnings if Windstream Corp. determines it is no longer probable that it will have future variable rate cash flows to hedge against or if a swap agreement is terminated prior to maturity. Windstream Corp. has assessed the counterparty risk and determined that no substantial risk of default exists as of September 30, 2013. Each counterparty is a bank with a current credit rating at or above A.

Windstream Corp. expects to recognize losses of $10.2 million, net of taxes, in interest expense in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements at September 30, 2013. Payments on the swaps are presented in the financing activities section of the consolidated statements of cash flows.

Changes in the value of these derivative instruments were as follows for the nine month periods ended September 30:

(Millions)	2013	2012
Changes in fair value of effective portion, net of tax (a)	$13.4	$(14.5)
Amortization of unrealized losses on de-designated interest rate swaps, net of tax (a)	$19.5	$20.3

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

The agreements with each of the derivative counterparties contain cross-default provisions, whereby if Windstream Corp. were to default on certain indebtedness, it could also be declared in default on its derivative obligations and may be required to net settle any outstanding derivative liability positions with its counterparties. In addition, certain of the agreements with the counterparties contain provisions where if a specified event or condition, such as a merger, occurs that materially changes Windstream Corp.'s creditworthiness in an adverse manner, Windstream Corp. may be required to fully collateralize its derivative obligations. At September 30, 2013, Windstream Corp. had not posted any collateral related to its interest rate swap agreements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Derivatives, Continued:

Balance Sheet Offsetting

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

The following table presents the liabilities subject to an enforceable master netting arrangement as of September 30, 2013 and December 31, 2012. As of September 30, 2013 and December 31, 2012, all swap agreements with counterparties were in a liability position and, accordingly, there were no assets to be recognized in the consolidated balance sheets.

Information pertaining to derivative liabilities was as follows:

(Millions)	Gross Amount of Recognized Liabilities	Net Amount of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
			Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2013:					
Derivatives	$83.1	$83.1	$—	$—	$83.1
December 31, 2012:					
Derivatives	$120.2	$120.2	$—	$—	$120.2

5. Fair Value Measurements:

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

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Observable inputs other than quoted prices in active markets for identical assets or liabilities
Level 3 – Unobservable inputs

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

Our non-financial assets and liabilities, including property, plant and equipment, goodwill, intangible assets and asset retirement obligations, are measured at fair value on a non-recurring basis. No event occurred during the nine month period ended September 30, 2013 requiring these non-financial assets and liabilities to be subsequently recognized at fair value.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. Fair Value Measurements, Continued:

Our financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, restricted 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. We had no cash equivalents as of September 30, 2013 or December 31, 2012.

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

(Millions)	September 30, 2013	December 31, 2012
Recorded at Fair Value in the Financial Statements:		
Derivatives:		
Interest rate swap liabilities - Level 2	$83.1	$120.2
Not Recorded at Fair Value in the Financial Statements: (a)		
Long-term debt, including current maturities - Level 1	$5,677.7	$6,140.5
Long-term debt, including current maturities - Level 2	3,358.0	3,273.5
	$9,035.7	$9,414.0

(a) Recognized at carrying value of $8,846.8 million and $8,965.8 million in long-term debt, including current maturities, on the consolidated balance sheets as of September 30, 2013 and December 31, 2012, respectively.

The fair values of interest rate swaps are determined based on the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swaps and also incorporate credit valuation adjustments to appropriately reflect both Windstream Corp.'s own non-performance risk and non-performance risk of the respective counterparties. As of September 30, 2013 and December 31, 2012, the fair values of the interest rate swaps were reduced by $5.1 million and $16.1 million, respectively, to reflect non-performance risk.

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

We do not have any assets or liabilities measured at fair value using significant unobservable inputs (Level 3). We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the nine month period ended September 30, 2013.

6. Commitments and Contingencies:

In June 2009, a putative class action lawsuit was filed in Kentucky federal district court alleging that we overcharged current and former Kentucky customers by collecting a gross receipts surcharge ("GRS") in alleged violation of our tariffs and federal and state law. In 2012, a class, comprised of all customers assessed the GRS on services subject to our federal tariff, was certified. Earlier this year, we negotiated a proposed settlement of the class claims, which received preliminary approval from the court. Class members were notified of the proposed settlement terms, and no objections to the terms were filed by the court-imposed deadline. On November 1, 2013, the court entered an order approving the final settlement, and barring any appeal, which is unlikely, the order will become final on December 2, 2013, concluding this matter. The amount of the settlement is not material to our consolidated financial position or results of operations.

We are party to various other legal proceedings. Although the ultimate resolution of these various proceedings cannot be determined at this time, management 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 our financial condition.

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Employee Benefit Plans and Postretirement Benefits:

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

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

	Three Months Ended		Nine Months Ended	
(Millions)	2013	2012	2013	2012
Benefits earned during the period	$2.6	$2.5	$7.9	$7.5
Interest cost on benefit obligation	13.1	14.5	39.4	43.5
Net actuarial loss	—	0.2	3.7	2.9
Amortization of prior service credit	—	—	(0.1)	(0.1)
Expected return on plan assets	(16.8)	(18.6)	(50.9)	(55.1)
Net periodic benefit income	$(1.1)	$(1.4)	$—	$(1.3)

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

	Three Months Ended		Nine Months Ended	
(Millions)	2013	2012	2013	2012
Interest cost on benefit obligation	$0.4	$0.5	$1.1	$1.4
Amortization of net actuarial loss	0.5	0.6	1.3	1.8
Amortization of prior service credit	(2.2)	(3.1)	(6.9)	(9.0)
Plan curtailments	(6.5)	—	(32.2)	(9.6)
Net periodic benefit income	$(7.8)	$(2.0)	$(36.7)	$(15.4)

During 2013, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective August 1, 2013, October 1, 2013 or January 1, 2014. As a result, we remeasured the plan and recognized curtailment gains totaling $32.2 million, of which $24.1 million was recognized in cost of services expenses and $8.1 million was recognized in selling, general and administrative expenses, with the offsetting effects recorded as reductions in accumulated other comprehensive income of $31.8 million and other liabilities of $0.4 million.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Employee Benefit Plans and Postretirement Benefits, Continued:

We contributed $1.9 million to the postretirement plan during the nine month period ended September 30, 2013, and expect to contribute an additional $0.8 million for postretirement benefits throughout the remainder of 2013, excluding amounts that will be funded by participant contributions to the plans. On September 13, 2013, we contributed 3.3 million shares of our common stock to the Windstream Pension Plan to meet current 2012 funding requirements. At the time of this contribution, the shares had an appraised value, as determined by a third party valuation firm, of approximately $27.8 million. We do not expect to make any additional contributions to the Windstream Pension Plan for the remainder of 2013.

We also recorded expenses of $13.8 million and $16.0 million in the nine month period ended September 30, 2013 and 2012, respectively, related to the employee savings plan, which was included in cost of services and selling, general and administrative in our consolidated statements of income. Additionally, we contributed $20.4 million of our stock for the 2012 annual matching contribution to this plan during the nine month period ended September 30, 2013.

8. Merger, Integration and Restructuring Charges:

We incur a significant amount of costs to complete a merger or acquisition and integrate its operations into our business, which are presented as merger and integration expense in our consolidated results of operations. These costs include transaction costs, such as accounting, legal and broker fees; severance and related costs; IT and network conversion; rebranding; and consulting fees. The 2011 acquisition of PAETEC Holding Corp ("PAETEC") and 2010 acquisitions of NuVox Inc. ("NuVox"), Iowa Telecommunications Services, Inc. ("Iowa Telecom"), Q-Comm Corporation ("Q-Comm") and Hosted Solutions Acquisitions, LLC ("Hosted Solutions"), (collectively known as the "Acquired Companies"), account for the merger and integration costs incurred for the periods presented.

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

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

	Three Months Ended		Nine Months Ended	
(Millions)	2013	2012	2013	2012
Merger and integration costs:				
Transaction costs associated with acquisitions	$—	$—	$—	$7.1
Employee related transition costs	1.5	3.1	5.2	17.4
Information technology conversion costs	2.6	1.9	7.5	5.3
Rebranding, consulting and other costs	1.0	7.7	4.3	24.6
Total merger and integration costs	5.1	12.7	17.0	54.4
Restructuring charges	1.5	12.1	9.1	23.3
Total merger, integration and restructuring charges	$6.6	$24.8	$26.1	$77.7

Merger, integration and restructuring charges decreased net income $4.1 million and $16.4 million for the three and nine month periods ended September 30, 2013 as compared to $15.3 million and $48.0 million for the same periods in 2012, giving consideration to tax benefits on deductible items.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. Merger, Integration and Restructuring Charges, Continued:

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

(Millions)	2013
Balance, beginning of period	$20.3
Merger, integration and restructuring charges	26.1
Cash outlays during the period	(35.6)
Balance, end of period	$10.8

As of September 30, 2013, unpaid merger, integration and restructuring liabilities totaled $10.8 million, which consisted of $0.7 million of accrued severance costs primarily associated with the integration of the Acquired Companies, $1.0 million primarily associated with the restructuring initiatives, and $9.1 million related to other integration activities. Each of these payments will be funded through operating cash flows.

9. Accumulated Other Comprehensive Income:

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

(Millions)	September 30, 2013	December 31, 2012
Pension and postretirement plans	$23.6	$43.9
Unrealized holding gains (losses) on interest rate swaps:		
Designated portion	13.4	(9.1)
De-designated portion	(18.0)	(28.4)
Accumulated other comprehensive income	$19.0	$6.4

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

(Millions)	Gains (Losses) on Interest Rate Swaps	Pension and Postretirement Plans	Total
Balance at December 31, 2012	$(37.5)	$43.9	$6.4
Other comprehensive income before reclassifications	13.4	2.7	16.1
Amounts reclassified from other accumulated comprehensive income (a)	19.5	(23.0)	(3.5)
Balance at September 30, 2013	$(4.6)	$23.6	$19.0

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Accumulated Other Comprehensive Income, Continued:

Reclassifications out of accumulated other comprehensive income were as follows for the three and nine month periods ended September 30, 2013:

Details about Accumulated Other Comprehensive Income Components	(Millions) Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended	Nine Months Ended	Affected Line Item in the Consolidated Statements of Income
Losses on interest rate swaps:			
Amortization of unrealized losses on de-designated interest rate swaps	$6.0	$31.6	Interest expense
	6.0	31.6	Income from continuing operations before income taxes
	(2.3)	(12.1)	Income taxes
	3.7	19.5	Net income
Pension and postretirement plans:			
Plan curtailments	(6.5)	(31.8) (a)	
Amortization of net actuarial loss	0.5	1.3 (a)	
Amortization of prior service credits	(2.2)	(7.0) (a)	
	(8.2)	(37.5)	Income from continuing operations before income taxes
	3.2	14.5	Income taxes
	(5.0)	(23.0)	Net income
Total reclassifications for the period, net of tax	$(1.3)	$(3.5)	Net income

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit income. See Note 7 for additional details.

10. Earnings per Share:

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

Diluted earnings per share are computed by dividing net income applicable to common shares by the weighted average number of common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and warrants. Diluted earnings per share exclude all potentially dilutive securities if their effect is anti-dilutive.

We also issue performance-based restricted stock units as part of our share-based compensation plan. These restricted stock units contain a forfeitable right to receive dividends. Because dividends attributable to these shares are forfeited if the vesting provisions are not met, they are considered non-participating restricted shares and are not dilutive under the two class method until the performance conditions have been satisfied. As of September 30, 2013, the performance conditions for the outstanding restricted stock units have not yet been satisfied. Options and warrants granted in conjunction with the acquisition of PAETEC are included in the computation of dilutive earnings per share using the treasury stock method.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Earnings per Share, Continued:

A reconciliation of net income and number of shares used in computing basic and diluted earnings per share was as follows for the three and nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions, except per share amounts)	2013	2012	2013	2012
Basic and diluted earnings per share:				
Numerator:				
Income from continuing operations	$30.6	$46.8	$122.6	$158.9
Income from continuing operations allocable to participating securities	(1.0)	(0.7)	(3.1)	(2.8)
Adjusted income from continuing operations attributable to common shares	29.6	46.1	119.5	156.1
Loss from discontinued operations	—	—	—	(0.7)
Loss from discontinued operations allocable to participating securities	—	—	—	—
Adjusted loss from discontinued operations attributable to common shares	—	—	—	(0.7)
Net income attributable to common shares	$29.6	$46.1	$119.5	$155.4
Denominator:				
Basic shares outstanding				
Weighted average basic shares outstanding	593.4	588.0	592.2	588.0
Weighted average participating securities	(3.9)	(3.2)	(3.9)	(3.6)
Weighted average shares outstanding for basic earnings per share	589.5	584.8	588.3	584.4
Diluted shares outstanding				
Weighted average shares outstanding for basic earnings per share	589.5	584.8	588.3	584.4
Effect of dilutive stock options	0.3	0.5	0.2	0.7
Weighted average shares outstanding for diluted earnings per share	589.8	585.3	588.5	585.1
Basic and diluted earnings per share:				
From continuing operations	$.05	$.08	$.20	$.27
From discontinued operations	—	—	—	—
Net income	$.05	$.08	$.20	$.27

Options to purchase shares of stock issuable under stock-based compensation plans that were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be anti-dilutive totaled 1.0 million shares for each of the three and nine months ended September 30, 2013 and 2012, respectively.

11. Share-Based Compensation Plans:

Under the Amended and Restated 2006 Equity Incentive Plan (the "Incentive Plan"), we 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, 2013, the Incentive Plan had remaining capacity of 5.8 million awards, of which 4.3 million were issuable in the form of restricted stock, restricted stock units or stock appreciation rights. As of September 30, 2013, we had additional remaining capacity of 2.5 million awards from a similar equity incentive plan acquired in the PAETEC acquisition. The cost of each award is determined based on the fair value of the shares on the date of grant and is fully expensed over the vesting period.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Share-Based Compensation Plans, Continued:

During 2013, our Board of Directors approved grants of restricted stock and restricted stock units 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 select members of management. The one-time grant, totaling 125,125 shares, was provided as a retention incentive for the recipients. The performance based restricted stock units granted may vest in a number of shares from zero to 150.0 percent of their award based on attainment of certain operating targets, some of which are indexed to the performance of Standard & Poor's 500 Stock Index, over a three-year period. The operating targets for the first vesting period for these performance based restricted stock units granted were approved by the Board of Directors in February 2013.

The vesting periods and grant date fair value for restricted stock and restricted stock units issued during the nine month period ended September 30, 2013, were as follows:

(Thousands)	Common Shares
Vest ratably over a three-year service period	2,207.1
Vest ratably over a two-year service period	68.4
Vest variably over a three-year service period	135.3
Vest contingently over a three-year performance period	786.7
Vest one year from date of grant, service based (a)	81.5
Total granted	3,279.0
Grant date fair value (Millions)	$31.8

(a) Represents restricted stock granted to non-employee directors.

Restricted stock and restricted stock unit activity for the nine months ended September 30, 2013 was as follows:

	(Thousands) Underlying Number of Shares		Weighted Average Fair Value
Non-vested at December 31, 2012	4,274.4		$12.24
Granted	3,279.1		$9.69
Vested	(2,011.8	)	$11.92
Forfeited	(301.8	)	$11.67
Non-vested at September 30, 2013	5,239.9		$10.80

At September 30, 2013, unrecognized compensation expense totaled $41.9 million and is expected to be recognized over the weighted average vesting period of 1.5 years. Unrecognized compensation expense is included in additional paid-in capital in the accompanying consolidated balance sheets and statements of shareholders’ equity. Share-based compensation expense for restricted stock and restricted stock units was $6.7 million and $20.2 million for the three and nine month periods ended September 30, 2013, respectively, as compared to $5.6 million and $19.3 million for the same periods in 2012.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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12. Supplemental Guarantor Information:

Debentures and notes, without collateral, issued by Windstream Corporation
In connection with the issuance of the 7.875 percent senior notes due November 1, 2017, the 8.125 percent senior notes due September 1, 2018, the 7.750 percent senior notes due October 15, 2020, the 7.750 percent senior notes due October 1, 2021, the 7.500 percent senior notes due June 1, 2022, the 7.500 percent senior notes due April 1, 2023 and the 6.375 percent senior notes due August 1, 2023 ("the guaranteed notes"), certain of Windstream Corp.'s wholly-owned subsidiaries (the "Guarantors"), provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to us. Windstream Corp.'s remaining subsidiaries (the "Non-Guarantors") 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. Windstream Holdings is not a guarantor of any Windstream Corp. debt instruments.

The following information presents condensed consolidated statements of income, including comprehensive income, for the three and nine month periods ended September 30, 2013 and 2012, condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, and condensed consolidated statements of cash flows for the nine month periods ended September 30, 2013 and 2012 of the Windstream Corp., the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by Windstream Corp. and other subsidiaries and have been presented using the equity method of accounting.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, we became aware of and corrected an error in the accounting for certain promotional credits for new consumer customers. We have retrospectively adjusted financial information for all prior periods presented to reflect this correction. See Note 1. The impact to Windstream Corp., the Guarantors and the Non-Guarantors has been appropriately reflected herein.

	Condensed Consolidated Statement of Income (Unaudited) Three Months Ended September 30, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$265.2	$1,191.0	$(8.3)	$1,447.9
Product sales	—	13.4	42.3	—	55.7
Total revenues and sales	—	278.6	1,233.3	(8.3)	1,503.6
Costs and expenses:					
Cost of services	—	91.3	560.1	(6.4)	645.0
Cost of products sold	—	12.7	35.2	—	47.9
Selling, general and administrative	—	16.1	231.9	(1.9)	246.1
Depreciation and amortization	—	79.4	259.0	—	338.4
Merger and integration costs	—	—	5.1	—	5.1
Restructuring charges	—	1.0	0.5	—	1.5
Total costs and expenses	—	200.5	1,091.8	(8.3)	1,284.0
Operating income	—	78.1	141.5	—	219.6
Earnings from consolidated subsidiaries	99.8	9.4	0.5	(109.7)	—
Other (expense) income, net	(0.9)	43.2	(47.9)	—	(5.6)

Loss on early extinguishment of debt	(14.6)	—	(0.1)	—	(14.7)
Intercompany interest income (expense)	37.9	(23.5)	(14.4)	—	—
Interest expense	(138.7)	(1.3)	(8.8)	—	(148.8)
(Loss) income before income taxes	(16.5)	105.9	70.8	(109.7)	50.5
Income tax (benefit) expense	(47.1)	38.7	28.3	—	19.9
Net income	$30.6	$67.2	$42.5	$(109.7)	$30.6
Comprehensive income	$25.1	$67.2	$42.5	$(109.7)	$25.1

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Three Months Ended
September 30, 2012

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$269.5	$1,222.6	$(6.2)	$1,485.9
Product sales	—	18.2	41.3	—	59.5
Total revenues and sales	—	287.7	1,263.9	(6.2)	1,545.4
Costs and expenses:					
Cost of services	—	88.4	587.1	(4.1)	671.4
Cost of products sold	—	18.1	38.7	—	56.8
Selling, general and administrative	—	21.6	209.9	(2.1)	229.4
Depreciation and amortization	—	78.2	248.2	—	326.4
Merger and integration costs	—	—	12.7	—	12.7
Restructuring charges	—	3.3	8.8	—	12.1
Total costs and expenses	—	209.6	1,105.4	(6.2)	1,308.8
Operating income	—	78.1	158.5	—	236.6
Earnings (losses) from consolidated subsidiaries	110.8	16.1	(0.9)	(126.0)	—
Other (expense) income, net	(5.0)	44.1	(44.4)	—	(5.3)
Intercompany interest income (expense)	37.6	(24.5)	(13.1)	—	—
Interest expense	(135.5)	(1.3)	(18.6)	—	(155.4)
Income before income taxes	7.9	112.5	81.5	(126.0)	75.9
Income tax (benefit) expense	(38.9)	36.8	31.2	—	29.1
Net income	$46.8	$75.7	$50.3	$(126.0)	$46.8
Comprehensive income	$40.8	$75.7	$50.3	$(126.0)	$40.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Nine Months Ended
September 30, 2013

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$793.0	$3,585.1	$(25.2)	$4,352.9
Product sales	—	41.9	115.3	—	157.2
Total revenues and sales	—	834.9	3,700.4	(25.2)	4,510.1
Costs and expenses:					
Cost of services	—	270.0	1,682.4	(19.3)	1,933.1
Cost of products sold	—	42.1	99.6	—	141.7
Selling, general and administrative	—	46.9	684.2	(5.9)	725.2
Depreciation and amortization	—	237.3	763.0	—	1,000.3
Merger and integration costs	—	—	17.0	—	17.0
Restructuring charges	—	2.3	6.8	—	9.1
Total costs and expenses	—	598.6	3,253.0	(25.2)	3,826.4
Operating income	—	236.3	447.4	—	683.7
Earnings from consolidated subsidiaries	332.1	49.1	1.4	(382.6)	—
Other income (expense), net	2.0	125.9	(132.9)	—	(5.0)
Loss on early extinguishment on debt	(17.1)	—	(11.4)	—	(28.5)
Intercompany interest income (expense)	117.8	(73.1)	(44.7)	—	—
Interest expense	(447.0)	(4.3)	(28.4)	—	(479.7)
(Loss) income before income taxes	(12.2)	333.9	231.4	(382.6)	170.5
Income tax (benefit) expense	(134.8)	110.9	71.8	—	47.9
Net income	$122.6	$223.0	$159.6	$(382.6)	$122.6
Comprehensive income	$135.2	$223.0	$159.6	$(382.6)	$135.2

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Nine Months Ended
September 30, 2012

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$809.2	$3,650.4	$(18.3)	$4,441.3
Product sales	—	58.3	118.5	—	176.8
Total revenues and sales	—	867.5	3,768.9	(18.3)	4,618.1
Costs and expenses:					
Cost of services	—	275.4	1,723.9	(12.0)	1,987.3
Cost of products sold	—	57.5	101.8	—	159.3
Selling, general and administrative	—	66.7	659.1	(6.3)	719.5
Depreciation and amortization	—	236.3	722.2	—	958.5
Merger and integration costs	—	—	54.4	—	54.4
Restructuring charges	—	3.7	19.6	—	23.3
Total costs and expenses	—	639.6	3,281.0	(18.3)	3,902.3
Operating income	—	227.9	487.9	—	715.8
Earnings (losses) from consolidated subsidiaries	341.1	48.2	(0.6)	(388.7)	—
Other (expense) income, net	(6.6)	141.6	(130.4)	—	4.6
Gain on early extinguishment of debt	—	—	1.9	—	1.9
Intercompany interest income (expense)	113.4	(73.8)	(39.6)	—	—
Interest expense	(401.6)	(4.0)	(59.8)	—	(465.4)
Income from continuing operations before income taxes	46.3	339.9	259.4	(388.7)	256.9
Income tax (benefit) expense	(111.9)	111.2	98.7	—	98.0
Income from continuing operations	158.2	228.7	160.7	(388.7)	158.9
Discontinued operations	—	—	(0.7)	—	(0.7)
Net income	$158.2	$228.7	$160.0	$(388.7)	$158.2
Comprehensive income	$155.7	$228.7	$160.0	$(388.7)	$155.7

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Balance Sheet (Unaudited) As of September 30, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$27.5	$4.0	$41.9	$—	$73.4
Restricted cash	13.5	—	—	—	13.5
Accounts receivable (less allowance for doubtful accounts of $40.8)	—	129.9	509.7	(4.8)	634.8
Affiliates receivable, net	—	597.8	2,113.9	(2,711.7)	—
Inventories	—	51.7	16.8	—	68.5
Deferred income taxes	33.4	22.6	40.2	—	96.2
Prepaid income taxes	19.0	—	—	—	19.0
Prepaid expenses and other	6.0	22.8	150.4	—	179.2
Total current assets	99.4	828.8	2,872.9	(2,716.5)	1,084.6
Investments in consolidated subsidiaries	12,126.4	1,324.3	296.4	(13,747.1)	—
Goodwill	—	2,475.1	1,865.8	—	4,340.9
Other intangibles, net	—	1,069.7	1,020.8	—	2,090.5
Net property, plant and equipment	7.6	1,419.7	4,353.7	—	5,781.0
Other assets	118.2	340.2	53.5	(322.2)	189.7
Total Assets	$12,351.6	$7,457.8	$10,463.1	$(16,785.8)	$13,486.7
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt	$75.9	$—	$14.9	$(4.8)	$86.0
Current portion of interest rate swaps	29.6	—	—	—	29.6
Accounts payable	0.6	52.4	336.5	—	389.5
Affiliates payable, net	2,862.9	—	—	(2,712.2)	150.7
Advance payments and customer deposits	—	16.6	207.0	—	223.6
Accrued dividends	—	—	—	—	—
Accrued taxes	0.3	31.8	72.2	—	104.3
Accrued interest	132.1	3.5	17.5	—	153.1
Other current liabilities	44.8	12.9	241.2	—	298.9
Total current liabilities	3,146.2	117.2	889.3	(2,717.0)	1,435.7
Long-term debt	8,181.7	99.6	801.7	(322.2)	8,760.8
Deferred income taxes	98.1	924.5	787.8	—	1,810.4
Other liabilities	70.8	30.7	523.5	—	625.0
Total liabilities	11,496.8	1,172.0	3,002.3	(3,039.2)	12,631.9
Commitments and Contingencies (See Note 6)					
Shareholders' Equity:					
Common stock	—	40.8	83.1	(123.9)	—
Additional paid-in capital	835.8	5,083.4	4,004.0	(9,087.4)	835.8
Accumulated other comprehensive income	19.0	7.6	16.5	(24.1)	19.0
Retained earnings	—	1,154.0	3,357.2	(4,511.2)	—

Total shareholders’ equity	854.8	6,285.8	7,460.8	(13,746.6)	854.8
Total Liabilities and Shareholders’ Equity	$12,351.6	$7,457.8	$10,463.1	$(16,785.8)	$13,486.7

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Balance Sheet (Unaudited)
As of December 31, 2012

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$57.5	$19.8	$54.7	$—	$132.0
Restricted cash	25.0	—	1.5	—	26.5
Accounts receivable (less allowance for doubtful accounts of $42.6)	—	105.6	502.5	6.0	614.1
Affiliates receivable, net	—	299.4	2,507.2	(2,806.6)	—
Inventories	—	56.9	18.1	—	75.0
Deferred income taxes	170.3	22.9	56.3	—	249.5
Prepaid income taxes	23.3	—	—	—	23.3
Prepaid expenses and other	4.4	29.5	145.8	—	179.7
Total current assets	280.5	534.1	3,286.1	(2,800.6)	1,300.1
Investments in consolidated subsidiaries	11,814.4	1,275.6	304.6	(13,394.6)	—
Goodwill	—	2,475.1	1,865.8	—	4,340.9
Other intangibles, net	—	1,156.8	1,154.5	—	2,311.3
Net property, plant and equipment	7.6	1,451.5	4,403.6	—	5,862.7
Other assets	103.1	353.2	46.4	(335.7)	167.0
Total Assets	$12,205.6	$7,246.3	$11,061.0	$(16,530.9)	$13,982.0
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt	$856.0	$—	$14.8	$(4.8)	$866.0
Current portion of interest rate swaps	29.0	—	—	—	29.0
Accounts payable	1.0	51.1	311.6	—	363.7
Affiliates payable, net	2,806.6	—	—	(2,806.6)	—
Advance payments and customer deposits	—	15.7	207.6	—	223.3
Accrued dividends	148.9	—	—	—	148.9
Accrued taxes	0.2	35.2	68.9	—	104.3
Accrued interest	107.2	1.7	4.7	—	113.6
Other current liabilities	42.7	17.8	259.1	—	319.6
Total current liabilities	3,991.6	121.5	866.7	(2,811.4)	2,168.4
Long-term debt	6,823.2	99.6	1,501.9	(324.9)	8,099.8
Deferred income taxes	175.1	922.7	798.5	—	1,896.3
Other liabilities	110.9	29.8	572.0	—	712.7
Total liabilities	11,100.8	1,173.6	3,739.1	(3,136.3)	12,877.2
Commitments and Contingencies (See Note 6)					
Shareholders' Equity:					
Common stock	0.1	40.8	83.1	(123.9)	0.1
Additional paid-in capital	1,098.3	5,083.4	4,004.0	(9,087.4)	1,098.3
Accumulated other comprehensive income	6.4	8.0	36.7	(44.7)	6.4
Retained earnings	—	940.5	3,198.1	(4,138.6)	—

Total shareholders’ equity	1,104.8	6,072.7	7,321.9	(13,394.6)	1,104.8
Total Liabilities and Shareholders’ Equity	$12,205.6	$7,246.3	$11,061.0	$(16,530.9)	$13,982.0

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended
September 30, 2013

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash Provided from Operations:					
Net income	$122.6	$223.0	$159.6	$(382.6)	$122.6
Adjustments to reconcile net income to net cash provided from operations:					
Depreciation and amortization	—	237.3	763.0	—	1,000.3
Provision for doubtful accounts	—	8.2	41.6	—	49.8
Equity in earnings from subsidiaries	(332.1)	(49.1)	(1.4)	382.6	—
Share-based compensation expense	—	5.3	28.7	—	34.0
Deferred income taxes	39.6	2.0	18.0	—	59.6
Unamortized net discount (premium) on retired debt	3.1	—	(41.2)	—	(38.1)
Amortization of unrealized losses on de-designated interest rate swaps	31.6	—	—	—	31.6
Plan curtailment and other, net	19.8	(3.7)	(34.6)	—	(18.5)
Changes in operating assets and liabilities, net	27.7	(5.3)	(103.0)	—	(80.6)
Net cash (used in) provided from operations	(87.7)	417.7	830.7	—	1,160.7
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	—	(131.1)	(534.9)	—	(666.0)
Broadband network expansion funded by stimulus grants	—	(3.5)	(25.3)	—	(28.8)
Changes in restricted cash	11.5	—	1.5	—	13.0
Grant funds received for broadband stimulus projects	53.5	—	—	—	53.5
Net cash provided from (used in) investing activities	65.0	(134.6)	(558.7)	—	(628.3)
Cash Flows from Financing Activities:					
Dividends paid to shareholders	(444.6)	—	—	—	(444.6)
Repayment of debt and swaps	(3,443.1)	—	(650.1)	—	(4,093.2)
Proceeds of debt issuance	3,997.5	—	—	—	3,997.5
Debt issuance costs	(29.7)	—	—	—	(29.7)
Intercompany transactions, net	(80.2)	(301.6)	381.8	—	—
Payment under capital lease obligations	—	—	(13.8)	—	(13.8)
Other, net	(7.2)	2.7	(2.7)	—	(7.2)
Net cash used in financing activities	(7.3)	(298.9)	(284.8)	—	(591.0)
Decrease in cash and cash equivalents	(30.0)	(15.8)	(12.8)	—	(58.6)
Cash and Cash Equivalents:					
Beginning of period	57.5	19.8	54.7	—	132.0
End of period	$27.5	$4.0	$41.9	$—	$73.4

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended
September 30, 2012

(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash Provided from Operations:					
Net income	$158.2	$228.7	$160.0	$(388.7)	$158.2
Adjustments to reconcile net income to net cash provided from operations:					
Depreciation and amortization	—	236.3	722.2	—	958.5
Provision for doubtful accounts	—	8.1	33.6	—	41.7
Equity in earnings (losses) from subsidiaries	(341.1)	(48.2)	0.6	388.7	—
Share-based compensation expense	—	4.2	15.1	—	19.3
Deferred income taxes	85.6	(4.9)	11.2	—	91.9
Unamortized net premium on retired debt	—	—	(16.2)	—	(16.2)
Amortization of unrealized losses on de-designated interest rate swaps	33.0	—	—	—	33.0
Plan curtailment and other, net	16.8	(13.0)	(29.5)	—	(25.7)
Changes in operating assets and liabilities, net	278.0	(100.5)	(194.6)	—	(17.1)
Net cash provided from operations	230.5	310.7	702.4	—	1,243.6
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	—	(155.3)	(654.1)	—	(809.4)
Broadband network expansion funded by stimulus grants	—	(15.9)	(52.9)	—	(68.8)
Changes in restricted cash	(18.2)	—	—	—	(18.2)
Grant funds received for broadband stimulus projects	26.5	—	—	—	26.5
Disposition of wireless assets	—	57.0	—	—	57.0
Other, net	—	2.8	4.2	—	7.0
Net cash provided from (used in) investing activities	8.3	(111.4)	(702.8)	—	(805.9)
Cash Flows from Financing Activities:					
Dividends paid to shareholders	(440.5)	—	—	—	(440.5)
Repayment of debt and swaps	(1,548.6)	—	(300.0)	—	(1,848.6)
Proceeds of debt issuance	1,775.0	—	—	—	1,775.0
Debt issuance costs	(19.0)	—	—	—	(19.0)
Intercompany transactions, net	(89.1)	(185.3)	274.4	—	—
Payment under capital lease obligations	—	(0.6)	(14.7)	—	(15.3)
Other, net	(2.0)	2.8	(2.3)	—	(1.5)
Net cash used in financing activities	(324.2)	(183.1)	(42.6)	—	(549.9)
(Decrease) increase in cash and cash equivalents	(85.4)	16.2	(43.0)	—	(112.2)
Cash and Cash Equivalents:					
Beginning of period	115.4	7.1	104.5	—	227.0
End of period	$30.0	$23.3	$61.5	$—	$114.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Debentures and notes, issued by PAETEC Holding Corporation

In connection with the acquisition of PAETEC on November 30, 2011, Windstream Corp. acquired the 9.875 percent notes of PAETEC due December 1, 2018 ("the guaranteed notes"). Windstream Corp. and all former wholly-owned subsidiaries of PAETEC (the "Guarantors") provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Windstream Corp. The remaining subsidiaries (the "Non-Guarantors") of Windstream Corp. are not guarantors of these guaranteed notes.

The following information presents condensed consolidated statements of income, including comprehensive income, for the three and nine month periods ended September 30, 2013 and 2012, condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, condensed consolidated statements of cash flows for the three and nine month periods ended September 30, 2013 and 2012 of Windstream Corp., the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by Windstream Corp. and other subsidiaries and have been presented using the equity method of accounting.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, we became aware of and corrected an error in the accounting for certain promotional credits for new consumer customers. We have retrospectively adjusted financial information for all prior periods presented to reflect this correction. See Note 1. The impact to Windstream Corp., the Guarantors and the Non-Guarantors has been appropriately reflected herein.

Condensed Consolidated Statement of Income (Unaudited)
Three Months Ended
September 30, 2013

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	$—	$—	$490.6	$959.0	$(1.7)	$1,447.9
Product sales	—	—	37.0	19.3	(0.6)	55.7
Total revenues and sales	—	—	527.6	978.3	(2.3)	1,503.6
Costs and expenses:						
Cost of services	—	—	292.8	352.9	(0.7)	645.0
Cost of products sold	—	—	30.4	18.6	(1.1)	47.9
Selling, general and administrative	—	—	135.7	110.9	(0.5)	246.1
Depreciation and amortization	—	—	101.6	236.8	—	338.4
Merger and integration costs	—	—	(0.4)	5.5	—	5.1
Restructuring charges	—	—	1.9	(0.4)	—	1.5
Total costs and expenses	—	—	562.0	724.3	(2.3)	1,284.0
Operating (loss) income	—	—	(34.4)	254.0	—	219.6
Earnings (losses) from consolidated subsidiaries	99.8	(16.9)	(0.1)	(0.1)	(82.7)	—
Other (expense) income, net	(0.9)	—	(0.2)	(4.5)	—	(5.6)
Loss on early extinguishment of debt	(14.6)	(0.1)	—	—	—	(14.7)
Intercompany interest income (expense)	37.9	—	—	(37.9)	—	—

Interest (expense) income	(138.7)	(9.6)	0.1	(0.6)	—	(148.8)
(Loss) income before income taxes	(16.5)	(26.6)	(34.6)	210.9	(82.7)	50.5
Income tax (benefit) expense	(47.1)	(3.9)	(13.6)	84.5	—	19.9
Net income (loss)	$30.6	$(22.7)	$(21.0)	$126.4	$(82.7)	$ 30.6
Comprehensive income (loss)	$25.1	$(22.7)	$(21.0)	$126.4	$(82.7)	$ 25.1

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Three Months Ended
September 30, 2012

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	$—	$—	$ 507.8	$ 979.4	$ (1.3)	$ 1,485.9
Product sales	—	—	33.3	26.2	—	59.5
Total revenues and sales	—	—	541.1	1,005.6	(1.3)	1,545.4
Costs and expenses:						
Cost of services	—	—	295.4	376.9	(0.9)	671.4
Cost of products sold	—	—	29.6	27.2	—	56.8
Selling, general and administrative	—	—	122.6	107.2	(0.4)	229.4
Depreciation and amortization	—	—	94.6	231.8	—	326.4
Merger and integration costs	—	—	—	12.7	—	12.7
Restructuring charges	—	—	6.3	5.8	—	12.1
Total costs and expenses	—	—	548.5	761.6	(1.3)	1,308.8
Operating (loss) income	—	—	(7.4)	244.0	—	236.6
Earnings (losses) from consolidated subsidiaries	110.8	(4.9)	0.6	(0.6)	(105.9)	—
Other expense, net	(5.0)	—	—	(0.3)	—	(5.3)
Intercompany interest income (expense)	37.6	—	—	(37.6)	—	—
Interest (expense) income	(135.5)	(20.7)	(0.1)	0.9	—	(155.4)
Income (loss) from continuing operations before income taxes	7.9	(25.6)	(6.9)	206.4	(105.9)	75.9
Income tax (benefit) expense	(38.9)	(7.9)	(2.9)	78.8	—	29.1
Income (loss) from continuing operations	46.8	(17.7)	(4.0)	127.6	(105.9)	46.8
Discontinued operations	—	—	—	—	—	—
Net income (loss)	$46.8	$ (17.7)	$ (4.0)	$ 127.6	$ (105.9)	$ 46.8
Comprehensive income (loss)	$40.8	$ (17.7)	$ (4.0)	$ 127.6	$ (105.9)	$ 40.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Nine Months Ended
September 30, 2013

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	$—	$—	$1,464.7	$2,892.9	$(4.7)	$4,352.9
Product sales	—	—	102.2	56.2	(1.2)	157.2
Total revenues and sales	—	—	1,566.9	2,949.1	(5.9)	4,510.1
Costs and expenses:						
Cost of services	—	—	884.1	1,051.3	(2.3)	1,933.1
Cost of products sold	—	—	84.5	59.0	(1.8)	141.7
Selling, general and administrative	—	—	404.8	322.2	(1.8)	725.2
Depreciation and amortization	—	—	294.9	705.4	—	1,000.3
Merger and integration costs	—	—	(0.4)	17.4	—	17.0
Restructuring charges	—	—	4.4	4.7	—	9.1
Total costs and expenses	—	—	1,672.3	2,160.0	(5.9)	3,826.4
Operating (loss) income	—	—	(105.4)	789.1	—	683.7
Earnings (losses) from consolidated subsidiaries	332.1	(56.9)	(0.7)	0.5	(275.0)	—
Other income (expense), net	2.0	—	0.7	(7.7)	—	(5.0)
Loss on early extinguishment of debt	(17.1)	(11.4)	—	—	—	(28.5)
Intercompany interest income (expense)	117.8	—	—	(117.8)	—	—
Interest (expense) income	(447.0)	(31.6)	0.1	(1.2)	—	(479.7)
(Loss) income before income taxes	(12.2)	(99.9)	(105.3)	662.9	(275.0)	170.5
Income tax (benefit) expense	(134.8)	(16.7)	(40.6)	240.0	—	47.9
Net income (loss)	$122.6	$(83.2)	$(64.7)	$422.9	$(275.0)	$122.6
Comprehensive income (loss)	$135.2	$(83.2)	$(64.7)	$422.9	$(275.0)	$135.2

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Income (Unaudited)
Nine Months Ended
September 30, 2012

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	$—	$—	$ 1,494.7	$ 2,953.2	$ (6.6)	$ 4,441.3
Product sales	—	—	89.2	87.6	—	176.8
Total revenues and sales	—	—	1,583.9	3,040.8	(6.6)	4,618.1
Costs and expenses:						
Cost of services	—	—	865.4	1,124.7	(2.8)	1,987.3
Cost of products sold	—	—	74.4	84.9	—	159.3
Selling, general and administrative	—	—	348.7	374.6	(3.8)	719.5
Depreciation and amortization	—	—	266.2	692.3	—	958.5
Merger and integration costs	—	—	0.5	53.9	—	54.4
Restructuring charges	—	—	7.9	15.4	—	23.3
Total costs and expenses	—	—	1,563.1	2,345.8	(6.6)	3,902.3
Operating income	—	—	20.8	695.0	—	715.8
Earnings (losses) from consolidated subsidiaries	341.1	14.3	5.8	(2.4)	(358.8)	—
Other (expense) income, net	(6.6)	—	0.2	11.0	—	4.6
Gain on early extinguishment of debt	—	1.9	—	—	—	1.9
Intercompany interest income (expense)	113.4	—	—	(113.4)	—	—
Interest (expense) income	(401.6)	(63.4)	(1.2)	0.8	—	(465.4)
Income (loss) from continuing operations before income taxes	46.3	(47.2)	25.6	591.0	(358.8)	256.9
Income tax (benefit) expense	(111.9)	(23.4)	7.5	225.8	—	98.0
Income (loss) from continuing operations	158.2	(23.8)	18.1	365.2	(358.8)	158.9
Discontinued operations	—	—	(0.7)	—	—	(0.7)
Net income (loss)	$ 158.2	$ (23.8)	$ 17.4	$ 365.2	$ (358.8)	$ 158.2
Comprehensive income (loss)	$ 155.7	$ (23.8)	$ 17.4	$ 365.2	$ (358.8)	$ 155.7

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Balance Sheet (Unaudited)
As of September 30, 2013

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and cash equivalents	$27.5	$—	$12.3	$33.6	$—	$ 73.4
Restricted cash	13.5	—	—	—	—	13.5
Accounts receivable (less allowance for doubtful accounts of $40.8)	—	—	258.3	376.5	—	634.8
Affiliates receivable, net	—	378.7	—	3,831.9	(4,210.6)	—
Inventories	—	—	9.8	58.7	—	68.5
Deferred income taxes	33.4	—	—	75.1	(12.3)	96.2
Prepaid income taxes	19.0	0.2	—	—	(0.2)	19.0
Prepaid expenses and other	6.0	—	35.3	137.9	—	179.2
Total current assets	99.4	378.9	315.7	4,513.7	(4,223.1)	1,084.6
Investments in consolidated subsidiaries	12,126.4	—	—	—	(12,126.4)	—
Goodwill	—	653.3	—	3,687.6	—	4,340.9
Other intangibles, net	—	—	566.6	1,523.9	—	2,090.5
Net property, plant and equipment	7.6	—	824.8	4,948.6	—	5,781.0
Deferred income taxes	—	225.8	5.1	—	(230.9)	—
Other assets	118.2	—	17.7	53.8	—	189.7
Total Assets	$12,351.6	$1,258.0	$1,729.9	$14,727.6	$(16,580.4)	$ 13,486.7
Liabilities and Shareholders' Equity						
Current Liabilities:						
Current maturities of long-term debt	$75.9	$—	$—	$10.1	$—	$ 86.0
Current portion of interest rate swaps	29.6	—	—	—	—	29.6
Accounts payable	0.6	—	76.6	312.3	—	389.5
Affiliates payable, net	2,862.9	—	1,498.4	—	(4,210.6)	150.7
Advance payments and customer deposits	—	—	81.7	141.9	—	223.6
Accrued dividends	—	—	—	—	—	—
Accrued taxes	0.3	—	27.1	76.7	0.2	104.3
Accrued interest	132.1	14.8	2.3	3.9	—	153.1
Other current liabilities	44.8	3.8	58.9	203.7	(12.3)	298.9
Total current liabilities	3,146.2	18.6	1,745.0	748.6	(4,222.7)	1,435.7
Long-term debt	8,181.7	477.5	—	101.6	—	8,760.8
Deferred income taxes	98.1	—	—	1,943.2	(230.9)	1,810.4
Accumulated losses in excess of investments in consolidated subsidiaries	—	62.3	—	—	(62.3)	—
Other liabilities	70.8	3.8	57.1	493.3	—	625.0
Total liabilities	11,496.8	562.2	1,802.1	3,286.7	(4,515.9)	12,631.9
Commitments and Contingencies						

(See Note 6)						
Shareholders' Equity:						
Common stock	—	—	—	70.3	(70.3)	—
Additional paid-in capital	835.8	842.0	—	6,918.5	(7,760.5)	835.8
Accumulated other comprehensive income	19.0	—	—	30.1	(30.1)	19.0
Accumulated (deficit) retained earnings	—	(146.2)	(72.2)	4,422.0	(4,203.6)	—
Total shareholders' equity	854.8	695.8	(72.2)	11,440.9	(12,064.5)	854.8
Total Liabilities and Shareholders' Equity	$12,351.6	$1,258.0	$1,729.9	$14,727.6	$(16,580.4)	$13,486.7

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Balance Sheet (Unaudited)
As of December 31, 2012

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and cash equivalents	$57.5	$—	$26.5	$48.0	$—	$132.0
Restricted cash	25.0	—	1.5	—	—	26.5
Accounts receivable (less allowance for doubtful accounts of $42.6)	—	—	248.7	365.4	—	614.1
Affiliates receivable, net	—	1,070.7	—	3,253.3	(4,324.0)	—
Inventories	—	—	10.0	65.0	—	75.0
Deferred income taxes	170.3	—	6.3	76.7	(3.8)	249.5
Prepaid income taxes	23.3	—	—	—	—	23.3
Prepaid expenses and other	4.4	—	24.3	151.0	—	179.7
Total current assets	280.5	1,070.7	317.3	3,959.4	(4,327.8)	1,300.1
Investments in consolidated subsidiaries	11,814.4	—	0.4	—	(11,814.8)	—
Goodwill	—	653.3	—	3,687.6	—	4,340.9
Other intangibles, net	—	—	668.9	1,642.4	—	2,311.3
Net property, plant and equipment	7.6	—	878.2	4,976.9	—	5,862.7
Deferred income taxes	—	246.4	—	—	(246.4)	—
Other assets	103.1	—	13.1	50.8	—	167.0
Total Assets	$12,205.6	$1,970.4	$1,877.9	$14,317.1	$(16,389.0)	$13,982.0
Liabilities and Shareholders' Equity						
Current Liabilities:						
Current maturities of long-term debt	$856.0	$—	$—	$10.0	$—	$866.0
Current portion of interest rate swaps	29.0	—	—	—	—	29.0
Accounts payable	1.0	—	83.4	279.3	—	363.7
Affiliates payable, net	2,806.6	—	1,515.5	—	(4,322.1)	—
Advance payments and customer deposits	—	—	77.7	145.6	—	223.3
Accrued dividends	148.9	—	—	—	—	148.9
Accrued taxes	0.2	—	33.6	70.1	0.4	104.3
Accrued interest	107.2	3.9	0.8	1.7	—	113.6
Other current liabilities	42.7	3.8	78.7	198.2	(3.8)	319.6
Total current liabilities	3,991.6	7.7	1,789.7	704.9	(4,325.5)	2,168.4
Long-term debt	6,823.2	1,175.0	—	101.6	—	8,099.8
Deferred income taxes	175.1	—	32.6	1,935.0	(246.4)	1,896.3
Accumulated losses in excess of investments in consolidated subsidiaries	—	5.3	—	—	(5.3)	—
Other liabilities	110.9	3.4	63.1	535.3	—	712.7
Total liabilities	11,100.8	1,191.4	1,885.4	3,276.8	(4,577.2)	12,877.2
Commitments and Contingencies						

(See Note 6)						
Shareholders' Equity:						
Common stock	0.1	—	—	70.3	(70.3)	0.1
Additional paid-in capital	1,098.3	842.0	—	6,918.5	(7,760.5)	1,098.3
Accumulated other comprehensive income	6.4	—	—	50.8	(50.8)	6.4
Accumulated (deficit) retained earnings	—	(63.0)	(7.5)	4,000.7	(3,930.2)	—
Total shareholders' equity	1,104.8	779.0	(7.5)	11,040.3	(11,811.8)	1,104.8
Total Liabilities and Shareholders' Equity	$12,205.6	$1,970.4	$1,877.9	$14,317.1	$(16,389.0)	$13,982.0

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

Condensed Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended
September 30, 2013

(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash Provided from Operations:						
Net income (loss)	$122.6	$(83.2)	$(64.7)	$422.9	$(275.0)	$122.6
Adjustments to reconcile net income to net cash provided from operations:						
Depreciation and amortization	—	—	294.9	705.4	—	1,000.3
Provision for doubtful accounts	—	—	15.5	34.3	—	49.8
Equity in (earnings) losses from subsidiaries	(332.1)	56.9	0.7	(0.5)	275.0	—
Share-based compensation expense	—	—	12.5	21.5	—	34.0
Deferred income taxes	39.6	20.6	(22.9)	22.3	—	59.6
Unamortized net discount (premium) on retired debt	3.1	(41.2)	—	—	—	(38.1)
Amortization of unrealized losses on de-designated interest rate swaps	31.6	—	—	—	—	31.6
Plan curtailment and other, net	19.8	(6.2)	1.7	(33.8)	—	(18.5)
Changes in operating assets and liabilities, net	27.7	11.2	(71.6)	(47.9)	—	(80.6)
Net cash (used in) provided from operations	(87.7)	(41.9)	166.1	1,124.2	—	1,160.7
Cash Flows from Investing Activities:						
Additions to property, plant and equipment	—	—	(123.0)			