WINDSTREAM HOLDINGS, INC.
Form 10-Q
November 05, 2015

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

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

For the quarterly period ended September 30, 2015

or

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

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

4001 Rodney Parham Road Little Rock, 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 Services, LLC 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 Services, LLC 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 Services, LLC	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 Services, LLC ¨ YES ý NO

As of October 30, 2015, 101,036,877 shares of common stock of Windstream Holdings, Inc.were outstanding. Windstream Holdings, Inc. holds a 100 percent interest in Windstream Services, LLC.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Windstream Holdings, Inc. and Windstream Services, LLC. Windstream Services, LLC is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Services, LLC meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, the use of the terms “Windstream,” “we,” “us” or “our” shall refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.
The Exhibit Index is located on page 78.

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*No reportable information under this item.

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

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per share amounts)	2015	2014	2015	2014
Revenues and sales:				
Service revenues:				
Enterprise	$500.6	$476.8	$1,468.0	$1,405.4
Consumer and small business - ILEC	420.8	432.6	1,263.5	1,286.6
Carrier	169.0	180.1	517.8	553.2
Small business - CLEC	145.5	163.4	441.3	507.3
Regulatory and other	215.3	156.7	519.6	494.5
Total service revenues	1,451.2	1,409.6	4,210.2	4,247.0
Product sales	47.4	45.9	128.1	139.4
Total revenues and sales	1,498.6	1,455.5	4,338.3	4,386.4
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	703.9	684.4	2,069.1	2,008.6
Cost of products sold	41.5	39.0	111.8	120.1
Selling, general and administrative	215.8	218.4	656.5	693.9
Depreciation and amortization	350.5	348.5	1,033.0	1,031.4
Merger and integration costs	3.1	10.0	74.5	26.0
Restructuring charges	5.3	3.6	15.7	19.8
Total costs and expenses	1,320.1	1,303.9	3,960.6	3,899.8
Operating income	178.5	151.6	377.7	486.6
Other income (expense), net	17.4	(0.1)	38.5	0.1
Gain (loss) on early extinguishment of debt	7.6	—	(35.8)	—
Interest expense	(230.2)	(143.4)	(588.8)	(427.8)
(Loss) income before income taxes	(26.7)	8.1	(208.4)	58.9
Income tax (benefit) expense	(19.5)	0.1	(95.3)	20.9
Net (loss) income	$(7.2)	$8.0	$(113.1)	$38.0
Basic and diluted (loss) earnings per share:				
Net (loss) income	($.08)	$.07	($1.16)	$.35

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2015	2014	2015	2014
Net (loss) income	$(7.2)	$8.0	$(113.1)	$38.0
Other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding loss arising during the period	(200.4)	—	(309.7)	—
Unrealized holding loss on available-for-sale securities	(200.4)	—	(309.7)	—
Interest rate swaps:				
Changes in designated interest rate swaps	(25.4)	6.3	(13.1)	(13.6)
Amortization of unrealized losses on de-designated interest rate swaps	2.9	3.9	10.0	12.2
Income tax benefit (expense)	8.7	(3.9)	1.2	0.5
Unrealized (loss) gain on interest rate swaps	(13.8)	6.3	(1.9)	(0.9)
Postretirement and pension plans:				
Change in net actuarial gain (loss) for postretirement plan	—	0.4	(0.6)	3.3
Plan curtailment	(3.0)	—	(16.4)	(9.5)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.2	0.1	0.7	0.1
Amortization of prior service credits	(0.8)	(1.6)	(3.4)	(4.4)
Income tax benefit	1.6	0.4	7.5	4.0
Change in postretirement and pension plans	(2.0)	(0.7)	(12.2)	(6.5)
Other comprehensive (loss) income	(216.2)	5.6	(323.8)	(7.4)
Comprehensive (loss) income	$(223.4)	$13.6	$(436.9)	$30.6

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	September 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$97.2	$27.8
Restricted cash	—	6.7
Accounts receivable (less allowance for doubtful accounts of $38.2 and $43.4, respectively)	657.3	635.5
Inventories	81.0	63.7
Deferred income taxes	128.8	105.4
Prepaid expenses and other	158.7	164.6
Total current assets	1,123.0	1,003.7
Goodwill	4,340.0	4,352.8
Other intangibles, net	1,586.2	1,764.0
Net property, plant and equipment	5,329.7	5,412.3
Investment in CS&L common stock	526.0	—
Other assets	99.5	92.9
Total Assets	$13,004.4	$12,625.7
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$5.9	$717.5
Current portion of long-term lease obligations	146.4	—
Current portion of interest rate swaps	19.2	28.5
Accounts payable	366.7	403.3
Advance payments and customer deposits	207.4	214.7
Accrued dividends	15.7	152.4
Accrued taxes	93.2	95.2
Accrued interest	139.0	102.5
Other current liabilities	304.2	328.9
Total current liabilities	1,297.7	2,043.0
Long-term debt	5,693.4	7,846.5
Long-term lease obligations	5,007.6	81.0
Deferred income taxes	322.8	1,878.6
Other liabilities	508.6	551.8
Total liabilities	12,830.1	12,400.9
Commitments and Contingencies (See Note 7)		
Shareholders' Equity:		
Common stock, $.0001 par value, 166.7 shares authorized, 101.0 and 100.5 shares issued and outstanding, respectively	—	—
Additional paid-in capital	638.6	252.2
Accumulated other comprehensive (loss) income	(311.7)	12.1
Accumulated deficit	(152.6)	(39.5)
Total shareholders' equity	174.3	224.8
Total Liabilities and Shareholders' Equity	$13,004.4	$12,625.7

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

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

(Millions)	Nine Months Ended September 30, 2015	2014
Cash Provided from Operations:		
Net (loss) income	$(113.1)	$38.0
Adjustments to reconcile net (loss) income to net cash provided from operations:		
Depreciation and amortization	1,033.0	1,031.4
Provision for doubtful accounts	37.1	38.8
Share-based compensation expense	42.9	38.3
Deferred income taxes	(103.3)	10.8
Unamortized net premium on retired debt	(15.0)	—
Amortization of unrealized losses on de-designated interest rate swaps	10.0	12.2
Plan curtailment and other, net	(29.5)	11.5
Changes in operating assets and liabilities, net		
Accounts receivable	(58.9)	(20.8)
Prepaid income taxes	4.3	8.7
Prepaid expenses and other	(9.1)	(4.1)
Accounts payable	(37.9)	(49.2)
Accrued interest	34.2	64.8
Accrued taxes	(2.0)	(6.6)
Other current liabilities	8.2	(0.8)
Other liabilities	(3.8)	(38.3)
Other, net	(40.8)	(22.1)
Net cash provided from operations	756.3	1,112.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(744.4)	(552.7)
Broadband network expansion funded by stimulus grants	—	(11.6)
Changes in restricted cash	6.7	2.0
Grant funds received for broadband stimulus projects	23.5	25.8
Grant funds received from Connect America Fund - Phase I	—	26.0
Network expansion funded by Connect America Fund - Phase I	(67.4)	(2.0)
Other, net	8.9	—
Net cash used in investing activities	(772.7)	(512.5)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(354.1)	(451.6)
Payment received from CS&L in spin-off	1,035.0	—
Repayments of debt and swaps	(2,098.6)	(1,049.0)
Proceeds of debt issuance	1,620.0	985.0
Debt issuance costs	(4.3)	—
Stock repurchases	(20.0)	—
Payments under long-term lease obligations	(59.3)	—
Payments under capital lease obligations	(24.7)	(19.8)
Other, net	(8.2)	(9.2)
Net cash provided from (used in) financing activities	85.8	(544.6)
Increase in cash and cash equivalents	69.4	55.5
Cash and Cash Equivalents:		

Beginning of period	27.8	48.2
End of period	$97.2	$103.7
Supplemental Cash Flow Disclosures:		
Interest paid	$551.7	$358.3
Income taxes paid, net	$0.8	$4.0

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

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

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2014	$252.2	$12.1	$(39.5)	$224.8
Net loss	—	—	(113.1)	(113.1)
Other comprehensive (loss) income, net of tax:				
Unrealized holding loss on available-for-sale securities	—	(309.7)	—	(309.7)
Change in postretirement and pension plans	—	(12.2)	—	(12.2)
Amortization of unrealized losses on de-designated interest rate swaps	—	6.1	—	6.1
Changes in designated interest rate swaps	—	(8.0)	—	(8.0)
Comprehensive loss	—	(323.8)	(113.1)	(436.9)
Effect of REIT spin-off (See Note 2)	589.5	—	—	589.5
Share-based compensation expense (See Note 9)	17.1	—	—	17.1
Stock issued for management incentive compensation plans (See Note 9)	3.6	—	—	3.6
Stock issued to employee savings plan (See Note 8)	21.6	—	—	21.6
Stock repurchases	(20.0)	—	—	(20.0)
Taxes withheld on vested restricted stock and other	(8.4)	—	—	(8.4)
Dividends of $2.16 per share declared to shareholders	(217.0)	—	—	(217.0)
Balance at September 30, 2015	$638.6	$(311.7)	$(152.6)	$174.3

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2015	2014	2015	2014
Revenues and sales:				
Service revenues:				
Enterprise	$500.6	$476.8	$1,468.0	$1,405.4
Consumer and small business - ILEC	420.8	432.6	1,263.5	1,286.6
Carrier	169.0	180.1	517.8	553.2
Small business - CLEC	145.5	163.4	441.3	507.3
Regulatory and other	215.3	156.7	519.6	494.5
Total service revenues	1,451.2	1,409.6	4,210.2	4,247.0
Product sales	47.4	45.9	128.1	139.4
Total revenues and sales	1,498.6	1,455.5	4,338.3	4,386.4
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	703.9	684.4	2,069.1	2,008.6
Cost of products sold	41.5	39.0	111.8	120.1
Selling, general and administrative	215.5	218.0	654.9	691.9
Depreciation and amortization	350.5	348.5	1,033.0	1,031.4
Merger and integration costs	3.1	10.0	74.5	26.0
Restructuring charges	5.3	3.6	15.7	19.8
Total costs and expenses	1,319.8	1,303.5	3,959.0	3,897.8
Operating income	178.8	152.0	379.3	488.6
Other income (expense), net	17.4	(0.1)	38.5	0.1
Gain (loss) on early extinguishment of debt	7.6	—	(35.8)	—
Interest expense	(230.2)	(143.4)	(588.8)	(427.8)
(Loss) income before income taxes	(26.4)	8.5	(206.8)	60.9
Income tax (benefit) expense	(19.4)	0.3	(94.7)	21.7
Net (loss) income	$(7.0)	$8.2	$(112.1)	$39.2

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2015	2014	2015	2014
Net (loss) income	$(7.0)	$8.2	$(112.1)	$39.2
Other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding loss arising during the period	(200.4)	—	(309.7)	—
Unrealized holding loss on available-for-sale securities	(200.4)	—	(309.7)	—
Interest rate swaps:				
Changes in designated interest rate swaps	(25.4)	6.3	(13.1)	(13.6)
Amortization of unrealized losses on de-designated interest rate swaps	2.9	3.9	10.0	12.2
Income tax benefit (expense)	8.7	(3.9)	1.2	0.5
Unrealized (loss) gain on interest rate swaps	(13.8)	6.3	(1.9)	(0.9)
Postretirement and pension plans:				
Change in net actuarial gain (loss) for postretirement plan	—	0.4	(0.6)	3.3
Plan curtailment	(3.0)	—	(16.4)	(9.5)
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.2	0.1	0.7	0.1
Amortization of prior service credits	(0.8)	(1.6)	(3.4)	(4.4)
Income tax benefit	1.6	0.4	7.5	4.0
Change in postretirement and pension plans	(2.0)	(0.7)	(12.2)	(6.5)
Other comprehensive (loss) income	(216.2)	5.6	(323.8)	(7.4)
Comprehensive (loss) income	$(223.2)	$13.8	$(435.9)	$31.8

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except number of shares)	September 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$97.2	$27.8
Restricted cash	—	6.7
Accounts receivable (less allowance for doubtful accounts of $38.2 and $43.4, respectively)	657.3	635.5
Inventories	81.0	63.7
Deferred income taxes	128.8	105.4
Prepaid expenses and other	158.7	164.6
Total current assets	1,123.0	1,003.7
Goodwill	4,340.0	4,352.8
Other intangibles, net	1,586.2	1,764.0
Net property, plant and equipment	5,329.7	5,412.3
Investment in CS&L common stock	526.0	—
Other assets	99.5	92.9
Total Assets	$13,004.4	$12,625.7
Liabilities and Member Equity		
Current Liabilities:		
Current maturities of long-term debt	$5.9	$717.5
Current portion of long-term lease obligations	146.4	—
Current portion of interest rate swaps	19.2	28.5
Accounts payable	366.7	403.3
Advance payments and customer deposits	207.4	214.7
Payable to Windstream Holdings, Inc.	15.7	152.4
Accrued taxes	93.2	95.2
Accrued interest	139.0	102.5
Other current liabilities	304.2	328.9
Total current liabilities	1,297.7	2,043.0
Long-term debt	5,693.4	7,846.5
Long-term lease obligations	5,007.6	81.0
Deferred income taxes	322.8	1,878.6
Other liabilities	508.6	551.8
Total liabilities	12,830.1	12,400.9
Commitments and Contingencies (See Note 7)		
Member Equity:		
Additional paid-in capital	636.2	250.8
Accumulated other comprehensive (loss) income	(311.7)	12.1
Accumulated deficit	(150.2)	(38.1)
Total member equity	174.3	224.8
Total Liabilities and Member Equity	$13,004.4	$12,625.7

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Nine Months Ended September 30, 2015	2014
Cash Provided from Operations:		
Net (loss) income	$(112.1)	$39.2
Adjustments to reconcile net (loss) income to net cash provided from operations:		
Depreciation and amortization	1,033.0	1,031.4
Provision for doubtful accounts	37.1	38.8
Share-based compensation expense	42.9	38.3
Deferred income taxes	(103.3)	10.8
Unamortized net premium on retired debt	(15.0)	—
Amortization of unrealized losses on de-designated interest rate swaps	10.0	12.2
Plan curtailment and other, net	(29.5)	11.5
Changes in operating assets and liabilities, net		
Accounts receivable	(58.9)	(20.8)
Prepaid income taxes	4.3	8.7
Prepaid expenses and other	(9.1)	(4.1)
Accounts payable	(37.9)	(49.2)
Accrued interest	34.2	64.8
Accrued taxes	(2.0)	(6.7)
Other current liabilities	8.2	(0.8)
Other liabilities	(3.8)	(38.3)
Other, net	(40.8)	(22.1)
Net cash provided from operations	757.3	1,113.7
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(744.4)	(552.7)
Broadband network expansion funded by stimulus grants	—	(11.6)
Changes in restricted cash	6.7	2.0
Grant funds received for broadband stimulus projects	23.5	25.8
Grant funds received from Connect America Fund - Phase I	—	26.0
Network expansion funded by Connect America Fund - Phase I	(67.4)	(2.0)
Other, net	8.9	—
Net cash used in investing activities	(772.7)	(512.5)
Cash Flows from Financing Activities:		
Distributions to Windstream Holdings, Inc.	(355.1)	(452.4)
Payment received from CS&L in spin-off	1,035.0	—
Repayments of debt and swaps	(2,098.6)	(1,049.0)
Proceeds of debt issuance	1,620.0	985.0
Debt issuance costs	(4.3)	—
Stock repurchases	(20.0)	—
Payments under long-term lease obligations	(59.3)	—
Payments under capital lease obligations	(24.7)	(19.8)
Other, net	(8.2)	(9.5)
Net cash provided from (used in) financing activities	84.8	(545.7)
Increase in cash and cash equivalents	69.4	55.5
Cash and Cash Equivalents:		

Beginning of period	27.8	48.2
End of period	$97.2	$103.7
Supplemental Cash Flow Disclosures:		
Interest paid	$551.7	$358.3
Income taxes paid, net	$0.8	$4.0

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF MEMBER EQUITY (UNAUDITED)

(Millions, except per share amounts)	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2014	$250.8	$12.1	$(38.1)	$224.8
Net loss	—	—	(112.1)	(112.1)
Other comprehensive (loss) income, net of tax:				
Unrealized holding loss on available-for-sale securities	—	(309.7)	—	(309.7)
Change in postretirement and pension plans	—	(12.2)	—	(12.2)
Amortization of unrealized losses on de-designated interest rate swaps	—	6.1	—	6.1
Changes in designated interest rate swaps	—	(8.0)	—	(8.0)
Comprehensive loss	—	(323.8)	(112.1)	(435.9)
Effect of REIT spin-off (See Note 2)	589.5	—	—	589.5
Share-based compensation expense (See Note 9)	17.1	—	—	17.1
Stock issued for management incentive compensation plans (See Note 9)	3.6	—	—	3.6
Stock issued to employee savings plan (See Note 8)	21.6	—	—	21.6
Stock repurchases	(20.0)	—	—	(20.0)
Taxes withheld on vested restricted stock and other	(8.4)	—	—	(8.4)
Distributions payable to Windstream Holdings, Inc.	(218.0)	—	—	(218.0)
Balance at September 30, 2015	$636.2	$(311.7)	$(150.2)	$174.3

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

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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 Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.

Organizational Structure –Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company and the parent of Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation. Windstream Holdings common stock trades on the Nasdaq Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). Following the conversion, Windstream Holdings owns a 100 percent interest in Windstream Services. The conversion of Windstream Services to a LLC has been accounted for as a change in reporting entity and accordingly, the historical equity presentation of Windstream Services reflect the effect of the LLC conversion for all periods presented. Windstream Services 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 Services’ debt agreements. The Windstream Holdings board of directors and officers oversee both companies.

As further discussed in Note 2, on April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate into an independent, publicly traded real estate investment trust (“REIT”). Upon completion of the spin-off, we amended our certificate of incorporation to decrease the number of authorized shares of common stock from 1.0 billion to 166.7 million and enacted a one-for-six reverse stock split with respect to all of our outstanding shares of common stock which became effective on April 26, 2015. All share data of Windstream Holdings presented has been retrospectively adjusted to reflect the effects of the decrease in its authorized shares and the reverse stock split, as appropriate.

Description of Business – We are a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and carrier partners across the United States. We offer bundled services, including broadband, security solutions, voice and digital television to consumers. We also provide data, cloud solutions, unified communications and managed services to business and enterprise clients. We supply core transport solutions on a local and long-haul fiber-optic network spanning approximately 121,000 miles.

Enterprise service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services provided to enterprise customers. Consumer service revenues are generated from the provisioning of high-speed Internet, voice and video services to consumers. Small business service revenues include revenues from integrated voice and data services, advanced data and traditional voice and long-distance services provided to small business customers. Carrier revenues include revenues from other carriers for special access circuits and fiber connections as well as voice and data services sold on a wholesale basis. Regulatory revenues include switched access revenues, federal and state Universal Service Fund (“USF”) revenues and amounts received from Connect America Fund - Phase II. Other service revenues include USF surcharge revenues, other miscellaneous services and, for periods prior to the April 24, 2015 spin-off, consumer revenues generated in markets where we lease the connection to the customer premise. As further discussed in Note 2, substantially all of this business was transferred to the REIT.

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, 2014, 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, 2014, which was filed with the SEC on February 24, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

Windstream Holdings and its domestic subsidiaries, including Windstream Services, file a consolidated federal income tax return. As such, Windstream Services and its subsidiaries are not separate taxable entities for federal and certain state income tax purposes. In instances when Windstream Services does not file a separate return, income taxes as presented within the accompanying consolidated financial statements attribute current and deferred income taxes of Windstream Holdings to Windstream Services and its subsidiaries in a manner that is systematic, rational and consistent with the asset and liability method. Income tax provisions presented for Windstream Services and its subsidiaries are prepared under the "separate return method." The separate return method represents a hypothetical computation assuming that the reported revenue and expenses of Windstream Services and its subsidiaries were incurred by separate taxable entities.

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 Services 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 Services to Windstream Holdings. Earnings per share data has not been presented for Windstream Services, because that entity has not issued publicly held common stock as defined in accordance with U.S. GAAP. Unless otherwise indicated, the note disclosures included herein pertain to both Windstream Holdings and Windstream Services.

Revisions to Prior Period Financial Statements

During the first quarter of 2015, management became aware of and corrected for the immaterial misclassification of certain operating expenses. The previously reported amounts included certain costs related to customer service delivery, customer care and field operations that had been classified as selling, general and administrative expense and should have been reported as cost of services. These revisions did not impact previously reported operating income, net income or comprehensive income.

The following tables present the effect of the revisions to Windstream Holdings' consolidated statements of operations for the three and nine month periods ended September 30:

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
(Millions)	As Previously Reported	Effect of Revision	As Revised	As Previously Reported	Effect of Revision	As Revised
Cost of services	$670.9	$13.5	$684.4	$1,967.8	$40.8	$2,008.6
Selling, general and administrative	$231.9	$(13.5)	$218.4	$734.7	$(40.8)	$693.9

The effect of the revisions to Windstream Services' consolidated statements of operations would be the same for all periods presented. We evaluated the materiality of these revisions and have determined they were not material to any prior period.

During the second quarter of 2015, management identified a classification error within the shareholders' equity section of our consolidated balance sheet as of December 31, 2014. Specifically, additional paid-in capital as originally reported of $212.7 million was understated by $39.5 million while retained earnings as originally reported of zero was overstated by $39.5 million due to the manner in which dividends were recorded during the year. As this classification error had no effect on our total shareholders' equity balance as of December 31, 2014, management determined the related impact was not material to the previously issued financial statements. The accompanying consolidated balance sheet as of December 31, 2014 has been revised to correct this classification error.

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

Recently Adopted Accounting Standards

Presentation of Debt Issuance Costs – In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The standard outlines a simplified presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted. During the second quarter of 2015, we early adopted this guidance and have classified in our consolidated balance sheets unamortized debt issuance costs from other assets to long-term debt for all periods presented (see Note 4). The effect of this change was to reduce the previously reported amounts within the accompanying consolidated balance sheet as of December 31, 2014 for other assets and long-term debt by $87.7 million or a decrease in other assets from $180.6 million to $92.9 million and long-term debt from $7,934.2 million to $7,846.5 million. Adoption of this guidance did not affect our consolidated results of operations, financial position or liquidity.

Recently Issued Authoritative Guidance

Revenue Recognition – In May 2014, the 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 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to all periods presented in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect adjustment in the year of adoption. When issued, ASU 2014-09 was to be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption was not permitted. On July 9, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date, or January 1, 2018, for calendar companies like Windstream. Entities are permitted to early adopt the standard, but not before the original effective date of December 15, 2016. We are in the process of determining the method of adoption and assessing the impact the new standard will have on our consolidated financial statements.

Fair Value Measurement Disclosures - In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent), which amends certain fair value measurement disclosures (“ASU 2015-07”). The standard removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient and also removes certain related disclosure requirements. ASU 2015-07 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 31, 2015, with early adoption permitted.

Pension Plan Investment Disclosures - In July 2015, the FASB issued Accounting Standards Update 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Plans (Topic 962), Health and Welfare

Benefit Plans (Topic 965) (“ ASU 2015-12”). This standard eliminates the requirement to measure the fair value of fully benefit-responsive investment contracts and provide the related fair value disclosures. Under the new guidance, fully benefit-responsive investment contracts will be measured and disclosed only at contract value. The standard also eliminates certain disclosure requirements related to an employee benefit plan’s investments presented in the plan’s standalone financial statements. ASU 2015-12 is effective retrospectively for fiscal years beginning after December 31, 2015, with early adoption permitted.

Adoption of ASU 2015-07 and 2015-12 will impact certain of the disclosures related to our qualified pension plan assets, but otherwise is not expected to have a material impact on our consolidated financial statements.

Measurement Period Adjustments in a Business Combination - In September 2015, the FASB issued Accounting Standards Update No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”), which eliminates the requirement to restate prior period financial statements for measurement period adjustments related to a business combination. The standard requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 also requires companies to disclose the portion of the adjustment recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, either separately in the income statement or in the notes.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

ASU 2015-16 is effective prospectively for annual and interim periods after December 15, 2015, with early adoption permitted. We do not expect the adoption of ASU 2015-16 to have a material impact on our consolidated financial statements.

2. Completion of Spin-off of Certain Network and Real Estate Assets:

On April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate, into an independent, publicly traded REIT. The spin-off also included substantially all of our consumer competitive local exchange carrier ("CLEC") business. The telecommunications network assets consisted of copper cable and fiber optic cable lines, telephone poles, underground conduits, concrete pads, attachment hardware (e.g., bolts and lashings), pedestals, guy wires, anchors, signal repeaters, and central office land and buildings, with a net book value of approximately $2.5 billion. We requested and received a private letter ruling from the Internal Revenue Service on the qualification of the spin-off as a tax-free transaction and the designation of the telecommunications network assets as real estate.

Pursuant to the plan of distribution and immediately prior to the effective time of the spin-off, we contributed the telecommunications network assets and the consumer CLEC business to Communications Sales & Leasing, Inc. ("CS&L"), a wholly owned subsidiary of Windstream, in exchange for: (i) the issuance to Windstream of CS&L common stock of which 80.4 percent of the shares were distributed on a pro rata basis to Windstream's stockholders, (ii) cash payment to Windstream in the amount of $1.035 billion and (iii) the distribution by CS&L to Windstream of approximately $2.5 billion of CS&L debt securities. After giving effect to the interest in CS&L retained by Windstream, each Windstream Holdings shareholder received one share of CS&L for every five shares of Windstream Holdings common stock held as of the record date of April 10, 2015 in the form of a tax-free dividend. An ex-date of April 27, 2015 was established by NASDAQ, and all trades through the close of business on April 24, 2015 carried the right to receive the distribution. No fractional shares were distributed in connection with the spin-off, with a cash payment being made in lieu of any fractional shares.

In connection with the distribution, CS&L borrowed approximately $2.14 billion through a new senior credit agreement. CS&L also issued debt securities in the private placement market to fund the cash payment and to issue its debt securities to Windstream, consisting of $1,110.0 million aggregate principal amount of 8.25 percent senior notes due April 15, 2023 and $400.0 million aggregate principal amount of 6.00 percent senior secured notes due October 15, 2023. The CS&L unsecured notes and the borrowings under CS&L's new senior credit agreement were issued at a discount, and accordingly, at the date of distribution, CS&L issued to Windstream approximately $2.5 billion of its debt securities consisting of $970.2 million in term loans, $400.0 million in secured and $1,077.3 million in unsecured notes (the "CS&L Securities").

In connection with the spin-off transaction, Windstream entered into an exchange agreement (the "Exchange Agreement"), with J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Inc. (together, the "Investment Banks"), and CS&L. Pursuant to the terms of the Exchange Agreement, Windstream agreed to transfer the CS&L Securities and cash to the Investment Banks, in exchange for the transfer by the Investment Banks to Windstream of certain debt securities of Windstream Services consisting of $1.7 billion aggregate principal amount of borrowings outstanding under Tranches A3, A4 and B4 of Windstream Services' senior credit facility and $752.2 million aggregate principal amount of borrowings outstanding under the revolving line of credit held by the Investment Banks. On April 24, 2015, following the completion of the spin-off transaction, Windstream and the Investment Banks completed the exchange of debt securities pursuant to the terms of the Exchange Agreement. We incurred approximately $35.4 million of costs in completing the debt-for-debt exchange. In conjunction with the retirement of debt, Windstream Services terminated seven of its ten interest rate swaps designated as cash flow hedges of the variable cash flows paid on its senior secured credit facility. Windstream Services paid $22.7 million to terminate the interest rate swaps.

As of the spin-off date, excluding restricted shares held by Windstream employees and directors, Windstream retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions. Windstream has classified its shares of CS&L common stock as an available-for-sale security and, accordingly, the shares are recorded at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss). No deferred income taxes will be recorded with respect to any unrealized gains and losses due to the tax-free qualification of the spin-off.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Completion of Spin-off of Certain Network and Real Estate Assets, Continued:

For employees and directors remaining with Windstream, restricted stock awarded pursuant to our equity incentive plans and held by employees and directors at the time of the distribution continue to represent the right to receive shares of Windstream Holdings' common stock. In addition, the holders of these restricted shares received restricted shares of CS&L common stock equivalent to the number of shares of CS&L common stock that was received with respect to each share of unrestricted Windstream Holdings' common stock at the time of the distribution. The existing Windstream Holdings' restricted stock and newly issued CS&L restricted stock remain subject to vesting and other terms and conditions as prescribed by our equity incentive plans. The number of Windstream Holdings' shares underlying any outstanding stock options and the related per share exercise price were adjusted to maintain both the aggregate fair market value of stock underlying the stock options and the relationship between the per share exercise price and the related per share market value, pursuant to the terms of the applicable Windstream Holdings' equity incentive plans and taking into account the change in the market value of Windstream Holdings' common stock as a result of the distribution.

As further discussed in Note 4, following the spin-off, Windstream entered into an agreement to lease back the telecommunications network assets from CS&L.

3. 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.

Changes in the carrying amount of goodwill were as follows:

(Millions)		
Balance at December 31, 2014	$4,352.8	
Disposition during the period (a)	(12.8	)
Balance at September 30, 2015	$4,340.0	

(a)

Represents the portion of historical goodwill allocated to the consumer CLEC business that was transferred to CS&L in conjunction with the spin-off (see Note 2).

As of January 1, 2015, we have three reporting units, excluding corporate level activities. In performing our annual goodwill impairment assessment, we estimated the fair value of each of our three reporting units utilizing both an income approach and 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. The market approach 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.

As of January 1, 2015, based on our assessment performed with respect to our three reporting units as described above, we concluded that goodwill for all of our reporting units was not impaired as of that date, and accordingly, no further analysis was required.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Goodwill and Other Intangible Assets, Continued:

As a result of changes in our executive management team, we are in the process of reorganizing the way in which we manage our business for purposes of operating decisions and assessing profitability. We expect to complete the reorganization of our operations in the fourth quarter of 2015, at which time, we will reassess our reporting unit and operating segment structure.

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

(Millions)	September 30, 2015 Gross Cost	Accumulated Amortization	Net Carrying Value	December 31, 2014 Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	$1,285.1	$(275.4)	$1,009.7	$1,285.1	$(243.3)	$1,041.8
Customer lists (a)	1,879.5	(1,316.9)	562.6	1,914.0	(1,203.4)	710.6
Cable franchise rights	39.8	(29.1)	10.7	39.8	(28.2)	11.6
Other (b)	42.0	(38.8)	3.2	37.9	(37.9)	—
Balance	$3,246.4	$(1,660.2)	$1,586.2	$3,276.8	$(1,512.8)	$1,764.0

(a) In connection with the spin-off, we transferred customer lists with a gross cost of $34.5 million and a net carrying value of $13.1 million to CS&L (see Note 2).

(b) During the first quarter of 2015, we acquired for cash non-exclusive licenses to various patents, which are being amortized on a straight-line basis over the estimated useful life of 3 years.

Intangible asset amortization methodology and useful lives were as follows as of September 30, 2015:

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 $54.8 million and $168.9 million for the three and nine month periods ended September 30, 2015, as compared to $63.7 million and $194.4 million for the same periods in 2014. Amortization expense for intangible assets subject to amortization is estimated to be as follows for each of the twelve month periods ended September 30:

Year	(Millions)
2016	$194.6
2017	170.4
2018	142.9
2019	116.4
2020	95.1
Thereafter	866.8
Total	$1,586.2

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4. Long-term Debt and Lease Obligations:

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

Long-term debt was as follows at:

(Millions)	September 30, 2015	December 31, 2014
Issued by Windstream Services:		
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016 (a)	$—	$344.3
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017 (a)	—	255.0
Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020 (a)	—	1,318.1
Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019	579.7	584.1
Senior secured credit facility, Revolving line of credit – variable rates, due April 24, 2020	785.0	625.0
Debentures and notes, without collateral:		
2017 Notes – 7.875%, due November 1, 2017 (b)	942.3	1,100.0
2018 Notes – 8.125%, due September 1, 2018	—	400.0
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021 (b)	920.4	950.0
2022 Notes – 7.500%, due June 1, 2022 (b)	493.5	500.0
2023 Notes – 7.500%, due April 1, 2023 (b)	540.1	600.0
2023 Notes – 6.375%, due August 1, 2023	700.0	700.0
Issued by subsidiaries of Windstream Services:		
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	—	1.9
Debentures and notes, without collateral:		
PAETEC 2018 Notes – 9.875%, due December 1, 2018	—	450.0
Premium on long-term debt, net	4.4	23.3
Unamortized debt issuance costs	(66.1)	(87.7)
	5,699.3	8,564.0
Less current maturities	(5.9)	(717.5)
Total long-term debt	$5,693.4	$7,846.5

(a) Debt obligation was retired in connection with completion of the debt-for-debt exchange (see Note 2).

(b) During the third quarter of 2015, Windstream Services repurchased in the open market a portion of this debt obligation.

Senior Secured Credit Facility

Revolving Line of Credit - On April 24, 2015, Windstream Services amended the revolving line of credit and extended its maturity from December 17, 2015 to April 24, 2020. During the first nine months of 2015, Windstream Services borrowed $1,620.0 million under the revolving line of credit in its senior secured credit facility and through completion of the debt-for-debt exchange and repayments retired $1,460.0 million of these borrowings through

September 30, 2015. 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 $23.1 million, the amount available for borrowing under the revolving line of credit was $441.9 million at September 30, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4. Long-term Debt and Lease Obligations, Continued:

During the first nine months of 2015, the variable interest rate on the revolving line of credit ranged from 2.19 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.44 percent during the period. Comparatively, the variable interest rate ranged from 2.41 percent to 4.50 percent during the first nine months of 2014, with a weighted average rate on amounts outstanding during the period of 2.51 percent.

Debentures and Notes Repaid in 2015
Partial Repurchase of Senior Notes - In August 2015, Windstream Services' board of directors authorized a debt repurchase program pursuant to which Windstream Services may purchase or redeem up to $300.0 million of any of its unsecured notes through one or more open market purchase offers, tender offers, privately negotiated transactions, or other purchase transactions, with the amount of such purchases funded by either borrowings under the revolving line of credit, new term loans under the senior secured credit facility, or a combination thereof. During the third quarter of 2015, Windstream Services repurchased in the open market $253.7 million aggregate principal amount of its senior unsecured notes consisting of the following:

- $157.7 million aggregate principal amount of 7.875 percent senior unsecured notes due November 1, 2017, (the "2017 Notes) at a repurchase price of $168.7 million, including accrued and unpaid interest;

- $29.6 million aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021, (the "2021 Notes), at a repurchase price of $25.8 million, including accrued and unpaid interest;

- $6.5 million aggregate principal amount of 7.500 percent senior unsecured notes due June 1, 2022, (the "2022 Notes), at a repurchase price of $5.3 million, including accrued and unpaid interest; and

- $59.9 million aggregate principal amount of 7.500 percent senior unsecured notes due April 1, 2023, (the "2023 Notes) at a repurchase price of $50.2 million, including accrued and unpaid interest.

At the time of repurchase, there was $3.3 million in unamortized net discount and debt issuance costs related to the repurchased notes. The repurchases were funded utilizing available borrowings under the amended revolving line of credit.

2018 Notes - On May 27, 2015, Windstream Services redeemed all of its $400.0 million aggregate principal amount of 8.125 percent senior unsecured notes due September 1, 2018 (the "2018 Notes"), at a redemption price payable in cash equal to $1,040.63 per $1,000 principal amount of the notes, plus accrued and unpaid interest. At the time of redemption, there was $1.4 million and $4.0 million in unamortized discount and debt issuance costs, respectively, related to the 2018 Notes.

PAETEC 2018 Notes - On May 27, 2015, PAETEC Holding, LLC ("PAETEC"), a direct, wholly-owned subsidiary of Windstream Services, redeemed all $450.0 million of the outstanding aggregate principal amount of 9.875 percent notes due 2018 (the "PAETEC 2018 Notes"), at a redemption price payable in cash equal to $1,049.38 per $1,000 principal amount of the notes, plus accrued and unpaid interest. At the time of redemption, there was $16.9 million in unamortized premium related to the PAETEC 2018 Notes.

Windstream used a portion of the $1.035 billion cash payment received from CS&L in conjunction with the spin-off of certain telecommunication network assets to redeem these two debt obligations (see Note 2).

Cinergy Communications Company - On April 24, 2015, Windstream Services repaid all $1.9 million of the outstanding aggregate principal amount of these unsecured notes utilizing available borrowings under the amended revolving line of credit.

Debt Compliance

The terms of Windstream Services' credit facility and indentures include customary covenants that, among other things, require maintenance of certain financial ratios and restrict Windstream Services' ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.5 to 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. In addition, the covenants include restrictions on dividend and certain other types of payments. As of September 30, 2015, Windstream Services was in compliance with all of these covenants.

4. Long-term Debt and Lease Obligations, Continued:

In addition, certain of Windstream Services' debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under Windstream Services' 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 interest in Windstream Services, or breach of certain other conditions set forth in the borrowing agreements. Windstream Services and its subsidiaries were in compliance with these covenants as of September 30, 2015.

Maturities for long-term debt outstanding as of September 30, 2015, excluding $4.4 million of unamortized net premium and $66.1 million of unamortized debt issuance costs, were as follows:

Twelve month period ended:	(Millions)
September 30, 2016	$5.9
September 30, 2017	5.9
September 30, 2018	948.2
September 30, 2019	562.0
September 30, 2020	785.0
Thereafter	3,454.0
Total	$5,761.0

Gain (Loss) on Extinguishment of Debt

Under the debt repurchase program previously discussed, Windstream Services repurchased in the open market certain of its senior unsecured notes representing an aggregate principal amount of $253.7 million. The partial repurchase was accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized a pretax gain of $7.6 million during the third quarter of 2015.

In conjunction with the spin-off, Windstream completed a debt-for-debt exchange retiring $1.7 billion aggregate principal amount of borrowings outstanding under Tranches A3, A4 and B4 of Windstream Services' senior credit facility and $752.2 million aggregate principal amount of borrowings outstanding under the revolving line of credit. Following the completion of the debt-for-debt exchange, Windstream Services repaid the remaining $241.8 million aggregate principal amount of borrowings under Tranche B4. The debt-for-debt exchange and repayment were accounted for under the extinguishment method of accounting and, as a result, Windstream Services recognized a loss due to the extinguishment of the aforementioned debt obligations of $15.9 million.

As previously discussed, Windstream Services retired all $400.0 million of the outstanding 2018 Notes and all $450.0 million of the PAETEC 2018 Notes using a portion of the cash payment received from CS&L in conjunction with the spin-off. The retirements were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations during the second quarter of 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4. Long-term Debt and Lease Obligations, Continued:

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

(Millions)	Three Months Ended	Nine Months Ended
Senior secured credit facility borrowings:		
Premium on early redemption	$—	$(6.6)
Third-party fees for early redemption	—	(0.7)
Unamortized debt issuance costs on original issuance	—	(8.6)
Loss on early extinguishment of senior secured credit facility borrowings	—	(15.9)
2018 Notes:		
Premium on early redemption	—	(16.3)
Unamortized discount on original issuance	—	(1.4)
Unamortized debt issuance costs on original issuance	—	(4.0)
Loss on early extinguishment of 2018 Notes	—	(21.7)
Partial repurchase of 2017, 2021, 2022 and 2023 Notes:		
Discount on early repurchase	10.9	10.9
Unamortized net discount on original issuance	(0.5)	(0.5)
Unamortized debt issuance costs on original issuance	(2.8)	(2.8)
Gain on early extinguishment of partial repurchase of 2017, 2021, 2022 and 2023 Notes	7.6	7.6
PAETEC 2018 Notes:		
Premium on early redemption	—	(22.2)
Unamortized premium on original issuance	—	16.9
Loss on early extinguishment of PAETEC 2018 Notes	—	(5.3)
Cinergy Communications Company Notes:		
Premium on early redemption	—	(0.5)
Loss on early extinguishment of Cinergy Communication Company Notes	—	(0.5)
Total gain (loss) on early extinguishment of debt	$7.6	$(35.8)

Long-term Lease Obligations

Leaseback of Telecommunications Network Assets - Following the spin-off transaction (see Note 2), on April 24, 2015, Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. Under terms of the master lease, Windstream Holdings has the exclusive right to use the telecommunications network assets for an initial term of 15 years with up to four, five-year renewal options. We have requested, and CS&L has agreed to fund up to $50.0 million of capital expenditures during the remainder of 2015. In addition, CS&L has the right, but not the obligation, upon Windstream's request, to fund capital expenditures of Windstream in an aggregate amount of up to $250.0 million for a maximum period of five years. Monthly rent paid by us to CS&L will increase in accordance with the master lease effective as of the date of the funding. If CS&L exercises this right, the lease payments under the master lease will be adjusted at a rate of 8.125 percent of the capital expenditures funded by CS&L during the first two years and at a floating rate based on CS&L's cost of capital thereafter. Additionally, if CS&L agrees to fund the entire $250.0 million, the initial term of the master lease will be increased from 15 years to 20 years and the number of renewal terms will be reduced from four renewal terms of five years each to three renewal terms of five years each. Windstream Holdings is required to pay all property taxes, insurance, and repair or maintenance costs associated with the leased property. The master lease provides for an annual rent of $650.0 million paid in equal monthly installments in advance and is fixed for the first three years. The effective interest rate on the long-term lease obligation is 10.15 percent. Thereafter, rent will increase on an annual basis at a base rent escalator of 0.5 percent. Future lease payments due under the agreement reset to fair market rental rates upon Windstream Holdings’ execution of the renewal options.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Long-term Debt and Lease Obligations, Continued:

Due to various forms of continuing involvement, including Windstream Services or its subsidiaries, retaining bare legal title (but not beneficial ownership) to the various easements, permits and pole attachments related to the telecommunications network assets, we accounted for the transaction as a failed spin-leaseback for financial reporting purposes. As a result, the net book value of the network assets transferred to CS&L continue to be reported in our consolidated balance sheet and all depreciable assets will be fully depreciated over the initial lease term of 15 years.

We recorded a long-term lease obligation of approximately $5.1 billion equal to the sum of the minimum future annual lease payments over the 15-year lease term discounted to the present value based on Windstream Services' incremental borrowing rate. As annual lease payments are made, a portion of the payment will decrease the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

As the master lease was entered into by Windstream Holdings for the direct benefit of Windstream Services and its subsidiaries, Windstream Services is also deemed to have continuing involvement due to retaining its regulatory obligations associated with operating the telecommunications network assets. Accordingly, the effects of the failed spin-leaseback transaction have also been reflected in the standalone consolidated financial statements of Windstream Services. Notwithstanding the foregoing accounting treatment, neither Windstream Services or its subsidiaries is a counterparty or obligor to the master lease agreement.

Leaseback of Real Estate Contributed to Pension Plan - During the third quarter of 2014, we contributed certain of our owned real property to the Windstream Pension Plan and then entered into agreements to leaseback the properties for continued use by our operating subsidiaries. Independent appraisals of the properties contributed were obtained and at the dates of contribution the properties' aggregate fair value was $80.9 million. The lease agreements include initial lease terms of 10 years for certain properties and 20 years for the remaining properties at an aggregate annual rent of approximately $6.3 million. The lease agreements provide for annual rent increases ranging from 2.0 percent to 3.0 percent over the initial lease term and may be renewed for up to three additional five-year terms. The properties are managed on behalf of the Windstream Pension Plan by an independent fiduciary and terms of the lease agreements were negotiated with the fiduciary on an arm's-length basis.

Due to various forms of continuing involvement, including Windstream Services' benefit from the future appreciation of the property, the transaction has been accounted for as a failed contribution-leaseback. Accordingly, the properties continue to be reported as assets of Windstream and depreciated over their remaining useful lives until termination of the lease agreement. We recorded a long-term lease obligation equal to the fair value of the properties at the date of contribution. No gain or loss was recognized on the contribution. As lease payments are made to the Windstream Pension Plan, a portion of the payment is applied to the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

A summary of the current and noncurrent portions of the long-term lease obligations was as follows:

	September 30, 2015			December 31, 2014		
(Millions)	Current	Noncurrent	Total	Current	Noncurrent	Total
Assets Subject to Leaseback:						
Telecommunications network assets	$146.4	$4,926.2	$5,072.6	$—	$—	$—
Real estate contributed to pension plan	—	81.4	81.4	—	81.0	81.0
Total	$146.4	$5,007.6	$5,154.0	$—	$81.0	$81.0

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Long-term Debt and Lease Obligations, Continued:

Undiscounted future minimum payments during the initial terms of the leases were as follows for each of the twelve month periods ended September 30:

(Millions)	Leaseback of Telecommunications Network Assets	Leaseback of Real Estate Contributed to Pension Plan	Total
Year			
2016	$650.0	$6.5	$656.5
2017	650.0	6.7	656.7
2018	651.3	6.8	658.1
2019	654.6	7.0	661.6
2020	657.9	7.2	665.1
Thereafter	6,460.9	87.4	6,548.3
Total	$9,724.7	$121.6	$9,846.3

Capital Lease Obligations

We lease facilities, equipment and software 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 current liabilities and other liabilities. During the nine month periods ended September 30, 2015 and 2014, we acquired assets under capital leases of $23.6 million and $0.6 million, respectively.

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

Year	(Millions)
2016	$42.0
2017	12.9
2018	0.9
2019	0.9
2020	0.8
Thereafter	1.3
Total future payments	58.8
Less: Amounts representing interest	2.8
Present value of minimum lease payments	$56.0

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Long-term Debt and Lease Obligations, Continued:

Interest Expense

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

	Three Months Ended		Nine Months Ended	
(Millions)	2015	2014	2015	2014
Interest expense - long-term debt	$98.2	$134.9	$347.0	$404.4
Interest expense - long-term lease obligations:				
Telecommunications network assets	128.2	—	224.2	—
Real estate contributed to pension plan	1.7	—	5.1	—
Impact of interest rate swaps	4.7	7.3	17.2	22.1
Interest on capital leases and other	0.6	2.0	2.0	4.1
Less capitalized interest expense	(3.2)	(0.8)	(6.7)	(2.8)
Total interest expense	$230.2	$143.4	$588.8	$427.8

5. Derivatives:

Windstream Services 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 (loss) income in the current period. Any ineffective portion of the hedges is recognized in earnings in the current period.

Prior to the spin-off of CS&L, Windstream Services had 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. The swaps had a notional value of $900.0 million and matured on October 17, 2019. The fixed interest rate paid was 3.391 percent and included a component which served to settle the liability existing on Windstream Services swaps at the time of the transaction. The variable rate received reset on the seventeenth day of each month to the one-month London Interbank Offered Rate (“LIBOR”). In addition, Windstream Services also had entered into six 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 had a fixed notional value of $750.0 million and matured on June 17, 2016. The fixed rate paid ranged from 1.026 to 1.040 percent plus a fixed spread of 2.750 percent. The variable rate received reset on the seventeenth day of each month to the one-month LIBOR subject to a minimum rate of 0.750 percent. All ten of the swaps were designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable rate cash flows paid on Windstream Services’ senior secured credit facility, which had varying maturity dates from December 30, 2016 to January 23, 2020. In conjunction with completing the debt-for-debt exchange previously discussed (see Note 4), Windstream Services terminated seven of the ten interest rate swaps, consisting of all six of the swaps scheduled to mature on June 17, 2016 and one of the swaps scheduled to mature on October 17, 2019. As a result, Windstream Services paid $22.7 million to the respective counterparties and recognized a pretax loss of $1.7 million upon termination of the seven interest rate swap agreements as a reclassification from accumulated other comprehensive (loss) income to other income (expense).

Two of the remaining three interest rate swaps were renegotiated to more closely align with the characteristics of Tranche B5 of Windstream Services' senior secured credit facility. Windstream Services de-designated the three remaining swaps and froze the accumulated losses reported in accumulated other comprehensive income related to these swaps. This frozen balance will be amortized from accumulated other comprehensive income to interest expense over the remaining life of the original swaps.

The three remaining swaps have a notional value of $675.0 million and are hedging probable variable cash flows which extend up to one year beyond the maturity of certain components of the variable rate debt. Consistent with past practice, Windstream Services expects to extend or otherwise replace these components of its debt with variable rate debt. The 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 at-market swap. As such, a portion of the cash payment on the swaps represents the rate that Windstream Services would pay on a hypothetical at-market interest rate swap and is recognized in interest expense. The remaining portion represents the repayment of the embedded financing element and reduces the initial swap liability.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. Derivatives, Continued:

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)	September 30, 2015		December 31, 2014	
Designated portion, measured at fair value:				
Other assets	$—		$0.4	
Other current liabilities	$19.2		$28.5	
Other non-current liabilities	$40.4		$48.7	
Accumulated other comprehensive (loss) income	$(5.2	)	$4.9	
De-designated portion, unamortized value:				
Accumulated other comprehensive loss	$(1.8	)	$(8.8	)
Weighted average fixed rate paid	3.04	%	3.57	%
Variable rate received	0.21	%	0.16	%

Derivatives are assessed for effectiveness each quarter and any ineffectiveness is recognized in other income (expense), net in our consolidated statements of operations. Ineffectiveness recognized on the cash flow hedges was $(0.4) million and $(3.9) million for the three and nine month periods ended September 30, 2015. Comparatively, ineffectiveness on the cash flow hedges was $(0.1) million and $(0.3) million for the three and nine month periods ended September 30, 2014.

All or a portion of the change in fair value of Windstream Services' interest rate swap agreements recorded in accumulated other comprehensive income may be recognized in earnings in certain situations. If Windstream Services 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 may be recognized in earnings. In addition, the change in fair value of the swaps may be recognized in earnings if Windstream Services 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 Services has assessed the counterparty risk and determined that no substantial risk of default exists as of September 30, 2015. Each counterparty is a bank with a current credit rating at or above A, as determined by Moody's Investors Service, Standard & Poor's Corporation and Fitch Ratings.

Windstream Services expects to recognize losses of $9.5 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 and the interest settlements for the three remaining interest swap agreements at September 30, 2015. Payments on the 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 nine month periods ended September 30:

(Millions)	2015		2014	
Changes in fair value of effective portion, net of tax (a)	$(8.0	)	$(8.4	)
Amortization of unrealized losses on de-designated interest rate swaps, net of tax (a)	$6.1		$7.5	

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

The agreements with each of the derivative counterparties contain cross-default provisions, whereby if Windstream Services 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 at the swap termination value of $64.1 million including accrued interest and excluding the credit valuation adjustment to measure non-performance risk. 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 Services' creditworthiness in an adverse manner, Windstream Services may be required to fully collateralize its derivative obligations. At September 30, 2015, Windstream Services had not posted any collateral related to its interest rate swap agreements.

5. Derivatives, Continued:

Balance Sheet Offsetting

Windstream Services 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 Services does not offset assets and liabilities under these arrangements.

The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of September 30, 2015 and December 31, 2014. As of September 30, 2015, all swap agreements with counterparties were in a liability position and, accordingly, there were no assets to be recognized in the accompanying consolidated balance sheet as of that date. Following the termination of the seven interest rate swaps previously discussed, there is only one trade outstanding with each counterparty.

Information pertaining to derivative assets was as follows:

			Gross Amounts Not Offset in the Consolidated Balance Sheets		
(Millions)	Gross Amount of Recognized Assets	Net Amount of Assets Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2014:					
Interest rate swaps	$0.4	$0.4	$(0.3)	$—	$0.1

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
September 30, 2015:					
Interest rate swaps	$59.6	$59.6	$—	$—	$59.6
December 31, 2014:					
Interest rate swaps	$77.2	$77.2	$(0.3)	$—	$76.9

6. Fair Value Measurements:

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

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

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.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements, Continued:

Our non-financial assets and liabilities, including property, plant and equipment, goodwill, intangible assets and asset retirement obligations, are measured at fair value on a non-recurring basis. No event occurred during the nine month period ended September 30, 2015 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, investment in CS&L common stock, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, restricted cash, accounts receivable and accounts payable was estimated by management to approximate fair value due to the relatively short period of time to maturity for those instruments. Cash equivalents, investment in CS&L common stock, long-term debt and interest rate swaps are measured at fair value on a recurring basis.

The fair values of cash equivalents, investment in CS&L common stock, interest rate swaps and long-term debt were determined using the following inputs at:

(Millions)	September 30, 2015	December 31, 2014
Recorded at Fair Value in the Financial Statements:		
Cash equivalents - Level 1	$60.0	$—
Investment in CS&L common stock - Level 1	$526.0	$—
Derivatives:		
Interest rate swap assets - Level 2	$—	$0.4
Interest rate swap liabilities - Level 2	$59.6	$77.2
Not Recorded at Fair Value in the Financial Statements: (a)		
Long-term debt, including current maturities - Level 2	$4,881.6	$8,777.5

(a) Recognized at carrying value of $5,765.4 million and $8,651.7 million in long-term debt, including current maturities and excluding unamortized debt issuance costs, in the accompanying consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively.

The fair value of CS&L common stock is based on the quoted market price of the shares on the last day of the reporting period. The CS&L common stock trades on NASDAQ.

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 Services’ own non-performance risk and non-performance risk of the respective counterparties. As of September 30, 2015 and December 31, 2014, the fair values of the interest rate swaps were reduced by $3.7 million and $3.3 million, respectively, to reflect non-performance risk.

In calculating the fair value of Windstream Services’ long-term debt, the fair value of the debentures and notes 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 for purposes of the fair value hierarchy at fair value using significant unobservable inputs (Level 3). We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the nine month period ended September 30, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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7. 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.

8. Employee Benefit Plans and Postretirement Benefits:

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

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

	Three Months Ended		Nine Months Ended	
(Millions)	2015	2014	2015	2014
Benefits earned during the period	$2.4	$2.1	$7.1	$6.2
Interest cost on benefit obligation	13.3	14.7	40.0	44.2
Net actuarial (gain) loss	—	—	(2.8)	6.4
Amortization of prior service credit	(0.1)	—	(0.1)	(0.1)
Expected return on plan assets	(17.5)	(16.6)	(52.6)	(50.5)
Net periodic benefit (income) expense	$(1.9)	$0.2	$(8.4)	$6.2

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

	Three Months Ended		Nine Months Ended	
(Millions)	2015	2014	2015	2014
Interest cost on benefit obligation	$0.3	$0.4	$0.9	$0.9
Amortization of net actuarial loss	0.2	0.1	0.7	0.1
Amortization of prior service credit	(0.7)	(1.6)	(3.3)	(4.3)
Plan curtailment	(3.0)	—	(16.5)	(9.5)
Net periodic benefit income	$(3.2)	$(1.1)	$(18.2)	$(12.8)

During the third quarter of 2015, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective October 1, 2015. As a result, we remeasured the plan and recognized curtailment gains totaling $3.0 million, of which $2.4 million was recognized in cost of services expenses and $0.6 million was recognized in selling, general and administrative expenses, with the offsetting effect recorded as a reduction in accumulated other comprehensive income of $3.0 million.

During the second quarter of 2015, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective June 8, 2015. As a result, we remeasured the plan and recognized curtailment gains totaling $13.5 million, of which $10.7 million was recognized in cost of services expenses and $2.8 million was recognized in selling, general and administrative expenses, with the offsetting effect recorded as a reduction in accumulated other comprehensive income of $13.4 million and other liabilities of $0.1 million.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. Employee Benefit Plans and Postretirement Benefits, Continued:

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.

We contributed $1.7 million to the postretirement plan during the nine month period ended September 30, 2015, and expect to contribute an additional $0.6 million for postretirement benefits throughout the remainder of 2015, excluding amounts that will be funded by participant contributions to the plan. In 2015, we expect to make in cash employer contributions for pension benefits of $0.8 million necessary to fund the expected benefit payments related to the unfunded supplemental executive retirement plans. We do not expect to make a contribution to the Windstream Pension Plan during 2015. The amount and timing of future contributions to our qualified pension plan are based on a myriad of factors including investment performance, changes in future discount rates and changes in the demographics of the population participating in the plan.

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 $4.7 million and $14.9 million in the three and nine month periods ended September 30, 2015, as compared to $4.3 million and $14.2 million for the same periods in 2014 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 operations. Expense related to our 2015 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 2014 annual matching contribution during the nine month period ended September 30, 2015. At the time of our contribution, the shares had a value of approximately $21.6 million as determined by the plan trustee.

9. Share-Based Compensation Plans:

All share-based compensation award information presented has been retrospectively adjusted to reflect the effects of the one-for-six reverse stock split which became effective on April 26, 2015 (see Note 1).

Effective May 6, 2015, the Amended and Restated 2006 Equity Incentive Plan (the “Incentive Plan”) was further amended to equitably adjust the number of shares of common stock under the plan in order to (i) reduce the shares available to address the effect of the one-for-six reverse stock split; and (ii) increase the shares available to address the effect of the REIT spin-off on the market value of Windstream Holdings common stock and to preserve the equity value of the Incentive Plan. As a result of the amendment, we may issue a maximum of 24.3 million equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. As of September 30, 2015, the Incentive Plan had remaining capacity of 9.3 million awards. As of September 30, 2015, we had additional remaining capacity of 0.5 million awards under a similar equity incentive plan acquired in the PAETEC acquisition.

Our Board of Directors approves 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 and director groups as a key component of their annual incentive compensation plan and one-time grants may include time-based and performance-based awards. Time-based awards generally vest over a service period of two or three years. 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 2015 operating targets for these performance based restricted stock units were approved by the Board of Directors in February 2015. The standard annual grants to employees and directors were made in the second quarter of 2015 following the completion of the spin-off.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Share-Based Compensation Plans, Continued:

The vesting periods and grant date fair value for restricted stock and restricted stock units issued was as follows for the nine month period ended September 30, 2015:

(Thousands)	Common Shares
Vest ratably over a three-year service period	2,739.2
Vest two years from date of grant, service based	6.9
Vest variably over a three-year service period	62.6
Vest contingently over a three-year performance period	283.4
Vest one year from date of grant, service based - granted to non-employee directors	73.7
Vest three years from date of grant, service based	381.1
Total granted	3,546.9
Grant date fair value (Millions)	$37.1

Restricted stock and restricted stock unit activity for the nine month period ended September 30, 2015 was as follows:

	(Thousands) Underlying Number of Shares	Weighted Average Fair Value
Non-vested at December 31, 2014	978.0	$53.68
Granted	3,546.9	$10.46
Vested	(373.0)	$55.73
Forfeited	(279.7)	$30.90
Non-vested at September 30, 2015	3,872.2	$15.54

At September 30, 2015, unrecognized compensation expense totaled $40.7 million and is expected to be recognized over the weighted average vesting period of 2.1 years. Unrecognized compensation expense is included in additional paid-in capital in the accompanying consolidated balance sheets and statements of shareholders’ and member equity. Share-based compensation expense for restricted stock and restricted stock units was $6.6 million and $17.1 million for the three and nine month periods ended September 30, 2015, as compared to $5.8 million and $19.9 million for the same periods in 2014.

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. A summary of share-based compensation expense was as follows for the three and nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions)	2015	2014	2015	2014
Restricted stock and restricted units	$6.6	$5.8	$17.1	$19.9
Employee savings plan (See Note 8)	4.7	4.3	14.9	14.2
Executive and management incentive compensation plans	3.3	0.5	10.9	4.2
Share-based compensation expense	$14.6	$10.6	$42.9	$38.3

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. 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. We also incurred investment banking fees, legal, accounting and other consulting fees related to the REIT spin-off. Our acquisition of PAETEC and fees related to the spin-off 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.

During the first nine months of 2015, we incurred restructuring charges of $10.8 million related to the completion of several small workforce reductions. Additionally, we incurred charges of $3.1 million related to the special shareholder meeting held on February 20, 2015 to approve the one-for-six reverse stock split and the conversion of Windstream Corporation to Windstream Services.

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 nine month period ended September 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 nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions)	2015	2014	2015	2014
Merger and integration costs:				
Information technology conversion costs	$1.3	$4.2	$7.4	$15.7
Costs related to REIT spin-off (See Note 2)	0.2	4.3	65.2	6.9
Consulting and other costs	1.6	1.5	1.9	3.4
Total merger and integration costs	3.1	10.0	74.5	26.0
Restructuring charges	5.3	3.6	15.7	19.8
Total merger, integration and restructuring charges	$8.4	$13.6	$90.2	$45.8

After giving consideration to tax benefits on deductible items, merger, integration and restructuring charges decreased net income $5.2 million and $44.5 million for the three and nine month periods ended September 30, 2015, as compared to $7.1 million and $26.2 million for the same periods in 2014.

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

(Millions)	2015
Balance, beginning of period	$11.2
Merger, integration and restructuring charges	90.2

Cash outlays during the period	(95.3)
Balance, end of period	$6.1

As of September 30, 2015, unpaid merger, integration and restructuring liabilities consisted of $2.8 million primarily associated with the restructuring initiatives and $3.3 million related to merger and integration activities. Payments of these liabilities will be funded through operating cash flows.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Accumulated Other Comprehensive (Loss) Income:

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

(Millions)	September 30, 2015	December 31, 2014
Pension and postretirement plans	$2.3	$14.5
Unrealized holding loss on available-for-sale securities	(309.7)	—
Unrealized holding (losses) gains on interest rate swaps:		
Designated portion	(3.2)	3.1
De-designated portion	(1.1)	(5.5)
Accumulated other comprehensive (loss) income	$(311.7)	$12.1

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

(Millions)	Unrealized Holding Loss on Available-for-Sale Securities	(Losses) Gains on Interest Rate Swaps	Pension and Postretirement Plans	Total
Balance at December 31, 2014	$—	$(2.4)	$14.5	$12.1
Other comprehensive loss before reclassifications	(309.7)	(8.0)	(0.4)	(318.1)
Amounts reclassified from other accumulated comprehensive income (loss) (a)	—	6.1	(11.8)	(5.7)
Balance at September 30, 2015	$(309.7)	$(4.3)	$2.3	$(311.7)

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

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

	(Millions) Amount Reclassified from Accumulated Other Comprehensive (Loss) Income					
Details about Accumulated Other Comprehensive (Loss) Income Components	Three Months Ended 2015	Three Months Ended 2014	Nine Months Ended 2015	Nine Months Ended 2014		Affected Line Item in the Consolidated Statements of Operations
Interest rate swaps:						
Amortization of unrealized losses on de-designated interest rate swaps	$2.9	$3.9	$10.0	$12.2		Interest expense
	2.9	3.9	10.0	12.2		(Loss) income before income taxes
	(1.2)	(1.5)	(3.9)	(4.7)		Income tax (benefit) expense
	1.7	2.4	6.1	7.5		Net (loss) income
Pension and postretirement plans:						
Plan curtailment	(3.0)	—	(16.4)	(9.5)	(a)	
Amortization of net actuarial loss	0.2	0.1	0.7	0.1	(a)	
Amortization of prior service credits	(0.8)	(1.6)	(3.4)	(4.4)	(a)	
	(3.6)	(1.5)	(19.1)	(13.8)		(Loss) income before

					income taxes
	1.6	0.6	7.3	5.3	Income tax (benefit) expense
	(2.0)	(0.9)	(11.8)	(8.5)	Net (loss) income
Total reclassifications for the period, net of tax	$(0.3)	$1.5	$(5.7)	$(1.0)	Net (loss) income

(a) These accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit income (see Note 8).

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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12. Income Taxes:

In connection with the spin-off, we adjusted our deferred tax assets and liabilities, including our valuation allowance related to our federal and state net operating loss carryforwards, to reflect the transfer of the telecommunication network assets and consumer CLEC business to CS&L and the recognition of the long-term lease obligation related to the master lease with CS&L. For income tax purposes, the spin-off of the telecommunication network assets is treated as a sale and the leaseback of the assets as an operating lease.

The significant components of the net deferred income tax liability (asset) were as follows:

(Millions)	September 30, 2015	December 31, 2014
Property, plant and equipment	$1,393.2	$1,146.7
Goodwill and other intangible assets	1,296.1	1,312.8
Operating loss and credit carryforward	(533.2)	(604.0)
Postretirement and other employee benefits	(119.0)	(121.8)
Unrealized holding loss and interest rate swaps	(5.9)	(5.3)
Deferred compensation	(4.9)	(5.7)
Bad debt	(29.1)	(32.1)
Long-term lease obligation with CS&L	(2,002.5)	—
Deferred debt costs	(1.5)	(12.9)
Restricted stock	(6.8)	(8.5)
Other, net	69.5	9.1
	55.9	1,678.3
Valuation allowance	138.1	94.9
Deferred income taxes, net	$194.0	$1,773.2
Deferred tax assets	$(2,750.9)	$(898.0)
Deferred tax liabilities	2,944.9	2,671.2
Deferred income taxes, net	$194.0	$1,773.2

At September 30, 2015 and December 31, 2014, we had federal net operating loss carryforwards of approximately $1,091.3 million and $1,304.2 million, respectively, which expire in varying amounts from 2022 through 2031. The loss carryforwards at September 30, 2015 were primarily losses acquired in conjunction with our mergers with Valor, NuVox, Iowa Telecom and PAETEC. The 2015 decrease is primarily associated with the amount utilized for the year. At September 30, 2015 and December 31, 2014, we had state net operating loss carryforwards of approximately $2,034.7 million and $1,990.6 million, respectively, which expire annually in varying amounts from 2015 through 2033. The loss carryforwards at September 30, 2015 were primarily losses acquired in conjunction with our mergers with Valor, CTC, D&E, Lexcom, NuVox, Iowa Telecom, Q-Comm and PAETEC. Federal and state tax rules limit the deductibility of loss carryforwards in years following an ownership change. As a result of these limitations or the expected lack of sufficient future taxable income, we believe that it is more likely than not that the benefit from certain federal and state loss carryforwards will not be realized prior to their expiration. In September 2015, Windstream's board of directors adopted a shareholder rights plan designed to protect our net operating loss carryforwards from the effect of limitations imposed by federal and state tax rules following an ownership change. This plan was designed to deter an ownership change (as defined in IRC Section 382) from occurring, and therefore protect our ability to utilize our federal and state net operating loss carry forwards in the future. The plan is not meant to be an anti-takeover measure and our board of directors has established a procedure to consider requests to exempt the acquisition of Windstream common stock from the rights plan, if such acquisition would not limit or impair the availability of our net operating loss carryforwards.

We establish valuation allowances when necessary to reduce deferred tax assets to amounts expected to be realized. Therefore, as of September 30, 2015 and December 31, 2014, we recorded valuation allowances of $138.1 million and $94.9 million, respectively, related to federal and state loss carryforwards which are expected to expire before they are utilized. The amount of federal tax credit carryforward at September 30, 2015 and December 31, 2014, was approximately $39.2 million and $34.6 million, respectively, which expire in varying amounts from 2031 through 2034. The amount of state tax credit carryforward at September 30, 2015 and December 31, 2014, was approximately $24.1 million for both periods, which expire in varying amounts from 2015 through 2027.

13. (Loss) Earnings per Share:

All per share information presented has been retrospectively adjusted to reflect the effects of the one-for-six reverse stock split which became effective on April 26, 2015 (see Note 1).

We compute basic (loss) earnings per share by dividing net (loss) 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 (loss) earnings per share pursuant to the two-class method. Calculations of (loss) 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 (loss) earnings per share are computed by dividing net (loss) 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 (loss) earnings per share exclude all potentially dilutive securities if their effect is anti-dilutive.

We also issue performance-based restricted stock units as part of our share-based compensation plan. These restricted stock units contain a forfeitable right to receive dividends. Because dividends attributable to these shares are forfeited if the vesting provisions are not met, they are considered non-participating restricted shares and are not dilutive under the two-class method until the performance conditions have been satisfied. As of September 30, 2015, the performance conditions for the outstanding restricted stock units have not yet been satisfied. Options and warrants granted in conjunction with past acquisitions are included in the computation of dilutive earnings per share using the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
(Millions, except per share amounts)	2015	2014	2015	2014
Basic and diluted (loss) earnings per share:				
Numerator:				
Net (loss) income	$(7.2)	$8.0	$(113.1)	$38.0
Income allocable to participating securities	(0.5)	(1.2)	(3.0)	(3.7)
Net (loss) income attributable to common shares	$(7.7)	$6.8	$(116.1)	$34.3
Denominator:				
Basic shares outstanding				
Weighted average basic shares outstanding	102.9	100.4	102.6	100.2
Weighted average participating securities	(3.6)	(0.8)	(2.7)	(0.8)
Weighted average basic shares outstanding	99.3	99.6	99.9	99.4
Diluted shares outstanding				
Weighted average basic shares outstanding	99.3	99.6	99.9	99.4
Effect of dilutive stock options	—	0.1	—	—
Weighted average diluted shares outstanding	99.3	99.7	99.9	99.4

Basic and diluted (loss) earnings per share:				
Net (loss) income	($.08)	$.07	($1.16)	$.35

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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13. (Loss) Earnings per Share, Continued:

Options to purchase shares of stock issuable under stock-based compensation plans that were excluded from the computation of diluted shares outstanding because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be anti-dilutive, totaled 0.5 million and 0.4 million shares for the three and nine month periods ended, September 30, 2015, respectively, as compared to 0.1 million for both the three and nine month periods ended September 30, 2014, respectively.

14. Supplemental Guarantor Information:

Debentures and notes, without collateral, issued by Windstream Services, LLC
In connection with the issuance of the 7.875 percent senior notes due November 1, 2017, 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 Services' 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 Services. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Windstream Services. The remaining subsidiaries of Windstream Services (the "Non-Guarantors") are not guarantors of the guaranteed notes. Windstream Holdings is not a guarantor of any Windstream Services debt instruments.

Following the redemption of the PAETEC 2018 notes (see Note 4), the guaranteed notes were amended to include certain subsidiaries of PAETEC as guarantors. Previously, all subsidiaries of PAETEC were Non-Guarantors. As a result, prior period information has been revised to reflect the change in the guarantor reporting structure.

The following information presents condensed consolidating and combined statements of comprehensive (loss) income for the three and nine month periods ended September 30, 2015 and 2014, condensed consolidating balance sheets as of September 30, 2015 and December 31, 2014, and condensed consolidating and combined statements of cash flows for the nine month periods ended September 30, 2015 and 2014 of Windstream Services, the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by Windstream Services and other subsidiaries, and have been presented using the equity method of accounting.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Supplemental Guarantor Information, Continued:

Condensed Consolidating Statement of Comprehensive (Loss) Income (Unaudited)
Three Months Ended
September 30, 2015

(Millions)	Windstream Services	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$312.3	$1,144.9	$(6.0)	$1,451.2
Product sales	—	41.6	5.8	—	47.4
Total revenues and sales	—	353.9	1,150.7	(6.0)	1,498.6
Costs and expenses:					
Cost of services	—	111.0	598.3	(5.4)	703.9
Cost of products sold	—	36.6	4.9	—	41.5
Selling, general and administrative	—	40.5	175.6	(0.6)	215.5
Depreciation and amortization	4.4	86.4	259.7	—	350.5
Merger and integration costs	—	—	3.1	—	3.1
Restructuring charges	—	1.8	3.5	—	5.3
Total costs and expenses	4.4	276.3	1,045.1	(6.0)	1,319.8
Operating (loss) income	(4.4)	77.6	105.6	—	178.8
Earnings (losses) from consolidated subsidiaries	15.4	(96.6)	(5.9)	87.1	—
Other income (expense), net	17.2	0.3	(0.1)	—	17.4
Gain on early extinguishment of debt	7.6	—	—	—	7.6
Intercompany interest income (expense)	28.3	(9.5)	(18.8)	—	—
Interest expense	(101.2)	(38.1)	(90.9)	—	(230.2)
Loss before income taxes	(37.1)	(66.3)	(10.1)	87.1	(26.4)
Income tax (benefit) expense	(30.1)	2.2	8.5	—	(19.4)
Net loss	$(7.0)	$(68.5)	$(18.6)	$87.1	$(7.0)
Comprehensive loss	$(223.2)	$(68.5)	$(18.6)	$87.1	$(223.2)

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Supplemental Guarantor Information, Continued:

Condensed Consolidating Statement of Comprehensive Income (Unaudited)
Three Months Ended
September 30, 2014

(Millions)	Windstream Services	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$293.6	$1,123.0	$(7.0)	$1,409.6
Product sales	—	37.8	8.1	—	45.9
Total revenues and sales	—	331.4	1,131.1	(7.0)	1,455.5
Costs and expenses:					
Cost of services	—	123.4	566.9	(5.9)	684.4
Cost of products sold	—	31.3	7.7	—	39.0
Selling, general and administrative	—	38.8	180.3	(1.1)	218.0
Depreciation and amortization	5.3	84.8	258.4	—	348.5
Merger and integration costs	—	—	10.0	—	10.0
Restructuring charges	—	1.8	1.8	—	3.6
Total costs and expenses	5.3	280.1	1,025.1	(7.0)	1,303.5
Operating (loss) income	(5.3)	51.3	106.0	—	152.0
Earnings from consolidated subsidiaries	69.6	15.7	0.3	(85.6)	—
Other (expense) income, net	(0.3)	40.9	(40.7)	—	(0.1)
Intercompany interest income (expense)	31.8	(13.2)	(18.6)	—	—
Interest expense	(130.9)	(11.2)	(1.3)	—	(143.4)
(Loss) income before income taxes	(35.1)	83.5	45.7	(85.6)	8.5
Income tax (benefit) expense	(43.3)	26.0	17.6	—	0.3
Net income	$8.2	$57.5	$28.1	$(85.6)	$8.2
Comprehensive income	$13.8	$57.5	$28.1	$(85.6)	$13.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Supplemental Guarantor Information, Continued:

	Condensed Consolidating Statement of Comprehensive (Loss) Income (Unaudited) Nine Months Ended September 30, 2015				
(Millions)	Windstream Services	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$876.3	$3,353.4	$(19.5)	$4,210.2
Product sales	—	112.2	15.9	—	128.1
Total revenues and sales	—	988.5	3,369.3	(19.5)	4,338.3
Costs and expenses:					
Cost of services	—	342.7	1,743.1	(16.7)	2,069.1
Cost of products sold	—	97.2	14.6	—	111.8
Selling, general and administrative	—	113.9	543.8	(2.8)	654.9
Depreciation and amortization	13.7	254.5	764.8	—	1,033.0
Merger and integration costs	—	—	74.5	—	74.5
Restructuring charges	—	4.1	11.6	—	15.7
Total costs and expenses	13.7	812.4	3,152.4	(19.5)	3,959.0
Operating (loss) income	(13.7)	176.1	216.9	—	379.3
Earnings (losses) from consolidated subsidiaries	19.4	(150.3)	(5.7)	136.6	—
Other income, net	27.7	0.5	10.3	—	38.5
Loss on early extinguishment of debt	(30.0)	(5.3)	(0.5)	—	(35.8)
Intercompany interest income (expense)	92.7	(37.8)	(54.9)	—	—
Interest expense	(343.5)	(84.4)	(160.9)	—	(588.8)
(Loss) income before income taxes	(247.4)	(101.2)	5.2	136.6	(206.8)
Income tax (benefit) expense	(135.3)	9.5	31.1	—	(94.7)
Net loss	$(112.1)	$(110.7)	$(25.9)	$136.6	$(112.1)
Comprehensive loss	$(435.9)	$(110.7)	$(25.9)	$136.6	$(435.9)

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Supplemental Guarantor Information, Continued:

Condensed Consolidating Statement of Comprehensive Income (Unaudited)
Nine Months Ended September 30, 2014

(Millions)	Windstream Services	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	$—	$887.0	$3,378.3	$(18.3)	$4,247.0
Product sales	—	117.5	21.9	—	139.4
Total revenues and sales	—	1,004.5	3,400.2	(18.3)	4,386.4
Costs and expenses:					
Cost of services	—	373.6	1,650.1	(15.1)	2,008.6
Cost of products sold	—	100.8	19.3	—	120.1
Selling, general and administrative	—	122.6	572.5	(3.2)	691.9
Depreciation and amortization	16.3	252.1	763.0	—	1,031.4
Merger and integration costs	—	—	26.0	—	26.0
Restructuring charges	—	4.5	15.3	—	19.8
Total costs and expenses	16.3	853.6	3,046.2	(18.3)	3,897.8
Operating (loss) income	(16.3)	150.9	354.0	—	488.6
Earnings from consolidated subsidiaries	229.7	95.4	3.3	(328.4)	—
Other (expense) income, net	(0.4)	123.5	(123.0)	—	0.1
Intercompany interest income (expense)	95.1	(40.6)	(54.5)	—	—
Interest expense	(392.8)	(33.5)	(1.5)	—	(427.8)
(Loss) income before income taxes	(84.7)	295.7	178.3	(328.4)	60.9
Income tax (benefit) expense	(123.9)	77.0	68.6	—	21.7
Net income	$39.2	$218.7	$109.7	$(328.4)	$39.2
Comprehensive income	$31.8	$218.7	$109.7	$(328.4)	$31.8

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Supplemental Guarantor Information, Continued:

	Condensed Consolidating Balance Sheet (Unaudited) As of September 30, 2015				
(Millions)	Windstream Services	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$49.3	$1.9	$46.0	$—	$97.2
Accounts receivable (less allowance for doubtful accounts of $38.2)	—	258.5	398.8	—	657.3
Notes receivable - affiliate	—	4.7	—	(4.7)	—
Affiliates receivable, net	—	1,558.1	4,586.2	(6,144.3)	—
Inventories	—	71.2	9.8	—	81.0
Deferred income taxes	35.3	18.2	75.3	—	128.8
Prepaid expenses and other	49.9	33.0	75.8	—	158.7
Total current assets	134.5	1,945.6	5,191.9	(6,149.0)	1,123.0
Investments in consolidated subsidiaries	10,018.2	597.8	242.6	(10,858.6)	—
Notes receivable - affiliate	—	314.9	—	(314.9)	—
Goodwill	1,636.7	1,469.4	1,233.9	—	4,340.0
Other intangibles, net	559.5	325.4	701.3	—	1,586.2
Net property, plant and equipment	8.8	1,308.4	4,012.5	—	5,329.7
Investment in CS&L common stock	526.0	—	—	—	526.0
Deferred income taxes	—	287.9	131.6	(419.5)	—
Other assets	14.5	52.3	32.7	—	99.5
Total Assets	$12,898.2	$6,301.7	$11,546.5	$(17,742.0)	$13,004.4
Liabilities and Equity					
Current Liabilities:					
Current maturities of long-term debt	$5.9	$—	$—	$—	$5.9
Current portion of long-term lease obligations	—	42.6	103.8	—	146.4
Current portion of interest rate swaps	19.2	—	—	—	19.2
Accounts payable	1.1	97.3	268.3	—	366.7
Affiliates payable, net	6,160.0	—	—	(6,144.3)	15.7
Notes payable - affiliate	—	—	4.7	(4.7)	—
Advance payments and customer deposits	—	34.5	172.9	—	207.4
Accrued taxes	0.1	24.4	68.7	—	93.2
Accrued interest	134.3	3.6	1.1	—	139.0
Other current liabilities	12.5	61.3	230.4	—	304.2
Total current liabilities	6,333.1	263.7	849.9	(6,149.0)	1,297.7
Long-term debt	5,593.9				