

WINDSTREAM CORP  
Form 10-Q  
August 09, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

Commission file number 1-32422

WINDSTREAM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or  
organization)

20-0792300

(I.R.S. Employer Identification No.)

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

72212

(Zip Code)

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

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

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

YES  NO

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

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

· YES · NO

Number of common shares outstanding as of July 31, 2012 - 587,994,865

The Exhibit Index is located on page 67.

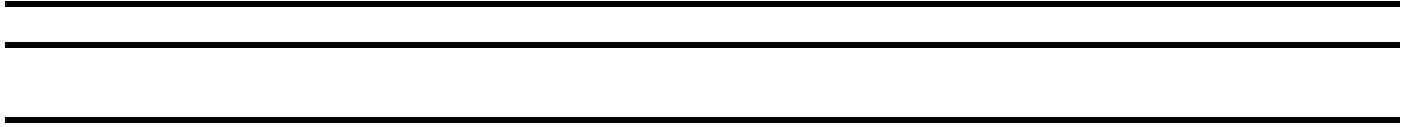


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WINDSTREAM CORPORATION  
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 PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Revenues and sales:				
Service revenues:				
Business	\$892.5	\$491.2	\$1,789.0	\$976.2
Consumer	336.3	347.1	674.0	693.8
Wholesale	214.3	151.4	439.1	305.2
Other	26.9	12.0	56.3	23.0
Total service revenues	1,470.0	1,001.7	2,958.4	1,998.2
Product sales	67.8	28.0	124.6	54.5
Total revenues and sales	1,537.8	1,029.7	3,083.0	2,052.7
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization included below)	653.6	373.2	1,312.9	735.2
Cost of products sold	57.6	24.0	102.5	44.1
Selling, general, and administrative	238.1	132.1	491.1	266.9
Depreciation and amortization	320.0	196.8	632.1	402.0
Merger and integration costs	19.4	5.1	41.7	14.0
Restructuring charges	10.3	0.1	11.2	0.2
Total costs and expenses	1,299.0	731.3	2,591.5	1,462.4
Operating income	238.8	298.4	491.5	590.3
Other income (expense), net	3.2	(3.2)	9.8	(0.6)
(Loss) gain on early extinguishment of debt	—	(2.5)	1.9	(103.9)
Interest expense	(153.5)	(136.4)	(310.0)	(282.9)
Income from continuing operations before income taxes	88.5	156.3	193.2	202.9
Income taxes	33.8	59.6	73.8	76.8
Income from continuing operations	54.7	96.7	119.4	126.1
Discontinued operations, net of tax	(0.5)	—	(0.6)	—
Net income	\$54.2	\$96.7	\$118.8	\$126.1
Basic and diluted earnings per share:				
From continuing operations	\$.09	\$.19	\$.20	\$.25
From discontinued operations	—	—	—	—
Net income	\$.09	\$.19	\$.20	\$.25

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

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions)	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net income	\$54.2	\$96.7	\$118.8	\$126.1
Other comprehensive (loss) income:				
Interest rate swaps:				
Changes in designated interest rate swaps	(4.1	) (18.1	) (4.8	) (11.5
Amortization of unrealized losses on de-designated interest rate swaps	10.6	11.9	21.7	25.0
Income tax (expense) benefit	(2.5	) 2.3	(6.5	) (5.2
Unrealized holding gains (losses) on interest rate swaps	4.0	(3.9	) 10.4	8.3
Postretirement and pension plans:				
Change in net actuarial gain for postretirement plan	3.2	39.1	3.2	39.1
Gain from plan curtailment	(9.6	) —	(9.6	) —
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	0.9	0.2	1.2	0.5
Amortization of prior service credits	(2.9	) (2.5	) (6.0	) (4.6
Income tax benefit (expense)	3.2	(14.6	) 4.3	(13.9
Change in postretirement and pension plans	(5.2	) 22.2	(6.9	) 21.1
Other comprehensive (loss) income	(1.2	) 18.3	3.5	29.4
Comprehensive income	\$53.0	\$115.0	\$122.3	\$155.5

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

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## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except par value)	June 30, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$37.5	\$227.0
Restricted cash	27.8	21.7
Accounts receivable (less allowance for doubtful accounts of \$32.9 and \$29.9, respectively)	595.7	657.4
Income tax receivable	2.1	124.1
Inventories	70.7	76.5
Deferred income taxes	168.0	232.1
Prepaid income taxes	19.7	15.3
Prepaid expenses and other	190.4	102.9
Assets held for sale	—	61.4
Total current assets	1,111.9	1,518.4
Goodwill	4,409.0	4,301.7
Other intangibles, net	2,479.7	2,685.3
Net property, plant and equipment	5,759.5	5,708.1
Other assets	167.1	178.6
Total Assets	\$13,927.2	\$14,392.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$65.8	\$213.7
Current portion of interest rate swaps	30.6	30.5
Accounts payable	306.2	296.0
Advance payments and customer deposits	225.7	240.4
Accrued dividends	148.0	148.0
Accrued taxes	115.4	117.9
Accrued interest	147.6	161.8
Other current liabilities	262.4	251.2
Total current liabilities	1,301.7	1,459.5
Long-term debt and capital lease obligations	8,794.3	8,936.7
Deferred income taxes	1,853.5	1,851.5
Other liabilities	640.3	646.3
Total liabilities	12,589.8	12,894.0
Commitments and Contingencies (See Note 7)		
Shareholders' Equity:		
Common stock, \$0.0001 par value, 1,000.0 shares authorized, 588.1 and 586.3 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	1,331.9	1,496.1
Accumulated other comprehensive income	5.4	1.9
Retained earnings	—	—
Total shareholders' equity	1,337.4	1,498.1
Total Liabilities and Shareholders' Equity	\$13,927.2	\$14,392.1



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

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended		
	June 30,	2011	
	2012	2011	
Cash Provided from Operations:			
Net income	\$ 118.8	\$ 126.1	
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	632.1	402.0	
Provision for doubtful accounts	25.3	19.6	
Share-based compensation expense	13.7	11.4	
Deferred income taxes	64.0	96.5	
Unamortized net (premium) discount on retired debt	(16.2	) 13.0	
Amortization of unrealized losses on de-designated interest rate swaps	21.6	25.0	
Gain from plan curtailment	(9.6	) —	
Other, net	(14.7	) 13.5	
Changes in operating assets and liabilities, net			
Accounts receivable	(22.0	) (21.5	)
Income tax receivable	122.0	—	
Prepaid income taxes	(4.4	) (13.7	)
Prepaid expenses and other	(62.2	) (15.6	)
Accounts payable	(3.3	) 22.6	
Accrued interest	(28.4	) (59.6	)
Accrued taxes	(3.0	) 3.7	
Other current liabilities	4.3	(23.9	)
Other liabilities	0.8	(4.7	)
Other, net	(2.0	) (7.7	)
Net cash provided from operations	836.8	586.7	
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(502.1	) (329.5	)
Broadband network expansion funded by stimulus grants	(37.8	) (2.0	)
Changes in restricted cash	(6.1	) (7.3	)
Grant funds received for broadband stimulus projects	19.6	—	
Disposition of wireless assets	57.0	—	
Other, net	6.1	(0.2	)
Net cash used in investing activities	(463.3	) (339.0	)
Cash Flows from Financing Activities:			
Dividends paid on common shares	(293.5	) (253.3	)
Repayment of debt	(1,003.9	) (2,434.4	)
Proceeds of debt issuance	750.0	2,462.0	
Debt issuance costs	(2.4	) (20.9	)
Other, net	(13.2	) 8.7	
Net cash used in financing activities	(563.0	) (237.9	)
(Decrease) increase in cash and cash equivalents	(189.5	) 9.8	
Cash and Cash Equivalents:			
Beginning of period	227.0	42.3	
End of period	\$ 37.5	\$ 52.1	
Supplemental Cash Flow Disclosures:			
Interest paid	\$ 323.8	\$ 306.8	

Income taxes refunded, net	\$110.5	\$9.3
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See the accompanying notes to the unaudited interim consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2011	\$1,496.2	\$1.9	\$—	\$1,498.1
Net income	—	—	118.8	118.8
Other comprehensive income (loss), net of tax:				
Change in postretirement and pension plans	—	(6.9	) —	(6.9 )
Amortization of unrealized losses on de-designated interest rate swaps	—	13.4	—	13.4
Changes in designated interest rate swaps	—	(3.0	) —	(3.0 )
Comprehensive income	—	3.5	118.8	122.3
Share-based compensation expense	13.7	—	—	13.7
Stock options exercised	3.9	—	—	3.9
Taxes withheld on vested restricted stock and other	(6.3	) —	—	(6.3 )
Dividends of \$0.50 per share declared to stockholders	(175.5	) —	(118.8	) (294.3 )
Balance at June 30, 2012	\$1,332.0	\$5.4	\$—	\$1,337.4

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

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1. Background and Basis for Presentation:

Unless the context requires otherwise, the use of the terms “Windstream,” “we,” “us” and “our” in this Quarterly Report on Form 10-Q refers to Windstream Corporation and its consolidated subsidiaries.

**Description of the Business** - We are a leading provider of advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers in primarily rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 115,000 miles, a robust business sales division and 22 data centers offering managed services and cloud computing.

Business service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services to enterprise and small-business customers, and revenues from other carriers for special access circuits and fiber connections. Consumer service revenues are generated from the provision of high-speed Internet, voice and video services to consumers. Wholesale service revenues include switched access revenues, Universal Service Fund (“USF”) revenues, and voice and data services sold on a wholesale basis and other service revenues include revenues from certain consumer markets where we lease the connection to the customer premise, software and other miscellaneous services.

**Basis of Presentation** – The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (“SEC”) rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2011, 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, 2011, which was filed with the SEC on February 22, 2012.

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.

Effective during the fourth quarter of 2011, we changed our method of recognizing actuarial gains and losses for pension benefits. We have retrospectively adjusted financial information for all prior periods presented to reflect our voluntary change in accounting principle for pension benefits. We also elected to revise historical results for certain previously unrecorded immaterial errors and concluded that the effects, individually and in the aggregate, are immaterial to the unaudited quarterly financial information. See Notes 2 and 8 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011. Additionally, certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications did not impact net or comprehensive income.



NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Summary of Significant Accounting Policies and Changes:

Significant Accounting Policies

**Assets Held For Sale** – During the second quarter of 2012, we entered into an agreement to divest the energy business acquired in conjunction with the acquisition of PAETEC Holding Corp ("PAETEC") which was previously presented in assets held for sale. On June 15, 2012, we completed this sale. The results of our energy business are reported as discontinued operations for all periods presented. See Note 14 for further discussion. On February 22, 2012 and March 30, 2012, we completed the sales of wireless assets acquired from D&E Communications, Inc. ("D&E") and Iowa Telecommunications Services, Inc. ("Iowa Telecom"), respectively, which were previously presented in assets held for sale. As a result of these transactions, we received gross proceeds of approximately \$57.0 million and recognized a gain of \$5.2 million, net of transaction fees.

**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. We have acquired identifiable intangible assets through our acquisitions of interests in various wireline properties and a data center business. 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 is 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 1<sup>st</sup> 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. Effective January 1, 2012, we have determined that we have one reporting unit to test for impairment that includes all Windstream operations. We assessed impairment of our goodwill by evaluating the carrying value of our shareholders' equity against the current fair market value of our outstanding equity, where the fair market value of our equity is equal to our current market capitalization plus a control premium estimated to be 20.0 percent. The fair market value of our equity, both including and excluding the control premium, exceed our goodwill carrying value as of January 1, 2012.

**Change in Accounting Estimate** – The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and finite-lived intangible assets. Our regulated operations use a group composite depreciation method. Under this method, when finite long-lived tangible and intangible assets are retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of such assets. In accordance with authoritative guidance, we periodically obtain updated depreciation studies to evaluate whether certain useful lives remain appropriate. With the assistance of outside expertise, we completed analyses of the depreciable lives of assets held for certain subsidiaries in 2012. Based on those results, we implemented new depreciation rates resulting in a net increase to depreciation of \$30.2 million and a net decrease in net income of \$18.7 million or \$0.03 per share for the six month period ended June 30, 2012.

Recently Adopted Accounting Standards

**Testing Goodwill for Impairment** – In September 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to the testing of goodwill for impairment. This guidance allows an entity the option to first assess qualitative factors before calculating the fair value of a reporting unit. The entity may avoid applying the



current two-step impairment test to a reporting unit if it determines, based on its assessment of qualitative factors, it is more likely than not that the fair value of the reporting unit is greater than its carrying amount. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This guidance did not have a material impact on our consolidated financial statements.

Fair Value Measurements – In May 2011, FASB issued authoritative guidance related to fair value measurements. This guidance expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3, as described in Note 6, measures and valuation process, and classification within the fair value hierarchy

for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have updated our disclosures accordingly.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Summary of Significant Accounting Policies and Changes, Continued:

Recently Issued Authoritative Guidance

**Balance Sheet Offsetting** – In December 2011, the FASB issued authoritative guidance related to balance sheet offsetting. This guidance requires enhanced disclosures for financial instruments and derivative instruments that are subject to an enforceable master netting arrangement. This guidance is effective for fiscal years beginning on or after January 1, 2013, including interim periods therein and requires retrospective application. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

**Comprehensive Income** – In June 2011, the FASB issued authoritative guidance requiring reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented, which was deferred in December 2011. We will continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before the authoritative guidance issued in June 2011 until further guidance is issued. We do not expect this guidance to have a material impact on our consolidated financial statements.

3. Acquisition:

**Acquisition of PAETEC** - On November 30, 2011, we completed the acquisition of PAETEC in an all-stock transaction valued at approximately \$2.4 billion. PAETEC shareholders received 0.460 shares of our stock for each PAETEC share owned at closing. We issued 70.0 million shares and assumed equity awards shares for a total transaction value of \$842.0 million, based on our closing stock price on November 30, 2011, and the fair value of the equity awards assumed. We also assumed PAETEC's debt, net of cash acquired, of approximately \$1,591.3 million, which included a net premium of \$113.9 million based on the fair value of the debt on November 30, 2011 and bank debt of \$99.5 million that was repaid on December 1, 2011. The PAETEC transaction enhances our capabilities in strategic growth areas, including Internet protocol ("IP") based services, cloud computing and managed services. It significantly advances our strategy to drive top-line revenue growth by expanding our focus on business and fiber transport services.

The purchase price allocation was based on preliminary information regarding the fair value of assets acquired and liabilities assumed as of the date of acquisition. We are assessing the fair values of the assets acquired and liabilities assumed and the amount of goodwill recognized as of November 30, 2011. This assessment of fair value of assets and liabilities acquired, including accounts receivable, property, plant and equipment, intangible assets and deferred taxes requires a significant amount of judgment and we have not completed this analysis as it relates to the valuation of PAETEC. We expect this analysis to be complete in the fourth quarter of 2012. Adjustments to the preliminary purchase price allocation were based on updated information regarding the fair value of assets acquired and liabilities assumed as of the date of acquisition and were primarily associated with changes in accounts receivable, property, plant and equipment, customer lists, trade names and other, accounts payable and other current liabilities that existed as of the date of acquisition.



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Acquisition, Continued:

The following table summarizes the preliminary and adjusted fair values of the assets acquired and liabilities assumed for PAETEC:

(Millions)	Preliminary Allocation	Adjusted Allocation
Fair value of assets acquired:		
Cash and other current assets	\$247.9	\$248.6
Accounts receivable	273.4	228.7
Property, plant and equipment	880.9	875.5
Goodwill	614.1	721.4
Customer lists (a)	855.0	830.0
Trade names and other (b)	22.0	15.0
Other assets	8.4	8.1
Total assets acquired	2,901.7	2,927.3
Fair value of liabilities assumed:		
Current maturities of long-term debt and capital lease obligations	(19.0	) (19.0
Other current liabilities	(453.2	) (473.4
Deferred income taxes on acquired assets	108.6	108.6
Long-term debt and capital lease obligations	(1,643.7	) (1,643.7
Other liabilities	(52.4	) (57.8
Total liabilities assumed	(2,059.7	) (2,085.3
Common stock issued (inclusive of additional paid-in capital)	\$842.0	\$842.0

(a) Customer lists are being amortized using the sum-of-years digit methodology over an estimated useful life of ten years.

Trade names are amortized on a straight-line basis over an estimated useful life of one year. Other intangibles, (b) which includes internally developed software, are amortized on a straight-line basis over an estimated useful life of three years.

The fair values of the assets acquired and liabilities assumed were determined using income, cost, and market approaches. Identified intangible assets, consisting primarily of customer lists, were valued primarily on the basis of the present value of future cash flows, which is an income approach. Significant assumptions utilized in the income approach were based on our specific information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used as appropriate for property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation. The fair value of the assumed long-term debt and related interest rate swap agreements assumed were determined based on trade value for the repayment of these instruments.

For PAETEC, the credit facility was valued based on the expected redemption cost, while the remaining bonds were valued based on market value. Equity consideration was based on the closing price of our common stock on November 30, 2011. Consideration related to assumed restricted stock units was calculated based on the closing price of our common stock on November 30, 2011, net of the portion of the fair value attributable to future vesting requirements. Consideration related to assumed stock options was calculated based on the fair value of the new

Windstream stock options issued as of November 30, 2011, net of the portion of the fair value attributable to future vesting requirements. The fair value of these stock option awards was calculated using the Hull-White II Lattice model based on assumptions determined as of November 30, 2011. The amount allocated to unearned compensation cost for awards subject to future service requirements was calculated based on the fair value of such awards at the acquisition date and will be recognized as compensation cost over the remaining future service period.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 3. Acquisition, Continued:

The accompanying consolidated financial statements reflect our combined operations with PAETEC for the periods following the respective acquisition date. Employee severance and transaction costs incurred by us in conjunction with this acquisition have been expensed to merger and integration expense in the accompanying consolidated statements of income (see Note 9). The costs of the acquisition were allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with amounts exceeding fair value recognized as goodwill. Goodwill associated with the acquired businesses is attributable to the workforce of acquired businesses and expected synergies. Approximately \$39.9 million of goodwill associated with the acquisition of PAETEC is expected to be deductible for tax purposes.

Supplemental Pro Forma Information (Unaudited) – PAETEC Acquisition - On November 30, 2011, we completed the acquisition of PAETEC. The amounts of PAETEC's revenue and net loss included in our consolidated statement of income for the six month period ended June 30, 2012, and the revenue and net income from continuing operations of the combined entity for the six month period ended June 30, 2011 had the acquisition occurred January 1, 2011, are as follows:

(Millions)	Revenue	Net (Loss) Income from Continuing Operations
PAETEC actual for six month period ended June 30, 2012 (a)	\$1,037.6	\$(13.4 )
Supplemental pro forma for the six month period ended June 30, 2011 (b)	\$3,085.1	\$77.0

During the first quarter of 2012, we suspended and modified certain PAETEC wholesale products, which (a) represented approximately \$10.4 million in revenue recognized in the first half of 2012 that we do not expect to recur.

(b) Supplemental pro forma revenues for the six month period ended June 30, 2011 include approximately \$37.0 million of revenue related to certain PAETEC wholesale products that have been suspended and modified.

The pro forma information presents our historical results adjusted to include PAETEC, with the results prior to the merger closing date adjusted to include the pro forma effect of the elimination of transactions between us and PAETEC, the adjustment to revenue to align revenue policies, the adjustment to amortization expense associated with the estimated acquired fair value of intangible assets, the impact of merger and integration expenses related to the acquisition and the impact of tax benefits from PAETEC's loss from operations.

The pro forma results are presented for illustrative purposes only and do not reflect either the realization of potential cost savings or any related integration costs. Certain cost savings may result from the PAETEC merger, although there can be no assurance that cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the merger had occurred as of the date indicated, nor do the pro forma results intend to be a projection of results that may be obtained in the future.

## 4. 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.

Changes in the carrying amount of goodwill were as follows:

(Millions)

Balance at December 31, 2011	\$4,301.7
Acquisition of PAETEC (a)	107.3
Balance at June 30, 2012	\$4,409.0

(a) Adjustments to the carrying value of PAETEC's goodwill were attributable to adjustments in the fair values of assets acquired and liabilities assumed in the acquisition, as previously discussed in Note 3.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 4. Goodwill and Other Intangible Assets, Continued:

As of January 1, 2012, we completed our annual impairment review of goodwill in accordance with authoritative guidance and determined that no write-down in carrying value was required. As discussed in Note 2, effective January 1, 2012, we have determined that we have one reporting unit to test for impairment. We assess goodwill impairment by evaluating the carrying value of shareholder's equity against the current fair market value of outstanding equity, which is determined to be equal to our current market capitalization plus a control premium of 20.0 percent. This premium is estimated through a review of recent market observable transactions involving telecommunication companies.

Intangible assets were as follows at:

(Millions)	June 30, 2012			December 31, 2011		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	\$1,285.1	\$(136.2)	\$1,148.9	\$1,285.1	\$(114.8)	\$1,170.3
Customer lists (a)	1,914.0	(608.2)	1,305.8	1,939.0	(464.2)	1,474.8
Cable franchise rights	39.8	(25.3)	14.5	39.8	(24.7)	15.1
Other (a)	37.9	(27.4)	10.5	44.9	(19.8)	25.1
Balance	\$3,276.8	\$(797.1)	\$2,479.7	\$3,308.8	\$(623.5)	\$2,685.3

(a) Changes in the gross cost of customer lists and other intangible assets were associated with the acquisition of PAETEC, as previously discussed in Note 3.

Amortization expense for intangible assets subject to amortization was \$85.5 million and \$173.6 million for the three and six month periods ended June 30, 2012, as compared to \$53.0 million and \$106.4 million for the same periods in 2011. Amortization expense for intangible assets is expected to be \$175.7 million for the remainder of 2012.

Amortization expense for intangible assets subject to amortization is estimated to be \$291.2 million, \$256.2 million, \$223.1 million, \$185.0 million and \$157.2 million in 2013, 2014, 2015, 2016 and 2017, respectively.



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Long-term Debt and Capital Lease Obligations:

Long-term debt and capital lease obligations were as follows at:

(Millions)	June 30, 2012	December 31, 2011
Issued by Windstream Corporation:		
Senior secured credit facility, Tranche A2 – variable rates, due July 17, 2013	\$20.8	\$172.3
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016	419.6	—
Senior secured credit facility, Tranche B – variable rates, due July 17, 2013	282.4	283.8
Senior secured credit facility, Tranche B2 – variable rates, due December 17, 2015	1,048.3	1,053.7
Senior secured credit facility, Revolving line of credit – variable rates, due December 17, 2015	705.0	920.0
Debentures and notes, without collateral:		
2013 Notes – 8.125%, due August 1, 2013	800.0	800.0
2017 Notes – 7.875%, due November 1, 2017	1,100.0	1,100.0
2018 Notes – 8.125%, due September 1, 2018	400.0	400.0
2019 Notes – 7.000%, due March 15, 2019	500.0	500.0
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021	450.0	450.0
2022 Notes – 7.500%, due June 1, 2022	500.0	500.0
2023 Notes – 7.500%, due April 1, 2023	600.0	600.0
Issued by subsidiaries of the Company:		
Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028	100.0	100.0
Cinergy Communications Company – 6.58%, due January 1, 2022	2.1	2.2
PAETEC 2017 Notes – 8.875%, due June 30, 2017	650.0	650.0
Debentures and notes, without collateral:		
Windstream Georgia Communications LLC – 6.50%, due November 15, 2013	20.0	20.0
PAETEC 2015 Notes – 9.500%, due July 15, 2015	—	300.0
PAETEC 2018 Notes – 9.875%, due December 1, 2018	450.0	450.0
Capital lease obligations	40.9	51.2
Premium on long-term debt, net	71.0	97.2
	8,860.1	9,150.4
Less current maturities	(65.8	) (213.7
Total long-term debt and capital lease obligations	\$8,794.3	\$8,936.7

## Senior Secured Credit Facilities

Effective February 23, 2012, we amended and restated \$150.4 million of the Tranche A2 senior secured credit facilities outstanding to Tranche A3 and extended the maturity to December 30, 2016. In addition, we incurred new borrowings of \$280.0 million of Tranche A3 senior secured credit facilities, which will also be due December 30, 2016.

Revolving line of credit - During the first six months of 2012, we borrowed \$470.0 million under the revolving line of credit on our senior secured credit facility and later repaid \$685.0 million. On March 18, 2011, we increased the capacity under our senior secured revolving credit facility from \$750.0 million to \$1,250.0 million. Considering outstanding borrowings and letters of credit of \$11.5 million, the amount available for borrowing under the revolving line of credit was \$533.5 million at June 30, 2012.

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.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The variable interest rate on our revolving line of credit ranged from 2.49 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.53 percent during the first six months of 2012, as compared to variable interest rates during the first six months of 2011 which ranged from 1.52 percent to 4.50 percent with a weighted average rate on amounts outstanding of 2.53 percent. All \$1,250.0 million available under the revolving line of credit will expire December 17, 2015.

Notes Issued by Subsidiaries

PAETEC 2015 Notes - In connection with our acquisition of PAETEC on November 30, 2011, we assumed the 9.500 percent notes due July 15, 2015 ("PAETEC 2015 Notes") with an aggregate principal amount of \$300.0 million.

On January 3, 2012, we retired \$150.0 million of the outstanding PAETEC 2015 Notes, in relation to our call for redemption announced on December 2, 2011. We paid total consideration of \$1,048 per \$1,000 aggregate principal amount of PAETEC 2015 Notes, plus accrued and unpaid interest to, but excluding, the redemption date. The PAETEC 2015 Notes were purchased using borrowings on our revolving line of credit.

On February 21, 2012, we retired the remaining \$150.0 million outstanding of the PAETEC 2015 Notes, in relation to our call for redemption announced on January 20, 2012. We paid total consideration of \$1,048 per \$1,000 aggregate principal amount of PAETEC 2015 Notes, plus accrued and unpaid interest to, but excluding, the redemption date. The redemption was made using borrowings on our revolving line of credit.

Premium on Long-term Debt, Net of Discounts

The premium on long-term debt, net of discounts is primarily due to the debt issuance premium recorded on the debt acquired in the PAETEC acquisition, partially offset by the net discount recorded on debt in the table above. The premium and discount balances are amortized over the life of the related debt instrument.

Debt Compliance

The terms of our credit facility and indentures include customary covenants that, among other things, require us to maintain certain financial ratios and restrict our ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.50 to 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. In addition, the covenants include restrictions on dividend and certain other types of payments. The terms of the indentures assumed in connection with the acquisition of PAETEC include restrictions on the ability of the subsidiary to incur additional indebtedness, including a maximum leverage ratio, with the most restrictive being 4.75 to 1.0. As of June 30, 2012, we were in compliance with all of our covenants.

In addition, certain of our debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under our long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more of our outstanding voting stock, or breach of certain other conditions set forth in the borrowing agreements. We were in compliance with these covenants as of June 30, 2012.

Maturities for debt outstanding, excluding capital lease obligations, as of June 30, 2012 for each of the twelve month periods ended June 30, 2013, 2014, 2015, 2016 and 2017 were \$47.2 million, \$1,151.5 million, \$53.9 million,

\$1,764.1 million and \$929.9 million, respectively.

Loss (Gain) on Extinguishment of Debt

During the six month period ended June 30, 2012, we retired all \$300.0 million of the outstanding PAETEC 2015 Notes. The PAETEC 2015 Notes were purchased using borrowings on our revolving line of credit. The retirements were accounted for under the extinguishment method, and as a result we recognized a gain on extinguishment of debt of \$1.9 million during the six month period ended June 30, 2012.

During the six month period ended June 30, 2011, we purchased all \$1,194.5 million of our 8.625 percent Senior Notes due August 1, 2016 ("2016 Notes") and all \$400.0 million of our 7.750 Senior Notes due February 15, 2015. We financed these transactions with proceeds from the issuance of the 7.75 percent senior unsecured notes due October 15, 2020 ("2020 Notes"), the 7.750 percent senior unsecured notes due October 1, 2021 ("2021 Notes"), the 7.500 percent senior unsecured notes due

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

April 1, 2023 ("2023 Notes") and borrowings from our revolving line of credit. These transactions allowed us to extend our existing debt maturities and lower our interest rates. The retirements were accounted for under the extinguishment method, and as a result we recognized a loss on extinguishment of debt of \$103.9 million during the six month period ended June 30, 2011.

The loss (gain) on extinguishment of debt is as follows for the three and six month periods ended June 30:

(Millions)	Three Months Ended		Six Months Ended		
	2012	2011	2012	2011	
2015 PAETEC Notes:					
Premium on early redemption	\$—	\$—	\$14.3	\$—	
Unamortized premium on original issuance	—	—	(16.2	) —	
Gain on early extinguishment for PAETEC 2015 Notes	—	—	(1.9	) —	
2016 Notes:					
Premium on early redemption	—	2.0	—	77.5	
Unamortized discount on original issuance	—	0.4	—	18.6	
Third-party fees for early redemption	—	—	—	2.7	
Unamortized debt issuance costs on original issuance	—	0.1	—	0.9	
Loss on early extinguishment for 2016 Notes	—	2.5	—	99.7	
Valor Notes:					
Premium on early redemption	—	—	—	10.3	
Third-party fees for early redemption	—	—	—	0.4	
Unamortized premium on original issuance	—	—	—	(6.5	)
Loss on early extinguishment for Valor Notes	—	—	—	4.2	
Total loss (gain) on early extinguishment of debt	\$—	\$2.5	\$(1.9	) \$103.9	

## Derivatives

We enter into interest rate swap agreements to mitigate the interest rate risk inherent in the variable rate senior secured credit facilities. We account for our derivative instruments using 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 should be recorded as a component of other comprehensive income in the current period. Changes in fair values of the derivative instruments not qualifying as hedges, or of any ineffective portion of hedges, should be recognized in earnings in the current period.

In 2006, we entered into four pay fixed, receive variable interest rate swap agreements, designated as a cash flow hedge, with a maturity date of July 17, 2013. The variable rate we received on the swaps was the three-month LIBOR (London-Interbank Offered Rate). We renegotiated the four interest rate swap agreements in December 2010, in a strategy commonly referred to as "blend and extend." The modified swaps will amortize quarterly to a notional value of \$900.0 million in 2013, where they will remain until maturity on October 17, 2015 (\$981.3 million as of June 30, 2012). As a result of the renegotiated agreements, our weighted average fixed rate was lowered to 4.553 percent effective January 17, 2011. The variable rate received resets on the seventeenth day of each quarter to the three-month LIBOR.

Our interest rate swap agreements are designated as cash flow hedges of the interest rate risk created by the variable interest rate paid on Tranche B of the senior secured credit facilities, which has varying maturity dates from July 17, 2013 to December 17, 2015 as a result of an amendment to the credit facility. The variable interest rate paid on Tranche B is based on the three-month LIBOR, and it also resets on the seventeenth day of each quarter. The counterparty for each of the swap agreements is a bank with a current credit rating at or above A.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

We recognize all derivative instruments at fair value in the accompanying consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the related contracts. This is included as a component of other comprehensive income and will be reclassified into earnings as the hedged transaction affects earnings.

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

(Millions, except for percentages)	June 30, 2012		December 31, 2011	
Designated portion, measured at fair value:				
Other current liabilities	\$30.6		\$30.5	
Other non-current liabilities	\$82.1		\$88.7	
Accumulated other comprehensive loss	\$(31.7	)	\$(26.9	)
De-designated portion, unamortized value:				
Accumulated other comprehensive loss	\$(36.9	)	\$(58.6	)
Weighted average fixed rate paid	4.55	%	4.60	%
Variable rate received	0.47	%	0.40	%

We assess our derivatives for effectiveness each quarter and recognized a \$0.8 million and a \$2.6 million charge to earnings, reflected in other income, net related to ineffectiveness of our cash flow hedges for the three and six month periods ended June 30, 2012, respectively.

A portion of the net amount due representing the rate we would pay on the hypothetical interest rate swap is recognized in interest expense. The remainder represents the repayment of the embedded financing element and reduces the current portion of our swap liability.

Interest payments on our swaps are based on the LIBOR rate. We do not expect any changes in the effectiveness of our swaps due to counterparty risk or further prepayment of hedged items, but any such changes could result in an increase in the ineffective portion of the swaps. An increase in the value of the ineffective portion of our swaps, either through de-designation of existing swaps or through decreases in the LIBOR rate, could have an adverse impact on our earnings.

We expect to recognize losses of \$22.0 million, net of taxes, into earnings in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements at June 30, 2012.

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

(Millions)	2012		2011	
Changes in fair value of effective portion, net of tax (a)	\$(3.0	)	\$(7.1	)
Changes in fair value of de-designated portion, net of tax (a)	\$13.4		\$15.4	

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

## Interest Expense

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

Three Months Ended	Six Months Ended
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(Millions)	2012	2011	2012	2011
Interest expense related to long-term debt	\$141.7	\$121.8	\$284.8	\$252.0
Impacts of interest rate swaps	13.6	16.3	27.8	33.3
Interest on capital leases and other	0.8	0.1	1.8	0.2
Less capitalized interest expense	(2.6	) (1.8	) (4.4	) (2.6
Total interest expense	\$153.5	\$136.4	\$310.0	\$282.9

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 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.

Our non-financial assets and liabilities, including property, plant and equipment, goodwill, intangible assets and asset retirement obligations, are measured at fair value on a non-recurring basis. No event occurred during the six month period ended June 30, 2012 requiring these non-financial assets and liabilities to be subsequently recognized at fair value.

Our financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable, long-term debt, capital lease obligations and interest rate swaps. The carrying amount of cash, restricted cash, accounts receivable, income tax receivable and accounts payable was estimated by management to approximate fair value due to the relatively short period of time to maturity for those instruments. Cash equivalents, long-term debt and interest rate swaps are measured at fair value on a recurring basis.

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

(Millions)	June 30, 2012	December 31, 2011
Level 1 measurements:		
Cash equivalents (a)	\$10.1	\$153.1
Long-term debt, including current maturities (b)	\$6,665.2	\$5,821.4
Level 2 measurements:		
Interest rate swaps (c) (See Note 5)	\$(112.7	) \$(119.2
Long-term debt, including current maturities (b)	\$2,475.6	\$3,516.2

(a) Recognized at fair value in cash and cash equivalents in the accompanying consolidated balance sheets as of June 30, 2012 and December 31, 2011.

(b) Recognized at carrying value of \$8,819.2 million and \$9,099.2 million in long-term debt, including current maturities and excluding capital lease obligations, in the accompanying consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively.

(c)

Recognized at fair value in current portion of interest rate swaps and other liabilities in the accompanying consolidated balance sheets as of June 30, 2012 and December 31, 2011.

Our cash equivalents are primarily highly liquid, actively traded money market funds with next day access. The fair values of the interest rate swaps were determined based on the present value of expected future cash flows using LIBOR swap rates which are observable at commonly quoted intervals for the full term of the swaps using discount rates appropriate with consideration given to our non-performance risk. As of June 30, 2012 and December 31, 2011, the fair values of our interest rate swaps were reduced by \$5.1 million and \$6.9 million, respectively, to reflect our non-performance risk. Our non-performance risk is assessed based on the current trading discount of our Tranche B senior secured credit facility as the swap agreements are secured by the same collateral. In addition, we routinely monitor and update our evaluation of counterparty risk, and based on such evaluation have determined that the swap agreements continue to meet the requirements of an effective cash flow hedge. The counterparty to each of the four swap agreements is a bank with a current credit rating at or above A.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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6. Fair Value Measurements, Continued:

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

7. Commitments and Contingencies:

On June 22, 2009, a putative class action lawsuit was filed in Kentucky federal district court on behalf of current and former customers in Kentucky. The complaint alleged that we overcharged customers because we collected a gross receipts surcharge ("GRS") in violation of state and federal statutes and tariffs and common law. The court referred state tariff issues to the Kentucky Public Service Commission ("Kentucky PSC"). In 2011, the federal court ruled that the GRS was a rate that should have been listed in our federal tariffs prior to its collection and that class certification was proper. Based on that ruling, in third quarter 2011, we accrued an amount that was not material and that represented the amount of loss estimable and probable at the time. On May 4, 2012, the Kentucky PSC issued an order also finding the GRS was a rate that should have been in our local retail tariff before being assessed on certain types of services. We appealed the order to state court in Franklin County, Kentucky, primarily asserting that the Kentucky PSC erred in classifying the GRS as a rate. Additionally, on July 22, 2012, the federal court formally certified a class of all retail and wholesale Windstream customers assessed the GRS on services subject to our federal tariff. We appealed class certification to the Sixth Circuit on July 25, 2012.

Based on a comprehensive analysis of the recent activity regarding this case, we believe our current accrual remains adequate. The ultimate resolution of the case, the timing of which is unknown, could result in a loss in a range of \$0 to \$8.0 million in excess of the amount accrued. We plan to continue to vigorously defend the proceedings.

We are party to various other legal proceedings. Although the ultimate resolution of these various proceedings cannot be determined at this time, our management does not believe that such proceedings, individually or in the aggregate, will have a material impact on the future consolidated results of income, cash flows or our financial condition. In addition, we are currently not aware of any environmental matters that, individually or in the aggregate, would have a material impact 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. Prior to establishing the pension plan pursuant to the spin off in 2006, our employees participated in a substantially equivalent plan maintained by Alltel. Future benefit accruals for all eligible nonbargaining employees covered by the pension plan ceased as of December 31, 2005 (December 31, 2010 for employees who had attained age 40 with two years of service as of December 31, 2005). 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.

In July 2012, the Moving Ahead for Progress in the 21st Century Act (the "Act") was signed into law. The Act contains important pension funding stabilization provisions, which will impact employer-sponsored defined benefit pension plans. While we are assessing the impact the Act will have on our minimum contribution in future years, we maintain that we will not be required to make a pension contribution during 2012.

Effective during the fourth quarter of 2011, we changed our method of recognizing actuarial gains and losses for pension benefits to recognize actuarial gains and losses in our operating results in the year in which the gains and losses occur. We have retrospectively adjusted financial information for all prior periods presented to reflect our voluntary change in accounting policy for pension benefits.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 8. Employee Benefit Plans and Postretirement Benefits, Continued:

During the second quarter of 2012, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies for certain active and retired participants effective January 1, 2014. As a result, we remeasured the plan and recognized a curtailment gain of \$9.6 million, of which \$7.4 million was recognized in cost of services expenses and \$2.2 million was recognized in selling, general and administrative expenses. In remeasuring the postretirement obligations to reflect this amendment, updated assumptions as of June 29, 2012 were used. During the remeasurement, we updated key assumptions, including the discount rate, which decreased from 3.97 percent to 3.80 percent. The discount rate was selected based on a hypothetical yield curve incorporating high-quality corporate bonds with various maturities adjusted to reflect the timing of our expected benefit payments.

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

(Millions)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Benefits earned during the period	\$2.3	\$2.3	\$5.0	\$4.7
Interest cost on benefit obligation	14.5	15.3	29.0	30.3
Net actuarial loss	2.7	4.7	2.7	4.7
Amortization of prior service credit	(0.1 )	(0.1 )	(0.1 )	(0.1 )
Expected return on plan assets	(18.2 )	(18.1 )	(36.5 )	(35.7 )
Net periodic benefit expense	\$1.2	\$4.1	\$0.1	\$3.9

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

(Millions)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Benefits earned during the period	\$—	\$0.1	\$—	\$0.1
Interest cost on benefit obligation	0.4	1.0	0.9	2.3
Amortization of net actuarial loss	0.9	0.2	1.2	0.5
Amortization of prior service credit	(2.8 )	(2.4 )	(5.9 )	(4.5 )
Gain from plan curtailment	(9.6 )	—	(9.6 )	—
Net periodic benefit income	\$(11.1 )	\$(1.1 )	\$(13.4 )	\$(1.6 )

We contributed \$1.6 million to the postretirement plan during the six month period ended June 30, 2012, and expect to contribute an additional \$2.6 million for postretirement benefits throughout the remainder of 2012, excluding amounts that will be funded by participant contributions to the plans. We are not required to make a pension contribution during 2012, but can make a contribution on a voluntary basis. Due to uncertainties inherent in the pension funding calculation, contributions may be required in future years.

## 9. Merger, Integration and Restructuring Charges:

We incur a significant amount of costs to complete a merger or acquisition and integrate the acquired company's operations into our business. These costs are presented as merger and integration expense in our results of operations and include transaction costs such as banker and legal fees, employee-related costs such as severance, system conversion and rebranding costs. Our recent acquisitions of PAETEC, NuVox Inc. ("NuVox"), Iowa Telecom, Q-Comm Corporation ("Q-Comm") and Hosted Solutions drive merger and integration costs for the years presented.

Restructuring charges are sometimes incurred as a result of evaluations of our operating structure. Among other things, these evaluations explore opportunities 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.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 9. Merger, Integration and Restructuring Charges, Continued:

On May 31, 2012, we announced the review of our management structure to increase the efficiency of decision-making, to ensure our management structure is as simple and as responsive to customers as possible and position ourselves for continued success. We expect to eliminate approximately 350 to 375 management positions as part of the restructuring. We expect the restructuring to be complete in the third quarter of 2012.

On August 2, 2012, we announced additional changes resulting from the ongoing management structure review, resulting in severance related costs of \$4.5 million. Including the charges related to the August 2, 2012 announcement, we anticipate pre-tax restructuring charges of approximately \$10.0 million to \$15.0 million during the remainder of 2012, primarily associated with severance and related costs. The changes are expected to result in annualized savings of approximately \$30.0 million to \$40.0 million.

The management structure review began at the top ranks and will continue to move down the organization. Severance is calculated based on each terminated employees' salary and years of service, and it can vary greatly. Therefore, the liability for severance for employees that have not yet been identified is not estimable at this time. As positions and employees are identified and the severance is estimable, we will accrue the related liability.

Merger, integration and restructuring costs are unpredictable by nature but should not necessarily be viewed as non-recurring.

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

(Millions)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Merger and integration costs:				
Transaction costs associated with acquisitions (a)	\$3.8	\$0.9	\$7.1	\$3.3
Employee related transition costs (b)	4.1	1.9	14.3	6.9
Computer system and conversion costs	2.0	1.9	3.4	3.4
Signage, rebranding and other costs (c)	9.5	0.4	16.9	0.4
Total merger and integration costs	19.4	5.1	41.7	14.0
Restructuring charges (d)	10.3	0.1	11.2	0.2
Total merger, integration and restructuring charges	\$29.7	\$5.2	\$52.9	\$14.2

Transaction costs incurred during the first half of 2012 primarily relate to accounting, legal, broker fees and other miscellaneous costs associated with the acquisition of PAETEC. During the first half of 2011, we incurred (a) acquisition-related costs for accounting, legal, broker fees and other miscellaneous costs associated with the acquisitions of NuVox, Iowa Telecom, Q-Comm and Hosted Solutions. These costs are considered indirect or general and are expensed when incurred.

(b) Employee related transition costs during the first half of 2012 primarily consists of severance related to the integration of PAETEC. During the first half of 2011, we incurred employee transition costs, primarily severance-related, for NuVox, Iowa Telecom, Q-Comm and Hosted Solutions, respectively.

(c) Signage, rebranding and other costs includes signage, rebranding, lease termination, consulting fees associated with integration activities and other integration related expenses.

(d) Restructuring charges primarily related to the restructuring announcement made on May 31, 2012. See previous discussion.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 9. Merger, Integration and Restructuring Charges, Continued:

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

(Millions)	2012
Balance, beginning of period	\$12.9
Merger, integration and restructuring charges	52.9
Cash outlays during the period	(37.4 )
Balance, end of period	\$28.4

As of June 30, 2012, other current liabilities included the remaining liability of \$28.4 million for accrued merger, integration and restructuring charges. This included \$7.7 million and \$5.5 million of accrued severance costs primarily associated with the integration of PAETEC and the May 31, 2012, restructuring announcement, respectively. The severance and related employee costs will be paid as positions are eliminated, excluding salary continuation payments. Each of these payments will be funded through operating cash flows.

## 10. Accumulated Other Comprehensive Income:

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

(Millions)	June 30, 2012	December 31, 2011
Pension and postretirement plans	\$47.8	\$54.7
Unrealized holding losses on interest rate swaps:		
Designated portion	(19.6 )	(16.6 )
De-designated portion	(22.8 )	(36.2 )
Accumulated other comprehensive income	\$5.4	\$1.9

## 11. Earnings per Share:

We compute basic earnings per share by dividing net income applicable to common shares by the weighted average number of common shares outstanding during each period. Our non-vested restricted shares containing a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares are considered participating securities, and the impact is included in the computation of basic earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings attributable to common shares and participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Earnings per common share was computed by dividing the sum of distributed earnings and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and non-vested restricted shares based on the pro-rata weighted average shares outstanding during the period.

Beginning in the first quarter of 2011, we began issuing performance-based restricted stock units as part of our share-based compensation plan. These newly issued restricted stock units and previously issued performance-based restricted shares issued contain a forfeitable right to receive dividends. Because dividends attributable to these shares are forfeited if the vesting provisions are not met, they are considered non-participating restricted shares and are not dilutive under the two class method until the performance conditions have been satisfied. As of June 30, 2012, the performance conditions for the outstanding restricted stock units have not yet been satisfied. However, we considered

the options granted in conjunction with the acquisition of PAETEC in the computation of dilutive earnings per share using the treasury stock method.

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 11. Earnings per Share, Continued:

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

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Basic and diluted earnings per share:				
Numerator:				
Income from continuing operations	\$54.7	\$96.7	\$119.4	\$126.1
Income from continuing operations allocable to participating securities	(1.0	) (0.9	) (2.1	) (1.7
Adjusted income from continuing operations attributable to common shares	53.7	95.8	117.3	124.4
Loss from discontinued operations	(0.5	) —	(0.6	) —
Loss from discontinued operations allocable to participating securities	—	—	—	—
Adjusted loss from discontinued operations attributable to common shares	(0.5	) —	(0.6	) —
Net income attributable to common shares	\$53.2	\$95.8	\$116.7	\$124.4
Denominator:				
Basic shares outstanding				
Weighted average basic shares outstanding	588.3	510.0	587.9	508.3
Weighted average participating securities	(3.7	) (3.7	) (3.8	) (3.8
Weighted average shares outstanding for basic earnings per share	584.6	506.3	584.1	504.5
Basic and diluted earnings per share:				
From continuing operations	\$.09	\$.19	\$.20	\$.25
From discontinued operations	—	—	—	—
Net income	\$.09	\$.19	\$.20	\$.25

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

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 12. Share-Based Compensation Plans:

Under the Amended and Restated 2006 Equity Incentive Plan (the "Incentive Plan"), we may issue a maximum of 20.0 million equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. Restricted stock, restricted stock units and stock appreciation rights were limited to 18.5 million of the total awards issuable under the Incentive Plan. As of June 30, 2012, the Incentive Plan had remaining capacity of 8.3 million awards, of which 6.8 million were issuable in the form of restricted stock, restricted stock units or stock appreciation rights. As of June 30, 2012, we had additional remaining capacity of 3.0 million awards from a similar equity incentive plan acquired in the PAETEC acquisition. The cost of each award is determined based on the fair value of the shares on the date of grant and is fully expensed over the vesting period.

On February 7, 2012, our Board of Directors approved grants of restricted stock and restricted stock units to officers, executives, non-employee directors and certain management employees. These grants include the standard annual grants to this employee and director group as a key component of their annual incentive compensation plan. The performance based restricted stock units granted may vest in a number of shares from zero to 150.0 percent of their award based on attainment of certain operating targets, some of which are indexed to the performance of Standard & Poor's 500 Stock Index, over a three-year period. The operating targets for the first vesting period for these performance based restricted stock units granted were approved by the Board of Directors in February 2012.

As a result of the management restructuring announced on May 31, 2012, 0.5 million shares with a weighted average grant date fair value of \$6.6 million were forfeited during the six month period ended June 30, 2012.

The vesting periods and grant date fair value for restricted stock and restricted stock units issued during the six month period ended June 30, 2012, were as follows:

(Thousands)	Common Shares
Vest ratably over a three-year service period	1,543.7
Vest contingently over a three-year performance period	723.5
Vest three years from date of grant, service based	4.0
Vest one year from date of grant, service based (a)	51.4
Total granted	2,322.6
Grant date fair value (Millions)	\$28.9

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

At June 30, 2012, unrecognized compensation expense totaled \$48.9 million and is expected to be recognized over the weighted average vesting period of 1.6 years. Unrecognized compensation expense is included in additional paid-in capital in the accompanying consolidated balance sheets and statements of shareholders' equity. Share-based compensation expense was \$6.3 million and \$13.7 million for the three and six month periods ended June 30, 2012, respectively, as compared to \$6.1 million and \$11.4 million for the same periods in 2011.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information:

Debentures and notes, without collateral, issued by Windstream Corporation

In connection with the issuance of the 8.125 percent Senior Notes due August 1, 2013, the 7.875 percent Senior Notes due November 1, 2017, the 8.125 percent senior unsecured notes due September 1, 2018, the 7.000 percent Senior Notes due March 15, 2019, the 2020 Notes, the 2021 Notes, the 2022 Notes and the 2023 Notes (“the guaranteed notes”), certain of our wholly-owned subsidiaries (the “Guarantors”), provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to us. Our remaining subsidiaries (the “Non-Guarantors”) are not guarantors of the guaranteed notes. Following the acquisitions of acquired businesses, the guaranteed notes were amended to include certain subsidiaries of the acquired businesses as guarantors. The parent company and issuer of the notes is Windstream Corporation.

The following information presents condensed consolidated statements of income, including comprehensive income, for the three and six month periods ended June 30, 2012 and 2011, condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, and condensed consolidated statements of cash flows for the six month periods ended June 30, 2012 and 2011 of the parent company, the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by the parent company and other subsidiaries and have been presented using the equity method of accounting.

	Condensed Consolidated Statement of Income (Unaudited)				
	Three Months Ended				
	June 30, 2012				
(Millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$270.0	\$1,206.3	\$(6.3)	) \$1,470.0
Product sales	—	25.2	42.6	—	67.8
Total revenues and sales	—	295.2	1,248.9	(6.3)	) 1,537.8
Costs and expenses:					
Cost of services	—	96.7	561.2	(4.3)	) 653.6
Cost of products sold	—	23.8	33.8	—	57.6
Selling, general and administrative	—	21.1	219.0	(2.0)	) 238.1
Depreciation and amortization	—	79.3	240.7	—	320.0
Merger and integration costs	—	—	19.4	—	19.4
Restructuring charges	—	0.2	10.1	—	10.3
Total costs and expenses	—	221.1	1,084.2	(6.3)	) 1,299.0
Operating income	—	74.1	164.7	—	238.8
Earnings (losses) from consolidated subsidiaries	113.6	20.4	(0.1)	) (133.9)	) —
Other (expense) income, net	(0.8)	) 45.8	(41.8)	) —	3.2
Intercompany interest income (expense)	38.3	(24.5)	) (13.8)	) —	—
Interest expense	(132.8)	) (1.4)	) (19.3)	) —	(153.5)
Income from continuing operations before income taxes	18.3	114.4	89.7	(133.9)	) 88.5
Income tax (benefit) expense	(35.9)	) 35.7	34.0	—	33.8
Income from continuing operations	54.2	78.7	55.7	(133.9)	) 54.7
Discontinued operations, net of tax	—	—	(0.5)	) —	(0.5)

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Net income	\$54.2	\$78.7	\$55.2	\$(133.9	)	\$54.2
Comprehensive income	\$53.0	\$78.7	\$55.2	\$(133.9	)	\$53.0

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Income (Unaudited)				
	Three Months Ended				
	June 30, 2011				
(Millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$271.2	\$735.8	\$(5.3)	) \$1,001.7
Product sales	—	14.8	13.2	—	28.0
Total revenues and sales	—	286.0	749.0	(5.3)	) 1,029.7
Costs and expenses:					
Cost of services	—	87.4	288.7	(2.9)	) 373.2
Cost of products sold	—	13.6	10.4	—	24.0
Selling, general and administrative	—	24.0	110.5	(2.4)	) 132.1
Depreciation and amortization	—	79.3	117.5	—	196.8
Merger and integration costs	—	—	5.1	—	5.1
Restructuring charges	—	—	0.1	—	0.1
Total costs and expenses	—	204.3	532.3	(5.3)	) 731.3
Operating income	—	81.7	216.7	—	298.4
Earnings from consolidated subsidiaries	158.8	31.6	0.8	(191.2)	) —
Other (expense) income, net	(3.5)	) 44.5	(44.2)	) —	(3.2)
Loss on early extinguishment of debt	(2.5)	) —	—	—	(2.5)
Intercompany interest income (expense)	41.4	(26.0)	) (15.4)	) —	—
Interest (expense) income	(135.8)	) (1.4)	) 0.8	—	(136.4)
Income before income taxes	58.4	130.4	158.7	(191.2)	) 156.3
Income tax (benefit) expense	(38.3)	) 36.4	61.5	—	59.6
Net income	\$96.7	\$94.0	\$97.2	\$(191.2)	) \$96.7
Comprehensive income	\$115.0	\$94.0	\$97.2	\$(191.2)	) \$115.0

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Income (Unaudited)				
	Six Months Ended				
	June 30, 2012				
(Millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$540.6	\$2,429.9	\$(12.1 )	\$2,958.4
Product sales	—	42.2	82.4	—	124.6
Total revenues and sales	—	582.8	2,512.3	(12.1 )	3,083.0
Costs and expenses:					
Cost of services	—	187.5	1,133.3	(7.9 )	1,312.9
Cost of products sold	—	39.4	63.1	—	102.5
Selling, general and administrative	—	44.5	450.8	(4.2 )	491.1
Depreciation and amortization	—	158.1	474.0	—	632.1
Merger and integration costs	—	—	41.7	—	41.7
Restructuring charges	—	0.4	10.8	—	11.2
Total costs and expenses	—	429.9	2,173.7	(12.1 )	2,591.5
Operating income	—	152.9	338.6	—	491.5
Earnings from consolidated subsidiaries	237.7	35.1	0.5	(273.3 )	—
Other (expense) income, net	(1.6 )	97.5	(86.1 )	—	9.8
Gain on early extinguishment on debt	—	—	1.9	—	1.9
Intercompany interest income (expense)	75.8	(49.3 )	(26.5 )	—	—
Interest expense	(266.1 )	(2.7 )	(41.2 )	—	(310.0 )
Income from continuing operations before income taxes	45.8	233.5	187.2	(273.3 )	193.2
Income tax (benefit) expense	(73.0 )	75.6	71.2	—	73.8
Income from continuing operations	118.8	157.9	116.0	(273.3 )	119.4
Discontinued operations, net of tax	—	—	(0.6 )	—	(0.6 )
Net income	\$118.8	\$157.9	\$115.4	\$(273.3 )	\$118.8
Comprehensive income	\$122.3	\$157.9	\$115.4	\$(273.3 )	\$122.3





## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

	Condensed Consolidated Statement of Income (Unaudited)				
	Six Months Ended				
	June 30, 2011				
(Millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues and sales:					
Service revenues	\$—	\$539.8	\$1,469.0	\$(10.6)	) \$1,998.2
Product sales	—	29.6	24.9	—	54.5
Total revenues and sales	—	569.4	1,493.9	(10.6)	) 2,052.7
Costs and expenses:					
Cost of services	—	173.2	567.8	(5.8)	) 735.2
Cost of products sold	—	26.6	17.5	—	44.1
Selling, general and administrative	—	46.9	224.8	(4.8)	) 266.9
Depreciation and amortization	—	159.7	242.3	—	402.0
Merger and integration costs	—	—	14.0	—	14.0
Restructuring charges	—	—	0.2	—	0.2
Total costs and expenses	—	406.4	1,066.6	(10.6)	) 1,462.4
Operating income	—	163.0	427.3	—	590.3
Earnings from consolidated subsidiaries	312.2	65.5	1.5	(379.2)	) —
Other (expense) income, net	(2.0)	) 89.3	(87.9)	) —	(0.6)
Loss on early extinguishment of debt	(103.9)	) —	—	—	(103.9)
Intercompany interest income (expense)	85.2	(53.4)	) (31.8)	) —	—
Interest (expense) income	(280.8)	) (2.9)	) 0.8	—	(282.9)
Income before income taxes	10.7	261.5	309.9	(379.2)	) 202.9
Income tax (benefit) expense	(115.4)	) 74.2	118.0	—	76.8
Net income	\$126.1	\$187.3	\$191.9	\$(379.2)	) \$126.1
Comprehensive income	\$155.5	\$187.3	\$191.9	\$(379.2)	) \$155.5

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Balance Sheet (Unaudited)				
	As of June 30, 2012				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ (36.1 )	\$ 8.0	\$ 65.6	\$ —	\$ 37.5
Restricted cash	17.9	—	9.9	—	27.8
Accounts receivable (less allowance for doubtful accounts of \$32.9)	—	109.7	481.8	4.2	595.7
Affiliates receivable, net	—	189.8	2,477.4	(2,667.2 )	—
Income tax receivable	2.1	—	—	—	2.1
Inventories	—	49.7	21.0	—	70.7
Deferred income taxes	84.8	22.4	60.8	—	168.0
Prepaid income taxes	19.7	—	—	—	19.7
Prepaid expenses and other	3.7	23.3	163.4	—	190.4
Total current assets	92.1	402.9	3,279.9	(2,663.0 )	1,111.9
Investments in consolidated subsidiaries	11,853.1	1,272.1	307.7	(13,432.9 )	—
Goodwill and other intangibles, net	—	3,694.8	3,193.9	—	6,888.7
Net property, plant and equipment	7.6	1,454.9	4,297.0	—	5,759.5
Other assets	93.3	355.6	53.8	(335.6 )	167.1
Total Assets	\$ 12,046.1	\$ 7,180.3	\$ 11,132.3	\$ (16,431.5 )	\$ 13,927.2
<b>Liabilities and Shareholders' Equity</b>					
<b>Current Liabilities:</b>					
Current maturities of long-term debt and capital lease obligations	\$ 37.1	\$ 0.4	\$ 33.1	\$ (4.8 )	\$ 65.8
Current portion of interest rate swaps	30.6	—	—	—	30.6
Accounts payable	0.6	57.8	247.8	—	306.2
Affiliates payable, net	2,666.8	—	—	(2,666.8 )	—
Advance payments and customer deposits	—	13.3	212.4	—	225.7
Accrued dividends	148.0	—	—	—	148.0
Accrued taxes	0.2	35.0	80.6	(0.4 )	115.4
Accrued interest	112.3	1.7	33.6	—	147.6
Other current liabilities	22.2	16.7	223.5	—	262.4
Total current liabilities	3,017.8	124.9	831.0	(2,672.0 )	1,301.7
Long-term debt and capital lease obligations	7,475.7	99.6	1,545.7	(326.7 )	8,794.3
Deferred income taxes	101.9	933.1	818.5	—	1,853.5
Other liabilities	113.3	29.0	498.0	—	640.3
Total liabilities	10,708.7	1,186.6	3,693.2	(2,998.7 )	12,589.8
<b>Commitments and Contingencies (See Note 7)</b>					
<b>Shareholders' Equity:</b>					
Common stock	0.1	40.8	83.1	(123.9 )	0.1
Additional paid-in capital	1,331.9	5,083.4	4,004.0	(9,087.4 )	1,331.9
Accumulated other comprehensive income	5.4	8.1	40.7	(48.8 )	5.4
Retained earnings	—	861.4	3,311.3	(4,172.7 )	—

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Total shareholders' equity	1,337.4	5,993.7	7,439.1	(13,432.8 )	1,337.4
Total Liabilities and Shareholders' Equity	\$12,046.1	\$7,180.3	\$11,132.3	\$(16,431.5 )	\$13,927.2

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Balance Sheet (Unaudited)				
	As of December 31, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$115.4	\$7.1	\$104.5	\$—	\$227.0
Restricted cash	11.9	—	9.8	—	21.7
Accounts receivable (less allowance for doubtful accounts of \$29.9)	—	105.7	549.3	2.4	657.4
Affiliates receivable, net	—	52.7	2,744.2	(2,796.9 )	—
Income tax receivable	122.0	1.2	0.9	—	124.1
Inventories	—	55.4	21.1	—	76.5
Deferred income taxes	153.0	22.8	56.3	—	232.1
Prepaid income taxes	163.4	—	—	(148.1 )	15.3
Prepaid expenses and other	3.4	13.2	86.3	—	102.9
Assets held for sale	—	50.6	10.8	—	61.4
Total current assets	569.1	308.7	3,583.2	(2,942.6 )	1,518.4
Investments in consolidated subsidiaries	11,622.8	1,237.4	313.0	(13,173.2 )	—
Goodwill and other intangibles, net	—	3,761.8	3,225.2	—	6,987.0
Net property, plant and equipment	7.6	1,464.5	4,236.0	—	5,708.1
Other assets	95.4	356.6	62.3	(335.7 )	178.6
Total Assets	\$12,294.9	\$7,129.0	\$11,419.7	\$(16,451.5 )	\$14,392.1
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt and capital lease obligations	\$33.8	\$0.7	\$184.0	\$(4.8 )	\$213.7
Current portion of interest rate swaps	30.5	—	—	—	30.5
Accounts payable	1.0	49.0	246.0	—	296.0
Affiliates payable, net	2,796.6	—	—	(2,796.6 )	—
Advance payments and customer deposits	—	31.8	208.6	—	240.4
Accrued dividends	148.0	—	—	—	148.0
Accrued taxes	0.3	103.1	163.2	(148.7 )	117.9
Accrued interest	114.0	1.7	46.1	—	161.8
Other current liabilities	29.8	27.2	194.2	—	251.2
Total current liabilities	3,154.0	213.5	1,042.1	(2,950.1 )	1,459.5
Long-term debt and capital lease obligations	7,432.0	99.7	1,733.5	(328.5 )	8,936.7
Deferred income taxes	91.8	941.6	818.1	—	1,851.5
Other liabilities	119.0	31.8	495.5	—	646.3
Total liabilities	10,796.8	1,286.6	4,089.2	(3,278.6 )	12,894.0
Commitments and Contingencies (See Note 7)					—
Shareholders' Equity:					
Common stock	0.1	40.8	83.1	(123.9 )	0.1
Additional paid-in capital	1,496.1	5,083.4	4,004.0	(9,087.4 )	1,496.1
Accumulated other comprehensive income	1.9	8.2	47.6	(55.8 )	1.9

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Retained earnings	—	710.0	3,195.8	(3,905.8 )	—
Total shareholders' equity	1,498.1	5,842.4	7,330.5	(13,172.9 )	1,498.1
Total Liabilities and Shareholders' Equity	\$12,294.9	\$7,129.0	\$11,419.7	\$(16,451.5 )	\$14,392.1

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Cash Flows (Unaudited)				
	Six Months Ended June 30, 2012				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Cash Provided from Operations:</b>					
Net income	\$ 118.8	\$ 157.9	\$ 115.4	\$ (273.3)	) \$ 118.8
Adjustments to reconcile net income to net cash provided from operations:					
Depreciation and amortization	—	158.1	474.0	—	632.1
Provision for doubtful accounts	—	4.6	20.7	—	25.3
Equity in earnings from subsidiaries	(237.7)	) (35.1)	) (0.5)	) 273.3	—
Share-based compensation expense	—	3.2	10.5	—	13.7
Deferred income taxes	71.7	(8.0)	) 0.3	—	64.0
Unamortized net premium on retired debt	—	—	(16.2)	) —	(16.2)
Amortization of unrealized losses on de-designated interest rate swaps	21.6	—	—	—	21.6
Gain from plan curtailment	—	—	(9.6)	) —	(9.6)
Other, net	8.0	(9.8)	) (12.9)	) —	(14.7)
Changes in operating assets and liabilities, net	221.4	(93.2)	) (126.4)	)	1.8
Net cash provided from operations	203.8	177.7	455.3	—	836.8
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	—	(98.0)	) (404.1)	) —	(502.1)
Broadband network expansion funded by stimulus grants	—	(10.2)	) (27.6)	) —	(37.8)
Changes in restricted cash	(6.1)	) —	—	—	(6.1)
Grant funds received for broadband stimulus projects	19.6	—	—	—	19.6
Disposition of wireless assets	—	57.0	—	—	57.0
Advances (paid to) received from parent, net	—	(129.1)	) 245.5	(116.4)	) —
Other, net	—	2.3	3.8	—	6.1
Net cash provided from (used in) investing activities	13.5	(178.0)	) (182.4)	) (116.4)	) (463.3)
<b>Cash Flows from Financing Activities:</b>					
Dividends paid on common shares	(293.5)	) —	—	—	(293.5)
Repayment of debt	(703.9)	) —	(300.0)	) —	(1,003.9)
Proceeds of debt issuance	750.0	—	—	—	750.0
Debt issuance costs	(2.4)	) —	—	—	(2.4)
Advances paid to subsidiaries, net	(116.4)	) —	—	116.4	—
Other, net	(2.6)	) 1.2	(11.8)	) —	(13.2)
Net cash (used in) provided from financing activities	(368.8)	) 1.2	(311.8)	) 116.4	(563.0)
(Decrease) increase in cash and cash equivalents	(151.5)	) 0.9	(38.9)	) —	(189.5)
<b>Cash and Cash Equivalents:</b>					
Beginning of period	115.4	7.1	104.5	—	227.0

End of period	\$ (36.1	) \$ 8.0	\$ 65.6	\$ —	\$ 37.5
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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Cash Flows (Unaudited)				
	Six Months Ended June 30, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Cash Provided from Operations:</b>					
Net income	\$ 126.1	\$ 187.3	\$ 191.9	\$(379.2)	\$ 126.1
Adjustments to reconcile net income to net cash provided from operations:					
Depreciation and amortization	—	159.7	242.3	—	402.0
Provision for doubtful accounts	—	4.7	14.9	—	19.6
Equity in earnings from subsidiaries	(312.2)	(65.5)	(1.5)	379.2	—
Share-based compensation expense	—	3.1	8.3	—	11.4
Deferred income taxes	8.7	52.3	35.5	—	96.5
Unamortized net discount on retired debt	13.0	—	—	—	13.0
Amortization of unrealized losses on de-designated interest rate swaps	25.0	—	—	—	25.0
Other, net	10.1	5.0	(1.6)	—	13.5
Changes in operating assets and liabilities, net	(175.0)	(26.4)	81.0	—	(120.4)
Net cash (used in) provided from operations	(304.3)	320.2	570.8	—	586.7
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	—	(91.2)	(238.3)	—	(329.5)
Broadband network expansion funded by stimulus grants	—	(0.2)	(1.8)	—	(2.0)
Changes in restricted cash	(7.3)	—	—	—	(7.3)
Advances paid to parent, net	—	(237.4)	(337.7)	575.1	—
Other, net	1.3	0.1	(1.6)	—	(0.2)
Net cash used in investing activities	(6.0)	(328.7)	(579.4)	575.1	(339.0)
<b>Cash Flows from Financing Activities:</b>					
Dividends paid on common shares	(253.3)	—	—	—	(253.3)
Repayment of debt	(2,434.4)	—	—	—	(2,434.4)
Proceeds of debt issuance	2,462.0	—	—	—	2,462.0
Debt issuance costs	(20.9)	—	—	—	(20.9)
Advances received from subsidiaries, net	575.1	—	—	(575.1)	—
Other, net	(3.6)	14.2	(1.9)	—	8.7
Net cash provided from (used in) financing activities	324.9	14.2	(1.9)	(575.1)	(237.9)
Increase (decrease) in cash and cash equivalents	14.6	5.7	(10.5)	—	9.8
<b>Cash and Cash Equivalents:</b>					
Beginning of period	4.1	8.4	29.8	—	42.3
End of period	\$ 18.7	\$ 14.1	\$ 19.3	\$—	\$ 52.1



## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

## Debentures and notes, issued by PAETEC Holding Corporation

In connection with the acquisition of PAETEC on November 30, 2011, Windstream Corporation (the “Parent”) acquired the PAETEC 2015 Notes, the 7.000 percent Senior Notes due March 15, 2019 and the 9.875 percent notes due December 1, 2018 (“the guaranteed notes”). Windstream Corporation and all former wholly-owned subsidiaries of PAETEC (the “Guarantors”) provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to the Parent. The remaining subsidiaries (the “Non-Guarantors”) of the Parent are not guarantors of these guaranteed notes.

The following information presents condensed consolidated statements of income, including comprehensive income, for the six month periods ended June 30, 2012 and 2011, condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, condensed consolidated statements of cash flows for the six month periods ended June 30, 2012 and 2011 of the Parent, the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by the Parent and other subsidiaries and have been presented using the equity method of accounting.

(Millions)	Condensed Consolidated Statement of Income (Unaudited)					
	Three Months Ended June 30, 2012					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	\$—	\$—	\$486.7	\$985.3	\$(2.0)	\$1,470.0
Product sales	—	—	28.0	39.8	—	67.8
Total revenues and sales	—	—	514.7	1,025.1	(2.0)	1,537.8
Costs and expenses:						
Cost of services	—	—	280.6	373.6	(0.6)	653.6
Cost of products sold	—	—	23.7	33.9	—	57.6
Selling, general, and administrative	—	—	111.1	128.4	(1.4)	238.1
Depreciation and amortization	—	—	88.1	231.9	—	320.0
Merger and integration costs	—	—	0.4	19.0	—	19.4
Restructuring charges	—	—	1.6	8.7	—	10.3
Total costs and expenses	—	—	505.5	795.5	(2.0)	1,299.0
Operating income	—	—	9.2	229.6	—	238.8
Earnings (losses) from consolidated subsidiaries	113.6	11.7	24.7	(1.2)	(148.8)	—
Other (expense) income, net	(0.8)	—	0.1	3.9	—	3.2
Intercompany interest income (expense)	38.3	—	—	(38.3)	—	—
Interest (expense) benefit	(132.8)	(20.6)	(0.2)	0.1	—	(153.5)
Income (loss) from continuing operations before income taxes	18.3	(8.9)	33.8	194.1	(148.8)	88.5
Income tax (benefit) expense	(35.9)	(7.9)	3.2	74.4	—	33.8
Income (loss) from continuing operations	54.2	(1.0)	30.6	119.7	(148.8)	54.7
Discontinued operations, net of tax	—	—	(0.5)	—	—	(0.5)

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Net income (loss)	\$54.2	\$(1.0	) \$30.1	\$119.7	\$(148.8	) \$54.2
Comprehensive income (loss)	\$53.0	\$(1.0	) \$30.1	\$119.7	\$(148.8	) \$53.0

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Income (Unaudited)					
	Three Months Ended June 30, 2011					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	\$—	\$—	\$—	\$1,001.7	\$—	\$ 1,001.7
Product sales	—	—	—	28.0	—	28.0
Total revenues and sales	—	—	—	1,029.7	—	1,029.7
Costs and expenses:						
Cost of services	—	—	—	373.2	—	373.2
Cost of products sold	—	—	—	24.0	—	24.0
Selling, general, and administrative	—	—	—	132.1	—	132.1
Depreciation and amortization	—	—	—	196.8	—	196.8
Merger and integration costs	—	—	—	5.1	—	5.1
Restructuring charges	—	—	—	0.1	—	0.1
Total costs and expenses	—	—	—	731.3	—	731.3
Operating income	—	—	—	298.4	—	298.4
Earnings from consolidated subsidiaries	158.8	—	—	—	(158.8 )	—
Other (expense) income, net	(3.5 )	—	—	0.3	—	(3.2 )
Loss on early extinguishment of debt	(2.5 )	—	—	—	—	(2.5 )
Intercompany interest income (expense)	41.4	—	—	(41.4 )	—	—
Interest expense	(135.8 )	—	—	(0.6 )	—	(136.4 )
Income before income taxes	58.4	—	—	256.7	(158.8 )	156.3
Income tax (benefit) expense	(38.3 )	—	—	97.9	—	59.6
Net income	\$96.7	\$—	\$—	\$158.8	\$(158.8 )	\$ 96.7
Comprehensive income	\$115.0	\$—	\$—	\$158.8	\$(158.8 )	\$ 115.0

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Income (Unaudited)					
	Six Months Ended June 30, 2012					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	\$—	\$—	\$986.9	\$1,976.8	\$(5.3)	) \$2,958.4
Product sales	—	—	55.9	68.7	—	) 124.6
Total revenues and sales	—	—	1,042.8	2,045.5	(5.3)	) 3,083.0
Costs and expenses:						
Cost of services	—	—	564.9	749.9	(1.9)	) 1,312.9
Cost of products sold	—	—	44.8	57.7	—	) 102.5
Selling, general, and administrative	—	—	231.2	263.3	(3.4)	) 491.1
Depreciation and amortization	—	—	171.6	460.5	—	) 632.1
Merger and integration costs	—	—	0.5	41.2	—	) 41.7
Restructuring charges	—	—	1.6	9.6	—	) 11.2
Total costs and expenses	—	—	1,014.6	1,582.2	(5.3)	) 2,591.5
Operating income	—	—	28.2	463.3	—	) 491.5
Earnings (losses) from consolidated subsidiaries	237.7	31.3	5.3	(1.3)	) (273.0)	) —
Other (expense) income, net	(1.6)	) —	0.1	11.3	—	) 9.8
Gain on early extinguishment of debt	—	1.9	—	—	—	) 1.9
Intercompany interest income (expense)	75.8	—	—	(75.8)	) —	) —
Interest expense	(266.1)	) (42.7)	) (1.1)	) (0.1)	) —	) (310.0)
Income (loss) from continuing operations before income taxes	45.8	(9.5)	) 32.5	397.4	(273.0)	) 193.2
Income tax (benefit) expense	(73.0)	) (15.5)	) 10.4	151.9	—	) 73.8
Income from continuing operations	118.8	6.0	22.1	245.5	(273.0)	) 119.4
Discontinued operations, net of tax	—	—	(0.6)	) —	—	) (0.6)
Net income	\$118.8	\$6.0	\$21.5	\$245.5	\$(273.0)	) \$118.8
Comprehensive income	\$122.3	\$6.0	\$21.5	\$245.5	—\$(273.0)	) —\$122.3

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Income (Unaudited)					
	Six Months Ended June 30, 2011					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues and sales:						
Service revenues	\$—	\$—	\$—	\$1,998.2	\$—	\$1,998.2
Product sales	—	—	—	54.5	—	54.5
Total revenues and sales	—	—	—	2,052.7	—	2,052.7
Costs and expenses:						
Cost of services	—	—	—	735.2	—	735.2
Cost of products sold	—	—	—	44.1	—	44.1
Selling, general, and administrative	—	—	—	266.9	—	266.9
Depreciation and amortization	—	—	—	402.0	—	402.0
Merger and integration costs	—	—	—	14.0	—	14.0
Restructuring charges	—	—	—	0.2	—	0.2
Total costs and expenses	—	—	—	1,462.4	—	1,462.4
Operating income	—	—	—	590.3	—	590.3
Earnings from consolidated subsidiaries	312.2	—	—	0.3	(312.5 )	—
Other (expense) income, net	(2.0 )	—	—	1.4	—	(0.6 )
Intercompany interest income (expense)	85.2	—	—	(85.2 )	—	—
Loss on early extinguishment of debt	(103.9 )	—	—	—	—	(103.9 )
Interest expense	(280.8 )	—	—	(2.1 )	—	(282.9 )
Income before income taxes	10.7	—	—	504.7	(312.5 )	202.9
Income tax (benefit) expense	(115.4 )	—	—	192.2	—	76.8
Net income	\$126.1	\$—	\$—	\$312.5	\$(312.5 )	\$126.1
Comprehensive income	\$155.5	\$—	\$—	\$312.5	\$(312.5 )	\$155.5

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Balance Sheet (Unaudited)					
	As of June 30, 2012					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$(36.1 )	\$—	\$26.6	\$47.0	\$—	\$ 37.5
Restricted cash	17.9	—	9.9	—	—	27.8
Accounts receivable (less allowance for doubtful accounts of \$32.9)	—	—	215.5	380.2	—	595.7
Affiliates receivable, net	—	1,093.9	—	3,097.5	(4,191.4 )	—
Income tax receivable	2.1	—	—	—	—	2.1
Inventories	—	—	14.1	56.6	—	70.7
Deferred income taxes	84.8	(3.8 )	9.8	77.2	—	168.0
Prepaid income taxes	19.7	—	—	—	—	19.7
Prepaid expenses and other	3.7	—	48.4	138.3	—	190.4
Total current assets	92.1	1,090.1	324.3	3,796.8	(4,191.4 )	1,111.9
Investments in consolidated subsidiaries	11,853.1	32.6	(0.6 )	—	(11,885.1 )	—
Goodwill and other intangibles, net	—	721.4	748.9	5,418.4	—	6,888.7
Net property, plant and equipment	7.6	—	867.5	4,884.4	—	5,759.5
Other assets	93.3	—	10.3	63.5	—	167.1
Total Assets	\$12,046.1	\$1,844.1	\$1,950.4	\$14,163.1	\$(16,076.5)	\$13,927.2
<b>Liabilities and Shareholders' Equity</b>						
<b>Current Liabilities:</b>						
Current maturities of long-term debt and capital lease obligations	\$37.1	\$—	\$18.1	\$10.6	\$—	\$ 65.8
Current portion of interest rate swaps	30.6	—	—	—	—	30.6
Accounts payable	0.6	—	104.8	200.8	—	306.2
Affiliates payable, net	2,666.8	—	1,524.5	—	(4,191.3 )	—
Advance payments and customer deposits	—	—	77.8	147.9	—	225.7
Accrued dividends	148.0	—	—	—	—	148.0
Accrued taxes	0.2	0.1	41.4	73.7	—	115.4
Accrued interest	112.3	32.7	0.6	2.0	—	147.6
Other current liabilities	22.2	—	93.6	146.6	—	262.4
Total current liabilities	3,017.8	32.8	1,860.8	581.6	(4,191.3 )	1,301.7
Long-term debt and capital lease obligations	7,475.7	1,184.7	21.2	112.7	—	8,794.3
Deferred income taxes	101.9	(219.8 )	0.4	1,971.0	—	1,853.5
Other liabilities	113.3	3.1	49.9	474.0	—	640.3
Total liabilities	10,708.7	1,000.8	1,932.3	3,139.3	(4,191.3 )	12,589.8
<b>Commitments and Contingencies</b>						
(See Note 7)						
<b>Shareholders' Equity:</b>						
Common stock	0.1	—	—	70.3	(70.3 )	0.1



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Additional paid-in capital	1,331.9	842.0	—	6,918.5	(7,760.5 )	1,331.9
Accumulated other comprehensive income	5.4	—	—	54.9	(54.9 )	5.4
Retained earnings	—	1.3	18.1	3,980.1	(3,999.5 )	—
Total shareholders' equity	1,337.4	843.3	18.1	11,023.8	(11,885.2 )	1,337.4
Total Liabilities and Shareholders' Equity	\$12,046.1	\$1,844.1	\$1,950.4	\$14,163.1	\$(16,076.5)	\$13,927.2

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

## Condensed Consolidated Balance Sheet (Unaudited)

As of December 31, 2011

(Millions)	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$115.4	\$—	\$63.5	\$48.1	\$—	\$227.0
Restricted cash	11.9	—	9.8	—	—	21.7
Accounts receivable (less allowance for doubtful accounts of \$29.9)	—	—	273.3	384.1	—	657.4
Affiliates receivable, net	—	1,881.0	—	2,934.3	(4,815.3 )	—
Income tax receivable	122.0	—	—	2.1	—	124.1
Inventories	—	—	13.8	62.7	—	76.5
Deferred income taxes	153.0	(3.8 )	6.2	76.7	—	232.1
Prepaid income taxes	163.4	0.1	—	—	(148.2 )	15.3
Prepaid expenses and other	3.4	—	32.9	66.6	—	102.9
Assets held for sale	—	—	10.7	50.7	—	61.4
Total current assets	569.1	1,877.3	410.2	3,625.3	(4,963.5 )	1,518.4
Investments in consolidated subsidiaries	11,622.8	1.4	(5.9 )	0.8	(11,619.1 )	—
Goodwill and other intangibles, net	—	635.4	840.8	5,510.8	—	6,987.0
Net property, plant and equipment	7.6	—	874.7	4,825.8	—	5,708.1
Other assets	95.4	(336.5 )	345.7	74.0	—	178.6
Total Assets	\$12,294.9	\$2,177.6	\$2,465.5	\$14,036.7	\$(16,582.6 )	\$14,392.1
<b>Liabilities and Shareholders' Equity</b>						
<b>Current Liabilities:</b>						
Current maturities of long-term debt and capital lease obligations	\$33.8	\$150.0	\$19.0	\$10.9	\$—	\$213.7
Current portion of interest rate swaps	30.5	—	—	—	—	30.5
Accounts payable	1.0	—	115.7	179.3	—	296.0
Affiliates payable, net	2,796.6	—	2,018.6	—	(4,815.2 )	—
Advance payments and customer deposits	—	—	92.3	148.1	—	240.4
Accrued dividends	148.0	—	—	—	—	148.0
Accrued taxes	0.3	0.1	39.9	225.8	(148.2 )	117.9
Accrued interest	114.0	45.7	0.1	2.0	—	161.8
Other current liabilities	29.8	1.0	105.2	115.2	—	251.2
Total current liabilities	3,154.0	196.8	2,390.8	681.3	(4,963.4 )	1,459.5
Long-term debt and capital lease obligations	7,432.0	1,361.7	30.2	112.8	—	8,936.7
Deferred income taxes	91.8	(220.0 )	(2.1 )	1,981.8	—	1,851.5
Other liabilities	119.0	1.9	50.0	475.4	—	646.3
Total liabilities	10,796.8	1,340.4	2,468.9	3,251.3	(4,963.4 )	12,894.0
<b>Commitments and Contingencies</b> (See Note 7)						
<b>Shareholders' Equity:</b>						

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Common stock	0.1	—	—	70.3	(70.3	) 0.1
Additional paid-in capital	1,496.1	842.0	—	6,918.5	(7,760.5	) 1,496.1
Accumulated other comprehensive income	1.9	—	—	61.9	(61.9	) 1.9
Retained earnings	—	(4.8	) (3.4	) 3,734.7	(3,726.5	) —
Total shareholders' equity	1,498.1	837.2	(3.4	) 10,785.4	(11,619.2	) 1,498.1
Total Liabilities and Shareholders' Equity	\$12,294.9	\$2,177.6	\$2,465.5	\$14,036.7	\$(16,582.6	) \$14,392.1

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## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 13. Supplemental Guarantor Information, Continued:

(Millions)	Condensed Consolidated Statement of Cash Flows (Unaudited)					
	Six Months Ended June 30, 2012					
	Parent	PAETEC Issuer	Guarantors	Non- Guarantors	Eliminations	Consolidated
<b>Cash Provided from Operations:</b>						
Net income	\$118.8	\$6.0	\$21.5	\$245.5	\$(273.0)	\$118.8
Adjustments to reconcile net income to net cash provided from operations:						
Depreciation and amortization	—	—	171.6	460.5	—	632.1
Provision for doubtful accounts	—	—	5.4	19.9	—	25.3
Equity in (earnings) losses from subsidiaries	(237.7)	(31.3)	(5.3)	1.3	273.0	—
Share-based compensation expense	—	—	1.5	12.2	—	13.7
Deferred income taxes	71.7	0.2	(1.0)	(6.9)	—	64.0
Unamortized net premium on retired debt	—	(16.2)	—	—	—	(16.2)
Amortization of unrealized losses on de-designated interest rate swaps	21.6	—	—	—	—	21.6
Gain from plan curtailment	—	—	—	(9.6)	—	(9.6)
Other, net	8.0	(10.7)	0.1	(12.1)	—	(14.7)
Changes in operating assets and liabilities, net	221.4	(12.6)	(69.0)	(138.0)	—	1.8
Net cash provided from (used in) operations	203.8	(64.6)	124.8	572.8	—	836.8
<b>Cash Flows from Investing Activities:</b>						
Additions to property, plant and equipment	—	—	(83.9)	(418.2)	—	(502.1)
Broadband network expansion funded by stimulus grants	—	—	—	(37.8)	—	(37.8)
Disposition of wireless assets	—	—	—	57.0	—	57.0
Changes in restricted cash	(6.1)	—	—	—	—	—