

WINDSTREAM HOLDINGS, INC.

Form 10-Q

August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

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

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

(Zip
Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

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

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

Windstream Holdings, Inc. Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company
Emerging growth company

Windstream Services, LLC Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

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

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

As of August 6, 2018, 42,938,115 shares of common stock of Windstream Holdings, Inc. were outstanding.

Windstream Holdings, Inc. holds a 100 percent interest in Windstream Services, LLC.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Windstream Holdings, Inc. and Windstream Services, LLC. Windstream Services, LLC is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Services, LLC meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, the use of the terms “Windstream,” “we,” “us” or “our” shall refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.

The Exhibit Index is located on page 91.

Table of Contents

WINDSTREAM HOLDINGS, INC.
WINDSTREAM SERVICES, LLC
FORM 10-Q
TABLE OF CONTENTS

	Page No.
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Windstream Holdings, Inc. Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations (Unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited)</u>	<u>3</u>
<u>Consolidated Balance Sheets (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>5</u>
<u>Consolidated Statement of Shareholders' Deficit (Unaudited)</u>	<u>6</u>
<u>Windstream Services, LLC Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations (Unaudited)</u>	<u>7</u>
<u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited)</u>	<u>8</u>
<u>Consolidated Balance Sheets (Unaudited)</u>	<u>9</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>10</u>
<u>Consolidated Statement of Member Deficit (Unaudited)</u>	<u>11</u>
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	<u>12</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>55</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>87</u>
Item 4. <u>Controls and Procedures</u>	<u>88</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>89</u>
Item 1A. <u>Risk Factors</u>	<u>90</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	*
Item 3. Defaults Upon Senior Securities	*
Item 4. Mine Safety Disclosures	*
Item 5. Other Information	*
Item 6. <u>Exhibits</u>	<u>91</u>

*No reportable information under this item.

Table of Contents

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

Item 1. Financial Statements

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

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues and sales:				
Service revenues	\$1,424.6	\$1,465.6	\$2,860.0	\$2,810.0
Product sales	19.8	26.0	38.7	47.3
Total revenues and sales	1,444.4	1,491.6	2,898.7	2,857.3
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	722.8	750.7	1,459.7	1,434.5
Cost of products sold	18.2	29.7	35.0	50.5
Selling, general and administrative	224.5	226.4	453.3	440.2
Depreciation and amortization	370.7	362.4	752.5	700.9
Merger, integration and other costs	14.1	16.4	21.4	73.7
Restructuring charges	5.8	3.5	19.5	10.9
Total costs and expenses	1,356.1	1,389.1	2,741.4	2,710.7
Operating income	88.3	102.5	157.3	146.6
Other income, net	12.0	4.2	9.7	6.8
Net loss on early extinguishment of debt	—	—	—	(3.2)
Interest expense	(224.4)	(214.4)	(447.5)	(426.2)
Loss before income taxes	(124.1)	(107.7)	(280.5)	(276.0)
Income tax benefit	(30.4)	(39.6)	(65.4)	(96.6)
Net loss	\$(93.7)	\$(68.1)	\$(215.1)	\$(179.4)
Basic and diluted loss per share:				
Net loss	(\$2.30)	(\$1.83)	(\$5.51)	(\$5.75)

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

2

Table of Contents

WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$(93.7)	\$(68.1)	\$(215.1)	\$(179.4)
Other comprehensive income (loss):				
Interest rate swaps:				
Unrealized gain (loss) on designated interest rate swaps	4.9	(5.3)	19.7	(1.9)
Amortization of net unrealized losses on de-designated interest rate swaps	0.8	1.4	1.7	2.9
Income tax (expense) benefit	(1.5)	1.5	(5.5)	(0.4)
Change in interest rate swaps	4.2	(2.4)	15.9	0.6
Postretirement and pension plans:				
Prior service credit arising during the period	2.7	—	2.7	—
Change in net actuarial gain for employee benefit plans	5.4	1.4	5.4	1.4
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	—	0.1	0.1	0.1
Amortization of prior service credits	(1.3)	(0.2)	(2.6)	(0.4)
Income tax expense	(0.9)	(0.5)	(0.6)	(0.4)
Change in postretirement and pension plans	5.9	0.8	5.0	0.7
Other comprehensive income (loss)	10.1	(1.6)	20.9	1.3
Comprehensive loss	\$(83.6)	\$(69.7)	\$(194.2)	\$(178.1)

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

3

Table of Contents

WINDSTREAM HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	June 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$45.3	\$ 43.4
Accounts receivable (less allowance for doubtful accounts of \$25.3 and \$29.7, respectively)	623.9	643.0
Inventories	85.0	93.0
Prepaid expenses and other	181.0	154.3
Total current assets	935.2	933.7
Goodwill	2,873.9	2,842.4
Other intangibles, net	1,349.4	1,454.4
Net property, plant and equipment	5,156.6	5,391.8
Deferred income taxes	416.2	370.8
Other assets	108.5	91.2
Total Assets	\$10,839.8	\$ 11,084.3
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Current maturities of long-term debt	\$ 17.9	\$ 169.3
Current portion of long-term lease obligations	200.1	188.6
Accounts payable	495.2	494.0
Advance payments and customer deposits	199.7	207.3
Accrued taxes	87.5	89.5
Accrued interest	62.2	52.6
Other current liabilities	278.9	342.1
Total current liabilities	1,341.5	1,543.4
Long-term debt	5,867.9	5,674.6
Long-term lease obligations	4,540.5	4,643.3
Other liabilities	496.4	521.9
Total liabilities	12,246.3	12,383.2
Commitments and Contingencies (See Note 15)		
Shareholders' Deficit:		
Common stock, \$.0001 par value, 75.0 shares authorized, 42.7 and 36.5 shares issued and outstanding, respectively	—	—
Additional paid-in capital	1,243.2	1,191.9
Accumulated other comprehensive income	44.0	21.4
Accumulated deficit	(2,693.7)	(2,512.2)
Total shareholders' deficit	(1,406.5)	(1,298.9)
Total Liabilities and Shareholders' Deficit	\$10,839.8	\$ 11,084.3

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

4

Table of Contents

WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$(215.1)	\$(179.4)
Adjustments to reconcile net loss to net cash provided from operations:		
Depreciation and amortization	752.5	700.9
Provision for doubtful accounts	15.2	19.7
Share-based compensation expense	18.4	32.4
Deferred income taxes	(64.7)	(97.3)
Net loss on early extinguishment of debt	—	3.2
Other, net	4.3	7.9
Changes in operating assets and liabilities, net		
Accounts receivable	5.8	15.7
Prepaid income taxes	(4.7)	(5.2)
Prepaid expenses and other	7.3	(14.3)
Accounts payable	17.2	(56.3)
Accrued interest	9.9	(6.8)
Accrued taxes	(9.3)	2.0
Other current liabilities	(18.7)	(20.1)
Other liabilities	7.0	1.5
Other, net	14.6	(29.0)
Net cash provided from operating activities	539.7	374.9
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(406.3)	(507.8)
Cash acquired from EarthLink	—	5.0
Acquisition of MASS	(37.6)	—
Other, net	(8.8)	(11.8)
Net cash used in investing activities	(452.7)	(514.6)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	—	(35.6)
Proceeds from issuance of stock	11.1	9.6
Repayments of debt and swaps	(413.1)	(1,282.2)
Proceeds from debt issuance	450.0	1,535.6
Debt issuance costs	(11.6)	(7.3)
Payments under long-term lease obligations	(91.4)	(82.2)
Payments under capital lease obligations	(27.7)	(22.0)
Other, net	(2.4)	(10.6)
Net cash (used in) provided from financing activities	(85.1)	105.3
Increase (decrease) in cash and cash equivalents	1.9	(34.4)
Cash and Cash Equivalents:		
Beginning of period	43.4	59.1
End of period	\$45.3	\$24.7
Supplemental Cash Flow Disclosures:		
Interest paid, net of interest capitalized	\$428.9	\$417.7
Income taxes (refunded) paid, net	\$(15.1)	\$1.3

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

5

Table of Contents

WINDSTREAM HOLDINGS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2017	\$ 1,191.9	\$ 21.4	\$ (2,512.2)	\$(1,298.9)
Cumulative effect adjustments, net of tax:				
Adoption of ASU 2014-09 (See Note 1)	—	—	35.3	35.3
Adoption of ASU 2017-12 (See Note 1)	—	1.7	(1.7)	—
Net loss	—	—	(215.1)	(215.1)
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	5.0	—	5.0
Amortization of net unrealized losses on de-designated interest rate swaps	—	1.2	—	1.2
Change in designated interest rate swaps	—	14.7	—	14.7
Comprehensive income (loss)	—	20.9	(215.1)	(194.2)
Share-based compensation	7.4	—	—	7.4
Stock issued under equity distribution agreement	11.1	—	—	11.1
Stock issued for pension contribution	5.8	—	—	5.8
Stock issued to employee savings plan	28.3	—	—	28.3
Taxes withheld on vested restricted stock and other	(1.3)	—	—	(1.3)
Balance at June 30, 2018	\$ 1,243.2	\$ 44.0	\$ (2,693.7)	\$(1,406.5)

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

6

Table of ContentsWINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues and sales:				
Service revenues	\$1,424.6	\$1,465.6	\$2,860.0	\$2,810.0
Product sales	19.8	26.0	38.7	47.3
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Costs and expenses:				
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Cost of products sold	18.2	29.7	35.0	50.5
Selling, general and administrative	223.8	225.6	452.1	439.1
Depreciation and amortization	370.7	362.4	752.5	700.9
Merger, integration and other costs	14.1	16.4	21.4	73.7
Restructuring charges	5.8	3.5	19.5	10.9
Total costs and expenses	1,355.4	1,388.3	2,740.2	2,709.6
Operating income	89.0	103.3	158.5	147.7
Other income, net	12.0	4.2	9.7	6.8
Net loss on early extinguishment of debt	—	—	—	(3.2)
Interest expense	(224.4)	(214.4)	(447.5)	(426.2)
Loss before income taxes	(123.4)	(106.9)	(279.3)	(274.9)
Income tax benefit	(30.2)	(39.3)	(65.1)	(96.2)
Net loss	\$(93.2)	\$(67.6)	\$(214.2)	\$(178.7)

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7

Table of Contents

WINDSTREAM SERVICES, LLC

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