WINDSTREAM HOLDINGS, INC.
Form 10-Q
August 07, 2014

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 June 30, 2014

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 July 31, 2014, 602,673,743 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 71.

Table of Contents

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

*No reportable information under this item.

Table of Contents

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

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2014	2013	2014	2013
Revenues and sales:				
Service revenues:				
Business	$903.8	$914.3	$1,813.8	$1,830.1
Consumer	316.8	325.8	629.8	652.7
Wholesale	141.0	150.7	282.7	302.6
Other	56.1	54.6	111.1	111.3
Total service revenues	1,417.7	1,445.4	2,837.4	2,896.7
Product sales	48.3	56.3	93.5	101.5
Total revenues and sales	1,466.0	1,501.7	2,930.9	2,998.2
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	652.3	646.6	1,296.9	1,287.8
Cost of products sold	40.0	49.4	81.1	92.0
Selling, general and administrative	250.6	237.0	502.8	474.5
Depreciation and amortization	344.0	332.2	682.9	661.5
Merger and integration costs	8.1	6.9	16.0	12.0
Restructuring charges	3.8	2.6	16.2	7.5
Total costs and expenses	1,298.8	1,274.7	2,595.9	2,535.3
Operating income	167.2	227.0	335.0	462.9
Other (expense) income, net	(0.7)	(1.7)	0.2	0.6
Loss on early extinguishment of debt	—	—	—	(13.8)
Interest expense	(142.5)	(162.0)	(284.4)	(330.9)
Income from continuing operations before income taxes	24.0	63.3	50.8	118.8
Income taxes	10.0	24.0	20.8	27.5
Income from continuing operations	14.0	39.3	30.0	91.3
Discontinued operations	—	0.4	—	0.7
Net income	$14.0	$39.7	$30.0	$92.0
Basic and diluted earnings per share:				
From continuing operations	$.02	$.06	$.05	$.15
From discontinued operations	—	—	—	—
Net income	$.02	$.06	$.05	$.15

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2014	2013	2014	2013
Net income	$14.0	$39.7	$30.0	$92.0
Other comprehensive (loss) income:				
Interest rate swaps:				
Changes in designated interest rate swaps	(13.0)	29.0	(19.9)	28.5
Amortization of unrealized losses on de-designated interest rate swaps	4.1	12.4	8.3	25.6
Income tax benefit (expense)	3.4	(15.9)	4.4	(20.7)
Unrealized holding (loss) gain on interest rate swaps	(5.5)	25.5	(7.2)	33.4
Postretirement and pension plans:				
Change in net actuarial gain for postretirement plan	3.7	4.2	2.9	4.2
Plan curtailment	—	(5.5)	(9.5)	(25.3)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	—	0.1	—	0.8
Amortization of prior service credits	(1.1)	(2.0)	(2.8)	(4.8)
Income tax (expense) benefit	(0.9)	1.5	3.6	9.8
Change in postretirement and pension plans	1.7	(1.7)	(5.8)	(15.3)
Other comprehensive (loss) income	(3.8)	23.8	(13.0)	18.1
Comprehensive income	$10.2	$63.5	$17.0	$110.1

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

Table of Contents

WINDSTREAM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$54.8	$48.2
Restricted cash	7.9	9.7
Accounts receivable (less allowance for doubtful accounts of $39.4 and $40.0, respectively)	630.9	635.3
Inventories	64.5	67.7
Deferred income taxes	98.7	241.5
Prepaid income taxes	17.4	29.7
Prepaid expenses and other	156.8	152.7
Total current assets	1,031.0	1,184.8
Goodwill	4,331.4	4,331.4
Other intangibles, net	1,889.4	2,020.1
Net property, plant and equipment	5,540.7	5,702.6
Other assets	193.2	205.7
Total Assets	$12,985.7	$13,444.6
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current maturities of long-term debt	$92.5	$85.0
Current portion of interest rate swaps	30.1	30.0
Accounts payable	361.4	385.9
Advance payments and customer deposits	220.9	223.5
Accrued dividends	152.3	151.1
Accrued taxes	95.0	104.2
Accrued interest	102.2	103.5
Other current liabilities	350.9	362.4
Total current liabilities	1,405.3	1,445.6
Long-term debt	8,593.1	8,622.2
Deferred income taxes	1,897.9	2,038.3
Other liabilities	499.2	498.3
Total liabilities	12,395.5	12,604.4
Commitments and Contingencies (See Note 6)		
Shareholders’ Equity:		
Common stock, $0.0001 par value, 1,000.0 shares authorized, 602.7 and 596.2 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	574.6	811.6
Accumulated other comprehensive income	15.5	28.5
Retained earnings	—	—
Total shareholders’ equity	590.2	840.2
Total Liabilities and Shareholders’ Equity	$12,985.7	$13,444.6

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

Table of Contents

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

	Six Months Ended June 30,	
(Millions)	2014	2013
Cash Provided from Operations:		
Net income	$30.0	$92.0
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	682.9	661.9
Provision for doubtful accounts	23.0	33.0
Share-based compensation expense	27.7	22.8
Deferred income taxes	10.5	44.0
Unamortized net premium on retired debt	—	(38.7)
Amortization of unrealized losses on de-designated interest rate swaps	8.3	25.6
Plan curtailment and other, net	5.7	(22.8)
Changes in operating assets and liabilities, net		
Accounts receivable	(18.7)	(32.4)
Prepaid income taxes	12.4	0.1
Prepaid expenses and other	(16.7)	(24.2)
Accounts payable	(38.8)	(33.8)
Accrued interest	(2.3)	15.6
Accrued taxes	(9.2)	(1.0)
Other current liabilities	(11.9)	(23.1)
Other liabilities	(9.7)	(12.9)
Other, net	(11.6)	6.5
Net cash provided from operations	681.6	712.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(358.8)	(472.2)
Broadband network expansion funded by stimulus grants	(10.3)	(20.1)
Changes in restricted cash	1.8	11.4
Grant funds received for broadband stimulus projects	21.7	35.7
Grant funds received from Connect America Fund	26.0	—
Net cash used in investing activities	(319.6)	(445.2)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(300.9)	(296.3)
Repayments of debt and swaps	(668.5)	(2,426.2)
Proceeds of debt issuance	635.0	2,435.0
Debt issuance costs	—	(19.6)
Payments under capital lease obligations	(12.1)	(8.2)
Other, net	(8.9)	(5.8)
Net cash used in financing activities	(355.4)	(321.1)
Increase (decrease) in cash and cash equivalents	6.6	(53.7)
Cash and Cash Equivalents:		
Beginning of period	48.2	132.0
End of period	$54.8	$78.3
Supplemental Cash Flow Disclosures:		
Interest paid	$283.6	$294.1
Income taxes paid, net	$1.1	$3.9

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

Table of Contents

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, 2013	$811.7	$28.5	$—	$840.2
Net income	—	—	30.0	30.0
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(5.8)	—	(5.8)
Amortization of unrealized losses on de-designated interest rate swaps	—	5.1	—	5.1
Changes in designated interest rate swaps	—	(12.3)	—	(12.3)
Comprehensive (loss) income	—	(13.0)	30.0	17.0
Share-based compensation expense (See Note 11)	14.1	—	—	14.1
Stock options exercised	0.9	—	—	0.9
Stock issued to employee savings plan (See Note 7)	21.6	—	—	21.6
Stock issued to qualified pension plan (See Note 7)	8.3	—	—	8.3
Taxes withheld on vested restricted stock and other	(10.2)	—	—	(10.2)
Dividends of $0.50 per share declared to shareholders	(271.7)	—	(30.0)	(301.7)
Balance at June 30, 2014	$574.7	$15.5	$—	$590.2

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

6

Table of Contents

WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Millions)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues and sales:				
Service revenues:				
Business	$903.8	$914.3	$1,813.8	$1,830.1
Consumer	316.8	325.8	629.8	652.7
Wholesale	141.0	150.7	282.7	302.6
Other	56.1	54.6	111.1	111.3
Total service revenues	1,417.7	1,445.4	2,837.4	2,896.7
Product sales	48.3	56.3	93.5	101.5
Total revenues and sales	1,466.0	1,501.7	2,930.9	2,998.2
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	652.3	646.6	1,296.9	1,287.8
Cost of products sold	40.0	49.4	81.1	92.0
Selling, general and administrative	249.5	237.0	501.2	474.5
Depreciation and amortization	344.0	332.2	682.9	661.5
Merger and integration costs	8.1	6.9	16.0	12.0
Restructuring charges	3.8	2.6	16.2	7.5
Total costs and expenses	1,297.7	1,274.7	2,594.3	2,535.3
Operating income	168.3	227.0	336.6	462.9
Other (expense) income, net	(0.7)	(1.7)	0.2	0.6
Loss on early extinguishment of debt	—	—	—	(13.8)
Interest expense	(142.5)	(162.0)	(284.4)	(330.9)
Income from continuing operations before income taxes	25.1	63.3	52.4	118.8
Income taxes	10.4	24.0	21.4	27.5
Income from continuing operations	14.7	39.3	31.0	91.3
Discontinued operations	—	0.4	—	0.7
Net income	$14.7	$39.7	$31.0	$92.0

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

Table of Contents

WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2014	2013	2014	2013
Net income	$14.7	$39.7	$31.0	$92.0
Other comprehensive (loss) income:				
Interest rate swaps:				
Changes in designated interest rate swaps	(13.0)	29.0	(19.9)	28.5
Amortization of unrealized losses on de-designated interest rate swaps	4.1	12.4	8.3	25.6
Income tax benefit (expense)	3.4	(15.9)	4.4	(20.7)
Unrealized holding (loss) gain on interest rate swaps	(5.5)	25.5	(7.2)	33.4
Postretirement and pension plans:				
Change in net actuarial gain for postretirement plan	3.7	4.2	2.9	4.2
Plan curtailment	—	(5.5)	(9.5)	(25.3)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	—	0.1	—	0.8
Amortization of prior service credits	(1.1)	(2.0)	(2.8)	(4.8)
Income tax (expense) benefit	(0.9)	1.5	3.6	9.8
Change in postretirement and pension plans	1.7	(1.7)	(5.8)	(15.3)
Other comprehensive (loss) income	(3.8)	23.8	(13.0)	18.1
Comprehensive income	$10.9	$63.5	$18.0	$110.1

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

Table of Contents

WINDSTREAM CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except number of shares)	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$54.8	$48.2
Restricted cash	7.9	9.7
Accounts receivable (less allowance for doubtful accounts of $39.4 and $40.0, respectively)	630.9	635.3
Inventories	64.5	67.7
Deferred income taxes	98.7	241.5
Prepaid income taxes	17.4	29.7
Prepaid expenses and other	156.8	152.7
Total current assets	1,031.0	1,184.8
Goodwill	4,331.4	4,331.4
Other intangibles, net	1,889.4	2,020.1
Net property, plant and equipment	5,540.7	5,702.6
Other assets	193.2	205.7
Total Assets	$12,985.7	$13,444.6
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current maturities of long-term debt	$92.5	$85.0
Current portion of interest rate swaps	30.1	30.0
Accounts payable	361.4	385.9
Advance payments and customer deposits	220.9	223.5
Payable to Windstream Holdings, Inc.	152.3	150.7
Accrued taxes	95.0	104.3
Accrued interest	102.2	103.5
Other current liabilities	350.9	362.4
Total current liabilities	1,405.3	1,445.3
Long-term debt	8,593.1	8,622.2
Deferred income taxes	1,897.9	2,038.3
Other liabilities	499.2	498.3
Total liabilities	12,395.5	12,604.1
Commitments and Contingencies (See Note 6)		
Shareholders’ Equity:		
Common stock, 1,000 shares issued and outstanding (See Note 1)	—	—
Additional paid-in capital	574.7	812.0
Accumulated other comprehensive income	15.5	28.5
Retained earnings	—	—
Total shareholders’ equity	590.2	840.5
Total Liabilities and Shareholders’ Equity	$12,985.7	$13,444.6

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

WINDSTREAM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
(Millions)	2014	2013
Cash Provided from Operations:		
Net income	$31.0	$92.0
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	682.9	661.9
Provision for doubtful accounts	23.0	33.0
Share-based compensation expense	27.7	22.8
Deferred income taxes	10.5	44.0
Unamortized net premium on retired debt	—	(38.7)
Amortization of unrealized losses on de-designated interest rate swaps	8.3	25.6
Plan curtailment and other, net	5.7	(22.8)
Changes in operating assets and liabilities, net		
Accounts receivable	(18.7)	(32.4)
Prepaid income taxes	12.4	0.1
Prepaid expenses and other	(16.7)	(24.2)
Accounts payable	(38.8)	(33.8)
Accrued interest	(2.3)	15.6
Accrued taxes	(9.3)	(1.0)
Other current liabilities	(11.9)	(23.1)
Other liabilities	(9.7)	(12.9)
Other, net	(11.6)	6.5
Net cash provided from operations	682.5	712.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(358.8)	(472.2)
Broadband network expansion funded by stimulus grants	(10.3)	(20.1)
Changes in restricted cash	1.8	11.4
Grant funds received for broadband stimulus projects	21.7	35.7
Grant funds received from Connect America Fund	26.0	—
Net cash used in investing activities	(319.6)	(445.2)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	—	(296.3)
Distributions to Windstream Holdings, Inc.	(301.8)	—
Repayments of debt and swaps	(668.5)	(2,426.2)
Proceeds of debt issuance	635.0	2,435.0
Debt issuance costs	—	(19.6)
Payments under capital lease obligations	(12.1)	(8.2)
Other, net	(8.9)	(5.8)
Net cash used in financing activities	(356.3)	(321.1)
Increase (decrease) in cash and cash equivalents	6.6	(53.7)
Cash and Cash Equivalents:		
Beginning of period	48.2	132.0
End of period	$54.8	$78.3
Supplemental Cash Flow Disclosures:		
Interest paid	$283.6	$294.1

Income taxes paid, net	$1.1	$3.9

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

Table of Contents

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, 2013	$812.0	$28.5	$—	$840.5
Net income	—	—	31.0	31.0
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(5.8)	—	(5.8)
Amortization of unrealized losses on de-designated interest rate swaps	—	5.1	—	5.1
Changes in designated interest rate swaps	—	(12.3)	—	(12.3)
Comprehensive (loss) income	—	(13.0)	31.0	18.0
Share-based compensation expense (See Note 11)	14.1	—	—	14.1
Stock options exercised	0.9	—	—	0.9
Stock issued to employee savings plan (See Note 7)	21.6	—	—	21.6
Stock issued to qualified pension plan (See Note 7)	8.3	—	—	8.3
Taxes withheld on vested restricted stock and other	(10.1)	—	—	(10.1)
Distributions payable to Windstream Holdings, Inc.	(272.1)	—	(31.0)	(303.1)
Balance at June 30, 2014	$574.7	$15.5	$—	$590.2

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

Table of Contents

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.

Organizational Structure – Windstream Holdings, Inc. ("Windstream Holdings") is a publicly traded holding company and the parent of Windstream Corporation ("Windstream Corp."). Windstream Holdings common stock trades on the Nasdaq Global Select Market under the ticker symbol "WIN". Windstream Corp. common stock, consisting of 1,000 shares outstanding, all of which are held by Windstream Holdings, does not trade on any stock market. Windstream Corp. and its guarantor subsidiaries are the sole obligors of all outstanding debt obligations and, as a result also file periodic reports with the Securities and Exchange Commission ("SEC"). Windstream Holdings is not a guarantor of nor subject to the restrictive covenants included in any of Windstream Corp.'s debt agreements. The Windstream Holdings 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 primarily in rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 118,000 miles, a robust business sales division and 27 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 provisioning 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, 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.

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, 2013, 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, 2013, which was filed with the SEC on February 27, 2014.

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 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.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact net income or comprehensive income.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

____

1. Preparation of Interim Financial Statements, Continued:

Recently Issued Authoritative Guidance

Revenue Recognition – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. We are in the process of determining the method of adoption and assessing the impact of the ASU on our consolidated financial statements.

Discontinued Operations – In April 2014, the FASB issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity’s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective for the fiscal years, and interim periods within those years, beginning after December 15, 2014. The adoption of this guidance is not expected to have a material effect on our consolidated results of operations, financial position or liquidity.

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. Goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit for which discrete financial information is available and our executive management team regularly reviews the operating results of that component. Additionally, components of an operating segment can be combined as a single reporting unit if the components have similar economic characteristics. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. Prior to performing the two step evaluation, an entity has the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. Under the qualitative assessment, if an entity determines that it is more likely than not that a reporting unit’s fair value exceeds its carrying value, then the entity is not required to complete the two step goodwill impairment evaluation.

During the fourth quarter of 2013, in connection with the disposal of our software business and changes in certain management responsibilities, we reassessed our reporting unit structure as of November 30, 2013 and performed a quantitative analysis as of that date. We estimated the fair value of our reporting units using an income approach supplemented with a market approach. The income approach is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows of the reporting unit beyond the cash flows from the discrete projection period of five years. We discounted the estimated cash flows for each of the reporting units using a rate that represents a market participant's weighted average cost of capital commensurate with the reporting unit's underlying business operations. Results of the income approach were corroborated with estimated fair values derived from a market approach, which primarily included the use of comparable multiples of publicly traded companies operating in businesses similar to ours. We also reconciled the estimated fair value of our reporting units to our total market capitalization. Goodwill was assigned to the reporting units using a relative fair value allocation approach.

2. Goodwill and Other Intangible Assets, Continued:

As of January 1, 2014, we have three reporting units, excluding corporate-level activities. After considering changes to assumptions used in our most recent quantitative testing completed as of November 30, 2013, including general economic conditions, capital markets, telecommunications industry competition and trends, changes in common stock prices, our results of operations, and the magnitude of the excess of the fair value over the carrying value of each of our reporting units as determined in our most recent quantitative testing, we concluded that it is more likely than not that the fair value of our reporting units is not less than their respective carrying values and, therefore, we did not perform a quantitative analysis.

Other intangible assets arising from business combinations are initially recorded at estimated fair value and amortized over the estimated useful lives.

Intangible assets were as follows at:

(Millions)	June 30, 2014 Gross Cost	June 30, 2014 Accumulated Amortization	June 30, 2014 Net Carrying Value	December 31, 2013 Gross Cost	December 31, 2013 Accumulated Amortization	December 31, 2013 Net Carrying Value
Franchise rights	$1,285.1	$(221.8)	$1,063.3	$1,285.1	$(200.4)	$1,084.7
Customer lists	1,914.0	(1,100.3)	813.7	1,914.0	(991.9)	922.1
Cable franchise rights	39.8	(27.6)	12.2	39.8	(27.0)	12.8
Other	37.9	(37.7)	0.2	37.9	(37.4)	0.5
Balance	$3,276.8	$(1,387.4)	$1,889.4	$3,276.8	$(1,256.7)	$2,020.1

Intangible asset amortization methodology and useful lives were as follows as of June 30, 2014:

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 $65.1 million and $130.7 million for the three and six month periods ended June 30, 2014, as compared to $73.9 million and $148.3 million for the same period in 2013. Amortization expense for intangible assets subject to amortization was estimated to be as follows for each of the twelve month periods ended June 30:

Year	(Millions)
2015	$237.0
2016	204.0
2017	171.1
2018	143.7
2019	116.9
Thereafter	1,016.7
Total	$1,889.4

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

____

3. Long-term Debt and Capital Lease Obligations:

Windstream Holdings has no debt obligations. All debt, including the facility 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)	June 30, 2014	December 31, 2013
Issued by Windstream Corp.:		
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016	$365.8	$387.3
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017	270.0	277.5
Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020	1,324.8	1,331.6
Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019	587.1	590.0
Senior secured credit facility, Revolving line of credit – variable rates, due December 17, 2015	610.0	590.0
Debentures and notes, without collateral:		
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
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021	950.0	950.0
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	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	2.0	2.0
Debentures and notes, without collateral:		
PAETEC 2018 Notes – 9.875%, due December 1, 2018	450.0	450.0
Premium on long-term debt, net	25.9	28.8
	8,685.6	8,707.2
Less current maturities	(92.5)	(85.0)
Total long-term debt	$8,593.1	$8,622.2

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 Tranche B4 borrowings were $11.9 million. Of this amount, $5.7 million was recorded in other assets in the consolidated balance sheet and is amortized into interest expense over the life of the borrowings. The remaining $6.2 million of debt issuance costs were charged to interest expense in the first quarter of 2013 in accordance with debt modification accounting.

Revolving Line of Credit - During the first six months of 2014, Windstream Corp. borrowed an additional $635.0 million under the revolving line of credit in its senior secured credit facility and repaid $615.0 million of these borrowings through June 30, 2014. 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 $16.6 million, the amount available for borrowing under the revolving line of credit was $623.4 million at June 30, 2014.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

During the first half of 2014, the variable interest rate on the revolving line of credit ranged from 2.41 percent to 4.50 percent, and the weighted average rate on amounts outstanding during the period was 2.51 percent. Comparatively, the variable interest rate ranged from 2.45 percent to 4.50 percent during the first six months of 2013, with a weighted average rate on amounts outstanding during the period of 2.63 percent. The revolving line of credit will expire on December 17, 2015.

Debentures and Notes, Without Collateral

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"). Proceeds from the private placement were used to pay the consideration for the tender offer and consent solicitation to purchase for cash any and all of the outstanding $650.0 million 8.875 percent notes, due June 30, 2017 ("PAETEC 2017 Notes"), which were acquired in connection with our acquisition of PAETEC Holding Corp ("PAETEC") in 2011, together with related fees and expenses. Interest on the 2023 Notes 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 are amortized into interest expense over the life of the borrowings.

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 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. In addition, the covenants include restrictions on dividend and certain other types of payments. 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 1.0. As of June 30, 2014, 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 Windstream Corp.'s long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more of Windstream Corp.'s 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 June 30, 2014.

Maturities for long-term debt outstanding as of June 30, 2014, excluding $25.9 million of unamortized net premium, were as follows for each of the twelve month periods ended June 30:

Year	(Millions)
2015	$92.5
2016	702.5
2017	329.2
2018	1,299.5
2019	869.5
Thereafter	5,366.5
Total	$8,659.7

Loss on Early Extinguishment of Debt

During the six month period ended June 30, 2013, Windstream Corp. retired all $650.0 million of the outstanding PAETEC 2017 Notes. As noted above, the PAETEC 2017 Notes were repurchased using proceeds from the issuance 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 of 2013. The retirements and a portion of the credit facility amendment were accounted for under the extinguishment method of accounting, and as a result, Windstream Corp. recognized losses on extinguishment of debt of $13.8 million during the six month period ended June 30, 2013.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The loss on early extinguishment of debt was as follows for the six month period ended June 30, 2013:

(Millions)	
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)
Total loss on early extinguishment of debt	$(13.8)

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. During the six month periods ended June 30, 2014 and 2013, we acquired equipment under capital leases of $0.9 million and $29.3 million, respectively.

Future minimum lease payments under capital lease obligations were as follows for each of the twelve month periods ended June 30:

Year	(Millions)
2015	$31.1
2016	25.5
2017	12.0
2018	1.7
2019	1.5
Thereafter	1.2
Total future payments	73.0
Less: Amounts representing interest	5.0
Present value of minimum lease payments	$68.0

Interest Expense

Interest expense was as follows for the three and six month periods ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2014	2013	2014	2013
Interest expense related to long-term debt	$135.0	$148.7	$269.5	$302.8
Impact of interest rate swaps	7.4	15.2	14.8	31.1
Interest on capital leases and other	1.0	0.6	2.1	1.3

Less capitalized interest expense	(0.9)	(2.5)	(2.0)	(4.3)
Total interest expense	$142.5	$162.0	$284.4	$330.9

17

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 June 30, 2014, 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 facility. 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 1.040 percent plus a fixed spread of 2.750 percent. The variable rate received resets on the seventeenth day of each month to the one-month LIBOR subject to a minimum rate of 0.750 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.

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

(Millions, except for percentages)	June 30, 2014		December 31, 2013	
Designated portion, measured at fair value:				
Other current liabilities	$30.1		$30.0	
Other non-current liabilities	$52.7		$41.8	
Accumulated other comprehensive income	$8.3		$28.2	
De-designated portion, unamortized value:				
Accumulated other comprehensive loss	$(16.4	)	$(24.7	)
Weighted average fixed rate paid	3.57	%	3.57	%
Variable rate received	0.15	%	0.16	%

Derivatives are assessed for effectiveness each quarter and any ineffectiveness is recognized in other (expense) income, net in our consolidated statements of income. Ineffectiveness recognized on the cash flow hedges was $(0.2) million for both the three and six month periods ended June 30, 2014. Comparatively, we recognized increases to earnings of $1.0 million and $2.2 million related to ineffectiveness of the cash flow hedges for the three and six month periods ended June 30, 2013, respectively.

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.

4. Derivatives, Continued:

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. extinguishes all of its variable rate debt, or a portion of its variable rate debt such that the variable rate interest received on the 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 June 30, 2014. Each counterparty is a bank with a current credit rating at or above A.

Windstream Corp. expects to recognize losses of $8.8 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 June 30, 2014. Payments on the original four swaps are presented in the financing activities section of the accompanying consolidated statements of cash flows due to the embedded financing element discussed above.

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

(Millions)	2014	2013
Changes in fair value of effective portion, net of tax (a)	$(12.3)	$17.6
Amortization of unrealized losses on de-designated interest rate swaps, net of tax (a)	$5.1	$15.8

(a) Included as a component of other comprehensive income (loss) 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 June 30, 2014, Windstream Corp. had not posted any collateral related to its interest rate swap agreements.

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.

As of June 30, 2014 and December 31, 2013, all swap agreements with counterparties were in a liability position and, accordingly, there were no assets to be recognized in the accompanying consolidated balance sheets. The following table presents the liabilities subject to an enforceable master netting arrangement as of June 30, 2014 and December 31, 2013.

Information pertaining to derivative liabilities was as follows:

			Gross Amounts Not Offset in the Consolidated Balance Sheets		
(Millions)	Gross Amount of Recognized Liabilities	Net Amount of Liabilities presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2014:					
Derivatives	$82.8	$82.8	$—	$—	$82.8
December 31, 2013:					
Derivatives	$71.8	$71.8	$—	$—	$71.8

19

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

____

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 six month period ended June 30, 2014 requiring these non-financial assets and liabilities to be subsequently recognized at fair value.

Our financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, restricted cash, accounts receivable, income tax 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. Cash equivalents were not significant as of June 30, 2014 or December 31, 2013.

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

(Millions)	June 30, 2014	December 31, 2013
Recorded at Fair Value in the Financial Statements:		
Derivatives:		
Interest rate swap liabilities - Level 2	$82.8	$71.8
Not Recorded at Fair Value in the Financial Statements: (a)		
Long-term debt, including current maturities - Level 1	$5,868.3	$5,270.0
Long-term debt, including current maturities - Level 2	3,220.5	3,738.2
	$9,088.8	$9,008.2

(a) Recognized at carrying value of $8,685.6 million and $8,707.2 million in long-term debt, including current maturities, in the accompanying consolidated balance sheets as of June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013, the fair values of the interest rate swaps were reduced by $2.3 million and $2.6 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 six month period ended June 30, 2014.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Commitments and Contingencies:

We are party to various legal proceedings, including certain lawsuits claiming infringement of patents relating to various aspects of our business. In certain of the patent matters, other industry participants are also parties, and we may have claims of indemnification against vendors/suppliers. The ultimate resolution of these legal proceedings cannot be determined at this time. However, based on current circumstances, management does not believe such proceedings, individually or in the aggregate, will have a material adverse effect on the future consolidated results of our income, cash flows or 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.

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 expense (including provision for executive retirement agreements) were as follows for the three and six month periods ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2014	2013	2014	2013
Benefits earned during the period	$1.9	$2.6	$4.1	$5.3
Interest cost on benefit obligation	14.8	13.2	29.5	26.3
Net actuarial loss	6.4	3.7	6.4	3.7
Amortization of prior service credit	(0.1)	(0.1)	(0.1)	(0.1)
Expected return on plan assets	(16.7)	(17.1)	(33.9)	(34.1)
Net periodic benefit expense	$6.3	$2.3	$6.0	$1.1

The components of postretirement benefits income were as follows for the three and six month periods ended June 30
:

	Three Months Ended		Six Months Ended	
(Millions)	2014	2013	2014	2013
Interest cost on benefit obligation	$0.1	$0.3	$0.5	$0.7
Amortization of net actuarial loss	—	0.1	—	0.8
Amortization of prior service credit	(1.0)	(1.9)	(2.7)	(4.7)
Plan curtailments	—	(5.6)	(9.5)	(25.7)
Net periodic benefit income	$(0.9)	$(7.1)	$(11.7)	$(28.9)

During the first quarter of 2014, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective April 1, 2014. As a result, we remeasured the plan and recognized curtailment gains totaling $9.5 million, of which $5.1 million was recognized in cost of services expenses and $4.4 million was recognized in selling, general and administrative expenses, with the offsetting effect recorded as a reduction in accumulated other comprehensive income of $9.5 million.

During the first two quarters of 2013, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective August 1, 2013 or January 1, 2014. As a result, we remeasured the plan and recognized curtailment gains of $25.7 million, of which $19.6 million was recognized in cost of services expenses and $6.1 million was recognized in selling, general and administrative expenses, with the offsetting effects recorded as reductions in accumulated other comprehensive income of $25.3 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 $1.7 million to the postretirement plan during the six month period ended June 30, 2014, and expect to contribute an additional $0.9 million for postretirement benefits throughout the remainder of 2014, excluding amounts that will be funded by participant contributions to the plan. On March 7, 2014, we contributed 1.0 million shares of our common stock to the Windstream Pension Plan to meet our 2013 funding requirements. At the time of this contribution, the shares had an appraised value, as determined by a third party valuation firm, of approximately $8.3 million. On July 10, 2014, we contributed certain of our owned real property with an appraised value of $45.2 million to the Windstream Pension Plan (see Note 13). We may make additional contributions to the plan in 2014. Any such contributions will be funded using cash, Windstream common stock or other assets, or a combination thereof.

We also sponsor an employee savings plan under section 401(k) of the Internal Revenue Code, which covers substantially all salaried employees and certain bargaining unit employees. Windstream matches on an annual basis up to a maximum of 4.0 percent of employee pre-tax contributions to the plan for employees contributing up to 5.0 percent of their eligible pre-tax compensation. We recorded expenses of $9.9 million and $9.3 million in the six month periods ended June 30, 2014 and 2013, respectively, related to our matching contribution under the employee savings plan, which was included in cost of services and selling, general and administrative in our consolidated statements of income. Expense related to our 2014 matching contribution expected to be made in Windstream stock is included in share-based compensation expense in the accompanying consolidated statements of cash flow. Additionally, we contributed 2.7 million shares of our common stock to the plan for the 2013 annual matching contribution during the six month period ended June 30, 2014. At the time of our contribution, the shares had a value of approximately $21.6 million as determined by the plan trustee.

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. Expenses for IT conversions and other transition activities related to the 2011 acquisition of PAETEC 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.

On February 21, 2014, we announced a reduction in our workforce to increase operational efficiency. As a result, we eliminated approximately 400 positions on or before March 3, 2014, with about 175 of the eliminated positions resulting from a voluntary separation initiative. In connection with this workforce reduction, we incurred pre-tax restructuring charges of $12.1 million for the six month period ended June 30, 2014, primarily consisting of severance and other employee benefit costs.

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

	Three Months Ended		Six Months Ended	
(Millions)	2014	2013	2014	2013
Merger and integration costs:				

Employee related transition costs	$—	$2.0	$—	$3.7
Information technology conversion costs	4.4	3.5	11.5	4.9
Rebranding, consulting and other costs	3.7	1.4	4.5	3.4
Total merger and integration costs	8.1	6.9	16.0	12.0
Restructuring charges	3.8	2.6	16.2	7.5
Total merger, integration and restructuring charges	$11.9	$9.5	$32.2	$19.5

After giving consideration to tax benefits on deductible items, merger, integration and restructuring charges decreased net income $7.3 million and $19.8 million for the three and six month periods ended June 30, 2014, respectively, as compared to $6.0 million and $12.2 million for the same periods in 2013.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 June 30:

(Millions)	2014
Balance, beginning of period	$14.0
Merger, integration and restructuring charges	32.2
Cash outlays during the period	(41.2)
Balance, end of period	$5.0

As of June 30, 2014, unpaid merger, integration and restructuring liabilities consisted of $0.5 million primarily associated with the restructuring initiatives and $4.5 million related to merger and integration activities. Payments of these liabilities will be funded through operating cash flows.

9. Accumulated Other Comprehensive Income:

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

(Millions)	June 30, 2014	December 31, 2013
Pension and postretirement plans	$20.6	$26.4
Unrealized holding gains (losses) on interest rate swaps:		
Designated portion	5.1	17.4
De-designated portion	(10.2)	(15.3)
Accumulated other comprehensive income	$15.5	$28.5

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, 2013	$2.1	$26.4	$28.5
Other comprehensive (loss) income before reclassifications	(12.3)	1.8	(10.5)
Amounts reclassified from other accumulated comprehensive income (a)	5.1	(7.6)	(2.5)
Balance at June 30, 2014	$(5.1)	$20.6	$15.5

(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 six month periods ended June 30:

	(Millions) Amount Reclassified from Accumulated Other Comprehensive Income				
	Three Months Ended		Six Months Ended		
Details about Accumulated Other Comprehensive Income Components	2014	2013	2014	2013	Affected Line Item in the Consolidated Statements of Income
Losses on interest rate swaps:					
Amortization of unrealized losses on de-designated interest rate swaps	$4.1	$12.4	$8.3	$25.6	Interest expense
	4.1	12.4	8.3	25.6	Income from continuing operations before income taxes
	(1.6)	(4.8)	(3.2)	(9.8)	Income taxes
	2.5	7.6	5.1	15.8	Net income
Pension and postretirement plans:					
Plan curtailments	—	(5.5)	(9.5)	(25.3) (a)	
Amortization of net actuarial loss	—	0.1	—	0.8 (a)	
Amortization of prior service credits	(1.1)	(2.0)	(2.8)	(4.8) (a)	
	(1.1)	(7.4)	(12.3)	(29.3)	Income from continuing operations before income taxes
	0.5	3.0	4.7	11.3	Income taxes
	(0.6)	(4.4)	(7.6)	(18.0)	Net income
Total reclassifications for the period, net of tax	$1.9	$3.2	$(2.5)	$(2.2)	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 June 30, 2014, 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 six month periods ended June 30:

	Three Months Ended		Six Months Ended	
(Millions, except per share amounts)	2014	2013	2014	2013
Basic and diluted earnings per share:				
Numerator:				
Income from continuing operations	$14.0	$39.3	$30.0	$91.3
Income from continuing operations allocable to participating securities	(1.2)	(1.0)	(2.5)	(2.1)
Adjusted income from continuing operations attributable to common shares	12.8	38.3	27.5	89.2
Income from discontinued operations	—	0.4	—	0.7
Income from discontinued operations allocable to participating securities	—	—	—	—
Adjusted income from discontinued operations attributable to common shares	—	0.4	—	0.7
Net income attributable to common shares	$12.8	$38.7	$27.5	$89.9
Denominator:				
Basic shares outstanding				
Weighted average basic shares outstanding	602.6	592.7	600.3	591.6
Weighted average participating securities	(5.0)	(4.1)	(4.4)	(3.9)
Weighted average shares outstanding for basic earnings per share	597.6	588.6	595.9	587.7
Diluted shares outstanding				
Weighted average shares outstanding for basic earnings per share	597.6	588.6	595.9	587.7
Effect of dilutive stock options	0.2	0.2	0.1	0.2
Weighted average shares outstanding for diluted earnings per share	597.8	588.8	596.0	587.9
Basic and diluted earnings per share:				
From continuing operations	$.02	$.06	$.05	$.15
From discontinued operations	—	—	—	—
Net income	$.02	$.06	$.05	$.15

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 0.6 million and 0.7 million shares for the three and six month periods ended, 2014, respectively, as compared to 1.1 million and 1.0 million for the same periods in 2013.

11. Share-Based Compensation Plans:

Under the Amended and Restated 2006 Equity Incentive Plan (the "Incentive Plan"), we may issue a maximum of 35.0 million equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. As of June 30, 2014, the Incentive Plan had remaining capacity of 17.1 million awards. As of June 30, 2014, we had additional remaining capacity of 1.9 million awards from a similar equity incentive plan acquired in the PAETEC acquisition.

On March 6, 2014, 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 these employee

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Share-Based Compensation Plans, Continued:

and director groups as a key component of their annual incentive compensation plan. Each recipient of the performance based restricted stock units 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 grant were approved by the Board of Directors in March 2014.

The vesting periods and grant date fair value for restricted stock and restricted stock units issued during the six month period ended June 30, 2014, were as follows:

(Thousands)	Common Shares
Vest ratably over a three-year service period	2,864.6
Vest ratably over a two-year service period	18.3
Vest variably over a three-year service period	12.2
Vest contingently over a three-year performance period	1,176.3
Vest one year from date of grant, service based (a)	97.8
Vest three years from date of grant, service based	12.2
Total granted	4,181.4
Grant date fair value (Millions)	$34,203.5

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

Restricted stock and restricted stock unit activity for the six month period ended June 30, 2014 was as follows:

	(Thousands) Underlying Number of Shares	Weighted Average Fair Value
Non-vested at December 31, 2013	5,259.5	$10.75
Granted	4,181.4	$8.18
Vested	(2,217.2)	$11.24
Forfeited	(313.7)	$9.15
Non-vested at June 30, 2014	6,910.0	$8.92

At June 30, 2014, unrecognized compensation expense totaled $62.1 million and is expected to be recognized over the weighted average vesting period of 1.7 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 $7.6 million and $14.1 million for the three and six month periods ended June 30, 2014, respectively, as compared to $6.8 million and $13.5 million for the same periods in 2013.

In addition to including amounts related to restricted stock and restricted units, share-based compensation expense presented in the accompanying consolidated statements of cash flow also includes amounts related to certain executive and management incentive compensation plans and the matching contribution to the employee savings plan for which payments to eligible participants are expected to be made in Windstream stock. For periods prior to the second quarter of 2014, payments made under the applicable executive and management incentive plans had been in the form of cash. A summary of share-based compensation expense was as follows for the three and six month periods ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2014	2013	2014	2013
Restricted stock and restricted units	$7.6	$6.8	$14.1	$13.5
Employee savings plan (See Note 7)	2.7	3.6	9.9	9.3
Executive and management incentive compensation plans	3.7	—	3.7	—
Share-based compensation expense	$14.0	$10.4	$27.7	$22.8

26

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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. All personal property assets and related operations of the Guarantors are pledged as collateral on the senior secured credit facility of Windstream Corp. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Windstream Corp. The remaining subsidiaries of Windstream Corp. (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.

Upon completing an internal legal entity restructuring, as of January 1, 2014, certain of Windstream Corp.'s guarantor and non-guarantor subsidiaries were merged with and into Windstream Corp. Prior period information has been revised to reflect the change in our legal entity structure.

The following information presents condensed consolidated and combined statements of comprehensive income for the three and six month periods ended June 30, 2014 and 2013, condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013, and condensed consolidated and combined statements of cash flows for the six month period ended June 30, 2014 and 2013 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.

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Three Months Ended June 30, 2014				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$258.8	$1,166.0	$(7.1)	$1,417.7
Product sales	—	10.4	37.9	—	48.3
Total revenues and sales	—	269.2	1,203.9	(7.1)	1,466.0
Costs and expenses:					
Cost of services	—	93.3	565.0	(6.0)	652.3
Cost of products sold	—	10.2	29.8	—	40.0
Selling, general and administrative	—	29.8	220.8	(1.1)	249.5
Depreciation and amortization	5.4	75.2	263.4	—	344.0
Merger and integration costs	—	—	8.1	—	8.1
Restructuring charges	—	0.7	3.1	—	3.8
Total costs and expenses	5.4	209.2	1,090.2	(7.1)	1,297.7
Operating (loss) income	(5.4)	60.0	113.7	—	168.3
Earnings from consolidated subsidiaries	80.0	12.2	0.6	(92.8)	—
Other (expense) income, net	(0.6)	41.2	(41.3)	—	(0.7)

Intercompany interest income (expense)	31.7	(13.4)	(18.3)	—	—
Interest expense	(131.2)	(1.7)	(9.6)	—	(142.5)
(Loss) income before income taxes	(25.5)	98.3	45.1	(92.8)	25.1
Income tax (benefit) expense	(40.2)	33.0	17.6	—	10.4
Net income	$14.7	$65.3	$27.5	$(92.8)	$14.7
Comprehensive income	$10.9	$65.3	$27.5	$(92.8)	$10.9

27

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Three Months Ended June 30, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$268.0	$1,185.9	$(8.5)	$1,445.4
Product sales	—	14.2	42.1	—	56.3
Total revenues and sales	—	282.2	1,228.0	(8.5)	1,501.7
Costs and expenses:					
Cost of services	—	90.7	562.4	(6.5)	646.6
Cost of products sold	—	14.6	34.8	—	49.4
Selling, general and administrative	—	22.5	216.5	(2.0)	237.0
Depreciation and amortization	6.1	72.8	253.3	—	332.2
Merger and integration costs	—	—	6.9	—	6.9
Restructuring charges	—	0.4	2.2	—	2.6
Total costs and expenses	6.1	201.0	1,076.1	(8.5)	1,274.7
Operating (loss) income	(6.1)	81.2	151.9	—	227.0
Earnings from consolidated subsidiaries	115.2	20.6	0.8	(136.6)	—
Other income (expense), net	0.8	16.4	(18.9)	—	(1.7)
Intercompany interest income (expense)	34.9	(15.9)	(19.0)	—	—
Interest expense	(152.7)	(1.3)	(8.0)	—	(162.0)
(Loss) income from continuing operations before income taxes	(7.9)	101.0	106.8	(136.6)	63.3
Income tax (benefit) expense	(47.6)	30.9	40.7	—	24.0
Income from continuing operations	39.7	70.1	66.1	(136.6)	39.3
Discontinued operations	—	—	0.4	—	0.4
Net income	$39.7	$70.1	$66.5	$(136.6)	$39.7
Comprehensive income	$63.5	$70.1	$66.5	$(136.6)	$63.5

28

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Six Months Ended June 30, 2014				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$518.4	$2,330.3	$(11.3)	$2,837.4
Product sales	—	20.4	73.1	—	93.5
Total revenues and sales	—	538.8	2,403.4	(11.3)	2,930.9
Costs and expenses:					
Cost of services	—	181.9	1,124.2	(9.2)	1,296.9
Cost of products sold	—	19.7	61.4	—	81.1
Selling, general and administrative	—	52.7	450.6	(2.1)	501.2
Depreciation and amortization	11.0	149.4	522.5	—	682.9
Merger and integration costs	—	—	16.0	—	16.0
Restructuring charges	—	2.9	13.3	—	16.2
Total costs and expenses	11.0	406.6	2,188.0	(11.3)	2,594.3
Operating (loss) income	(11.0)	132.2	215.4	—	336.6
Earnings from consolidated subsidiaries	160.1	24.5	1.2	(185.8)	—
Other (expense) income, net	(0.1)	82.6	(82.3)	—	0.2
Intercompany interest income (expense)	63.3	(27.2)	(36.1)	—	—
Interest expense	(261.9)	(3.2)	(19.3)	—	(284.4)
(Loss) income before income taxes	(49.6)	208.9	78.9	(185.8)	52.4
Income tax (benefit) expense	(80.6)	71.0	31.0	—	21.4
Net income	$31.0	$137.9	$47.9	$(185.8)	$31.0
Comprehensive income	$18.0	$137.9	$47.9	$(185.8)	$18.0

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Six Months Ended June 30, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$535.5	$2,378.1	$(16.9)	$2,896.7
Product sales	—	28.5	73.0	—	101.5
Total revenues and sales	—	564.0	2,451.1	(16.9)	2,998.2
Costs and expenses:					
Cost of services	—	179.0	1,121.7	(12.9)	1,287.8
Cost of products sold	—	29.4	62.6	—	92.0
Selling, general and administrative	—	40.5	438.0	(4.0)	474.5
Depreciation and amortization	12.6	145.2	503.7	—	661.5
Merger and integration costs	—	—	12.0	—	12.0
Restructuring charges	—	1.3	6.2	—	7.5
Total costs and expenses	12.6	395.4	2,144.2	(16.9)	2,535.3
Operating (loss) income	(12.6)	168.6	306.9	—	462.9
Earnings from consolidated subsidiaries	245.8	32.5	1.2	(279.5)	—
Other income (expense), net	2.9	82.1	(84.4)	—	0.6
Loss on early extinguishment of debt	(2.5)	—	(11.3)	—	(13.8)
Intercompany interest income (expense)	70.2	(32.2)	(38.0)	—	—
Interest expense	(308.3)	(3.0)	(19.6)	—	(330.9)
(Loss) income from continuing operations before income taxes	(4.5)	248.0	154.8	(279.5)	118.8
Income tax (benefit) expense	(96.5)	82.8	41.2	—	27.5
Income from continuing operations	92.0	165.2	113.6	(279.5)	91.3
Discontinued operations	—	—	0.7	—	0.7
Net income	$92.0	$165.2	$114.3	$(279.5)	$92.0
Comprehensive income	$110.1	$165.2	$114.3	$(279.5)	$110.1

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Balance Sheet (Unaudited) As of June 30, 2014				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$9.4	$2.0	$43.4	$—	$54.8
Restricted cash	7.9	—	—	—	7.9
Accounts receivable (less allowance for doubtful accounts of $39.4)	4.6	121.4	504.9	—	630.9
Notes receivable - affiliate	—	4.8	—	(4.8)	—
Affiliates receivable, net	—	915.8	1,974.3	(2,890.1)	—
Inventories	—	38.0	26.5	—	64.5
Deferred income taxes	60.4	10.5	27.8	—	98.7
Prepaid income taxes	17.4	—	—	—	17.4
Prepaid expenses and other	4.4	21.1	131.3	—	156.8
Total current assets	104.1	1,113.6	2,708.2	(2,894.9)	1,031.0
Investments in consolidated subsidiaries	10,159.3	959.8	285.7	(11,404.8)	—
Notes receivable - affiliate	—	319.5	—	(319.5)	—
Goodwill	1,649.5	825.6	1,856.3	—	4,331.4
Other intangibles, net	616.5	375.7	897.2	—	1,889.4
Net property, plant and equipment	10.2	1,302.9	4,227.6	—	5,540.7
Other assets	112.9	15.7	64.6	—	193.2
Total Assets	$12,652.5	$4,912.8	$10,039.6	$(14,619.2)	$12,985.7
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt	$92.4	$—	$0.1	$—	$92.5
Current portion of interest rate swaps	30.1	—	—	—	30.1
Accounts payable	6.8	59.7	294.9	—	361.4
Affiliates payable, net	3,042.4	—	—	(2,890.1)	152.3
Notes payable - affiliate	—	—	4.8	(4.8)	—
Advance payments and customer deposits	—	16.9	204.0	—	220.9
Accrued taxes	0.2	25.1	69.7	—	95.0
Accrued interest	94.0	2.0	6.2	—	102.2
Other current liabilities	37.6	15.4	297.9	—	350.9
Total current liabilities	3,303.5	119.1	877.6	(2,894.9)	1,405.3
Long-term debt	8,019.1	99.6	474.4	—	8,593.1
Notes payable - affiliate	—	—	319.5	(319.5)	—
Deferred income taxes	669.7	415.9	812.3	—	1,897.9
Other liabilities	70.0	27.7	401.5	—	499.2
Total liabilities	12,062.3	662.3	2,885.3	(3,214.4)	12,395.5
Commitments and Contingencies (See Note 6)					
Shareholders' Equity:					
Common stock	—	39.4	81.9	(121.3)	—

Additional paid-in capital	574.7	3,794.9	3,979.4	(7,774.3)	574.7
Accumulated other comprehensive income	15.5	—	20.5	(20.5)	15.5
Retained earnings	—	416.2	3,072.5	(3,488.7)	—
Total shareholders' equity	590.2	4,250.5	7,154.3	(11,404.8)	590.2
Total Liabilities and Shareholders' Equity	$12,652.5	$4,912.8	$10,039.6	$(14,619.2)	$12,985.7

31

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Balance Sheet (Unaudited)				
	As of December 31, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$13.7	$0.7	$33.8	$—	$48.2
Restricted cash	9.7	—	—	—	9.7
Accounts receivable (less allowance for doubtful accounts of $40.0)	—	117.4	517.9	—	635.3
Notes receivable - affiliate	—	4.8	—	(4.8)	—
Affiliates receivable, net	—	743.7	1,864.5	(2,608.2)	—
Inventories	—	49.8	17.9	—	67.7
Deferred income taxes	202.1	10.5	28.9	—	241.5
Prepaid income taxes	29.7	—	—	—	29.7
Prepaid expenses and other	5.6	20.8	126.3	—	152.7
Total current assets	260.8	947.7	2,589.3	(2,613.0)	1,184.8
Investments in consolidated subsidiaries	9,997.5	936.7	291.1	(11,225.3)	—
Notes receivable - affiliate	—	321.3	—	(321.3)	—
Goodwill	1,649.5	825.6	1,856.3	—	4,331.4
Other intangibles, net	645.0	397.6	977.5	—	2,020.1
Net property, plant and equipment	10.2	1,350.9	4,341.5	—	5,702.6
Other assets	120.3	14.8	70.6	—	205.7
Total Assets	$12,683.3	$4,794.6	$10,126.3	$(14,159.6)	$13,444.6
Liabilities and Shareholders’ Equity					
Current Liabilities:					
Current maturities of long-term debt	$84.9	$—	$0.1	$—	$85.0
Current portion of interest rate swaps	30.0	—	—	—	30.0
Accounts payable	5.0	54.8	326.1	—	385.9
Affiliates payable, net	2,758.9	—	—	(2,608.2)	150.7
Notes payable - affiliate	—	—	4.8	(4.8)	—
Advance payments and customer deposits	—	17.4	206.1	—	223.5
Accrued taxes	0.2	33.8	70.3	—	104.3
Accrued interest	95.4	1.8	6.3	—	103.5
Other current liabilities	38.1	17.2	307.1	—	362.4
Total current liabilities	3,012.5	125.0	920.8	(2,613.0)	1,445.3
Long-term debt	8,044.9	99.6	477.7	—	8,622.2
Notes payable - affiliate	—	—	321.3	(321.3)	—
Deferred income taxes	724.7	421.7	891.9	—	2,038.3
Other liabilities	60.7	28.8	408.8	—	498.3
Total liabilities	11,842.8	675.1	3,020.5	(2,934.3)	12,604.1
Commitments and Contingencies (See Note 6)					
Shareholders’ Equity:					
Common stock	—	39.4	81.9	(121.3)	—

Additional paid-in capital	812.0	3,657.5	3,978.8	(7,636.3)	812.0
Accumulated other comprehensive income	28.5	—	26.3	(26.3)	28.5
Retained earnings	—	422.6	3,018.8	(3,441.4)	—
Total shareholders’ equity	840.5	4,119.5	7,105.8	(11,225.3)	840.5
Total Liabilities and Shareholders’ Equity	$12,683.3	$4,794.6	$10,126.3	$(14,159.6)	$13,444.6

32

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

____

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Cash Flows (Unaudited) Six Months Ended June 30, 2014				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash Provided from Operations:					
Net cash provided from operations	$2.1	$239.2	$441.2	$—	$682.5
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(0.9)	(41.3)	(316.6)	—	(358.8)
Broadband network expansion funded by stimulus grants	—	(0.4)	(9.9)	—	(10.3)
Changes in restricted cash	1.8	—	—	—	1.8
Grant funds received for broadband stimulus projects	21.7	—	—	—	21.7
Grant funds received from Connect America Fund	—	9.4	16.6	—	26.0
Net cash provided from (used in) investing activities	22.6	(32.3)	(309.9)	—	(319.6)
Cash Flows from Financing Activities:					
Distributions to Windstream Holdings, Inc.	(10.0)	—	(291.8)	—	(301.8)
Repayments of debt and swaps	(668.5)	—	—	—	(668.5)
Proceeds of debt issuance	635.0	—	—	—	635.0
Intercompany transactions, net	23.4	(207.4)	184.0	—	—
Payments under capital lease obligations	—	—	(12.1)	—	(12.1)
Other, net	(8.9)	1.8	(1.8)	—	(8.9)
Net cash used in financing activities	(29.0)	(205.6)	(121.7)	—	(356.3)
(Decrease) increase in cash and cash equivalents	(4.3)	1.3	9.6	—	6.6
Cash and Cash Equivalents:					
Beginning of period	13.7	0.7	33.8	—	48.2
End of period	$9.4	$2.0	$43.4	$—	$54.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Cash Flows (Unaudited) Six Months Ended June 30, 2013				
(Millions)	Windstream Corp.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash Provided from Operations:					
Net cash (used in) provided from operations	$(60.4)	$290.2	$482.8	$—	$712.6
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(0.2)	(90.7)	(381.3)	—	(472.2)
Broadband network expansion funded by stimulus grants	—	(2.6)	(17.5)	—	(20.1)
Changes in restricted cash	9.9	—	1.5	—	11.4
Grant funds received for broadband stimulus projects	35.7	—	—	—	35.7
Net cash provided from (used in) investing activities	45.4	(93.3)	(397.3)	—	(445.2)
Cash Flows from Financing Activities:					
Dividends paid to shareholders	(296.3)	—	—	—	(296.3)
Repayments of debt and swaps	(1,776.2)	—	(650.0)	—	(2,426.2)
Proceeds of debt issuance	2,435.0	—	—	—	2,435.0
Debt issuance costs	(19.6)	—	—	—	(19.6)
Intercompany transactions, net	(349.3)	(199.9)	549.2	—	—
Payments under capital lease obligations	—	0.5	(8.7)	—	(8.2)
Other, net	(5.8)	1.8	(1.8)	—	(5.8)
Net cash used in financing activities	(12.2)	(197.6)	(111.3)	—	(321.1)
Decrease in cash and cash equivalents	(27.2)	(0.7)	(25.8)	—	(53.7)
Cash and Cash Equivalents:					
Beginning of period	57.5	1.1	73.4	—	132.0
End of period	$30.3	$0.4	$47.6	$—	$78.3

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 PAETEC 2018 Notes ("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.

Upon completing an internal legal entity restructuring, as of January 1, 2014, certain of Windstream Corp.'s guarantor and non-guarantor subsidiaries were merged with and into Windstream Corp. Prior period information has been revised to reflect the change in our legal entity structure.

The following information presents condensed consolidated and combined statements of comprehensive income for the three and six month periods ended June 30, 2014 and 2013, condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013, condensed consolidated and combined statements of cash flows for the three and six month periods ended June 30, 2014 and 2013 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.

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Three Months Ended June 30, 2014					
(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	$—	$—	$486.4	$932.1	$(0.8)	$1,417.7
Product sales	—	—	34.1	14.5	(0.3)	48.3
Total revenues and sales	—	—	520.5	946.6	(1.1)	1,466.0
Costs and expenses:						
Cost of services	—	—	295.3	357.8	(0.8)	652.3
Cost of products sold	—	—	26.5	13.6	(0.1)	40.0
Selling, general and administrative	—	—	135.3	114.4	(0.2)	249.5
Depreciation and amortization	5.4	—	104.1	234.5	—	344.0
Merger and integration costs	—	—	—	8.1	—	8.1
Restructuring charges	—	—	1.4	2.4	—	3.8
Total costs and expenses	5.4	—	562.6	730.8	(1.1)	1,297.7
Operating (loss) income	(5.4)	—	(42.1)	215.8	—	168.3
Earnings (losses) from consolidated subsidiaries	80.0	(19.2)	—	0.1	(60.9)	—
Other (expense) income, net	(0.6)	—	(0.2)	0.1	—	(0.7)
Intercompany interest income (expense)	31.7	—	—	(31.7)	—	—
Interest (expense) income	(131.2)	(9.5)	0.1	(1.9)	—	(142.5)
(Loss) income before income taxes	(25.5)	(28.7)	(42.2)	182.4	(60.9)	25.1
Income tax (benefit) expense	(40.2)	(3.7)	(16.4)	70.7	—	10.4

Net income (loss)	$14.7	$(25.0)	$(25.8)	$111.7	$(60.9)	$14.7
Comprehensive income (loss)	$10.9	$(25.0)	$(25.8)	$111.7	$(60.9)	$10.9

35

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Comprehensive Income (Unaudited) Three Months Ended June 30, 2013					
(Millions)	Windstream Corp.	PAETEC Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:						