WINDSTREAM HOLDINGS, INC.
Form 10-Q
November 07, 2016

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

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

For the quarterly period ended September 30, 2016

or

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Windstream Holdings, Inc. ý YES ¨ NO
Windstream Services, LLC ý YES ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Windstream Holdings, Inc. ý YES ¨ NO
Windstream Services, LLC ý YES ¨ NO

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

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

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

As of October 31, 2016, 96,114,653 shares of common stock of Windstream Holdings, Inc.were outstanding. Windstream Holdings, Inc. holds a 100 percent interest in Windstream Services, LLC.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Windstream Holdings, Inc. and Windstream Services, LLC. Windstream Services, LLC is a direct, wholly-owned subsidiary of Windstream Holdings, Inc. Accordingly, Windstream Services, LLC meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, the use of the terms “Windstream,” “we,” “us” or “our” shall refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.
The Exhibit Index is located on page 77.

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*No reportable information under this item.

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

Item 1. Financial Statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions, except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Revenues and sales: | | | | |
| Service revenues | $1,318.9 | $1,451.2 | $3,990.8 | $4,210.2 |
| Product sales | 26.0 | 47.4 | 87.1 | 128.1 |
| Total revenues and sales | 1,344.9 | 1,498.6 | 4,077.9 | 4,338.3 |
| Costs and expenses: | | | | |
| Cost of services (exclusive of depreciation and amortization included below) | 677.5 | 703.9 | 2,013.5 | 2,069.1 |
| Cost of products sold | 21.5 | 41.5 | 74.6 | 111.8 |
| Selling, general and administrative | 190.1 | 215.8 | 590.8 | 656.5 |
| Depreciation and amortization | 321.0 | 350.5 | 934.0 | 1,033.0 |
| Merger and integration costs | 2.9 | 3.1 | 10.5 | 74.5 |
| Restructuring charges | 2.5 | 5.3 | 12.8 | 15.7 |
| Total costs and expenses | 1,215.5 | 1,320.1 | 3,636.2 | 3,960.6 |
| Operating income | 129.4 | 178.5 | 441.7 | 377.7 |
| Dividend income on CS&L common stock | — | 17.6 | 17.6 | 30.6 |
| Other income (expense), net | 0.6 | (0.2) | (2.5) | 7.9 |
| Net (loss) gain on disposal of investment in CS&L common stock | (2.1) | — | 15.2 | — |
| Net (loss) gain on early extinguishment of debt | (20.1) | 7.6 | (18.0) | (35.8) |
| Other-than-temporary impairment loss on investment in CS&L common stock | — | — | (181.9) | — |
| Interest expense | (216.4) | (230.2) | (653.5) | (588.8) |
| Loss before income taxes | (108.6) | (26.7) | (381.4) | (208.4) |
| Income tax benefit | (42.4) | (19.5) | (84.8) | (95.3) |
| Net loss | $(66.2) | $(7.2) | $(296.6) | $(113.1) |
| Basic and diluted loss per share: | | | | |
| Net loss | ($.72) | ($.08) | ($3.19) | ($1.16) |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions) | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(66.2) | $(7.2) | $(296.6) | $(113.1) |
| Other comprehensive (loss) income: | | | | |
| Available-for-sale securities: | | | | |
| Unrealized holding (loss) gain arising during the period | — | (200.4) | 156.1 | (309.7) |
| Gain on disposal recognized in the period | — | — | (51.5) | — |
| Other-than-temporary impairment loss recognized in the period | — | — | 181.9 | — |
| Change in available-for-sale securities | — | (200.4) | 286.5 | (309.7) |
| Interest rate swaps: | | | | |
| Unrealized loss on designated interest rate swaps | (5.9) | (25.4) | (17.5) | (13.1) |
| Amortization of net unrealized losses on de-designated interest rate swaps | 0.8 | 2.9 | 3.0 | 10.0 |
| Income tax benefit | 1.9 | 8.7 | 5.6 | 1.2 |
| Change in interest rate swaps | (3.2) | (13.8) | (8.9) | (1.9) |
| Postretirement and pension plans: | | | | |
| Change in net actuarial gain (loss) for employee benefit plans | 0.1 | — | 0.5 | (0.6) |
| Plan curtailment | — | (3.0) | (5.5) | (16.4) |
| Amounts included in net periodic benefit cost: | | | | |
| Amortization of net actuarial loss | 0.1 | 0.2 | 0.2 | 0.7 |
| Amortization of prior service credits | (0.3) | (0.8) | (0.9) | (3.4) |
| Income tax benefit | — | 1.6 | 2.2 | 7.5 |
| Change in postretirement and pension plans | (0.1) | (2.0) | (3.5) | (12.2) |
| Other comprehensive (loss) income | (3.3) | (216.2) | 274.1 | (323.8) |
| Comprehensive loss | $(69.5) | $(223.4) | $(22.5) | $(436.9) |

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

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WINDSTREAM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (Millions, except par value) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 61.4 | $ 31.3 |
| Accounts receivable (less allowance for doubtful accounts of $29.3 and $33.1, respectively) | 649.7 | 643.9 |
| Inventories | 80.3 | 79.5 |
| Prepaid expenses and other | 129.6 | 120.6 |
| Total current assets | 921.0 | 875.3 |
| Goodwill | 4,213.6 | 4,213.6 |
| Other intangibles, net | 1,365.3 | 1,504.7 |
| Net property, plant and equipment | 5,238.8 | 5,279.8 |
| Investment in CS&L common stock | — | 549.2 |
| Other assets | 84.9 | 95.5 |
| Total Assets | $ 11,823.6 | $ 12,518.1 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 13.4 | $ 5.9 |
| Current portion of long-term lease obligations | 164.5 | 152.7 |
| Accounts payable | 327.8 | 430.1 |
| Advance payments and customer deposits | 183.9 | 193.9 |
| Accrued taxes | 77.6 | 84.1 |
| Accrued interest | 93.1 | 78.4 |
| Other current liabilities | 288.1 | 322.0 |
| Total current liabilities | 1,148.4 | 1,267.1 |
| Long-term debt | 4,852.7 | 5,164.6 |
| Long-term lease obligations | 4,875.7 | 5,000.4 |
| Deferred income taxes | 199.7 | 287.4 |
| Other liabilities | 496.8 | 492.2 |
| Total liabilities | 11,573.3 | 12,211.7 |
| Commitments and Contingencies (See Note 14) | | |
| Shareholders' Equity: | | |
| Common stock, $.0001 par value, 166.7 shares authorized, 96.1 and 96.7 shares issued and outstanding, respectively | — | — |
| Additional paid-in capital | 569.3 | 602.9 |
| Accumulated other comprehensive loss | (10.3) | (284.4) |
| Accumulated deficit | (308.7) | (12.1) |
| Total shareholders' equity | 250.3 | 306.4 |
| Total Liabilities and Shareholders' Equity | $ 11,823.6 | $ 12,518.1 |

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

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

| | Nine Months Ended September 30, | |
|---|---|---|
| (Millions) | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net loss | $(296.6) | $(113.1) |
| Adjustments to reconcile net loss to net cash provided from operations: | | |
| Depreciation and amortization | 934.0 | 1,033.0 |
| Provision for doubtful accounts | 33.1 | 37.1 |
| Share-based compensation expense | 31.8 | 42.9 |
| Deferred income taxes | (80.0) | (103.3) |
| Net gain on disposal of investment in CS&L common stock | (15.2) | — |
| Noncash portion of net loss on early extinguishment of debt | (51.9) | (15.0) |
| Other-than-temporary impairment loss on investment in CS&L common stock | 181.9 | — |
| Amortization of unrealized losses on de-designated interest rate swaps | 3.0 | 10.0 |
| Plan curtailment | (5.5) | (16.5) |
| Other, net | 1.2 | (13.0) |
| Changes in operating assets and liabilities, net | | |
| Accounts receivable | (35.9) | (58.9) |
| Prepaid income taxes | (9.7) | 4.3 |
| Prepaid expenses and other | 17.9 | (9.1) |
| Accounts payable | (91.3) | (37.9) |
| Accrued interest | 14.8 | 34.2 |
| Accrued taxes | (6.4) | (2.0) |
| Other current liabilities | 18.3 | 8.2 |
| Other liabilities | (10.9) | (3.8) |
| Other, net | (10.5) | (40.8) |
| Net cash provided from operating activities | 622.1 | 756.3 |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (753.4) | (744.4) |
| Proceeds from the sale of property | 6.3 | — |
| Grant funds received for broadband stimulus projects | — | 23.5 |
| Network expansion funded by Connect America Fund - Phase I | — | (67.4) |
| Change in restricted cash | — | 6.7 |
| Other, net | (6.5) | 8.9 |
| Net cash used in investing activities | (753.6) | (772.7) |
| Cash Flows from Financing Activities: | | |
| Dividends paid to shareholders | (44.1) | (354.1) |
| Payment received from CS&L in spin-off | — | 1,035.0 |
| Repayments of debt and swaps | (2,919.6) | (2,098.6) |
| Proceeds of debt issuance | 3,340.0 | 1,620.0 |
| Debt issuance costs | (12.3) | (4.3) |
| Stock repurchases | (28.9) | (20.0) |
| Payments under long-term lease obligations | (113.2) | (59.3) |
| Payments under capital lease obligations | (53.1) | (24.7) |
| Other, net | (7.2) | (8.2) |

| | | |
|---|---|---|
| Net cash provided from financing activities | 161.6 | 85.8 |
| Increase in cash and cash equivalents | 30.1 | 69.4 |
| Cash and Cash Equivalents: | | |
| Beginning of period | 31.3 | 27.8 |
| End of period | $61.4 | $97.2 |
| Supplemental Cash Flow Disclosures: | | |
| Interest paid, net of interest capitalized | $629.3 | $545.0 |
| Income taxes paid, net | $8.3 | $0.8 |

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

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

| (Millions, except per share amounts) | Common Stock and Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ 602.9 | $ (284.4) | $ (12.1) | $306.4 |
| Net loss | — | — | (296.6) | (296.6) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in available-for-sale securities | — | 286.5 | — | 286.5 |
| Change in postretirement and pension plans | — | (3.5) | — | (3.5) |
| Amortization of unrealized losses on de-designated interest rate swaps | — | 1.9 | — | 1.9 |
| Change in designated interest rate swaps | — | (10.8) | — | (10.8) |
| Comprehensive income (loss) | — | 274.1 | (296.6) | (22.5) |
| Share-based compensation | 16.8 | — | — | 16.8 |
| Stock options exercised | 0.5 | — | — | 0.5 |
| Stock issued for management incentive compensation plans | 5.6 | — | — | 5.6 |
| Stock issued to employee savings plan (See Note 5) | 24.0 | — | — | 24.0 |
| Stock repurchases | (28.9) | — | — | (28.9) |
| Taxes withheld on vested restricted stock and other | (8.0) | — | — | (8.0) |
| Dividends of $.45 per share declared to shareholders | (43.6) | — | — | (43.6) |
| Balance at September 30, 2016 | $ 569.3 | $ (10.3) | $ (308.7) | $250.3 |

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions) | 2016 | 2015 | 2016 | 2015 |
| Revenues and sales: | | | | |
| Service revenues | $1,318.9 | $1,451.2 | $3,990.8 | $4,210.2 |
| Product sales | 26.0 | 47.4 | 87.1 | 128.1 |
| Total revenues and sales | 1,344.9 | 1,498.6 | 4,077.9 | 4,338.3 |
| Costs and expenses: | | | | |
| Cost of services (exclusive of depreciation and amortization included below) | 677.5 | 703.9 | 2,013.5 | 2,069.1 |
| Cost of products sold | 21.5 | 41.5 | 74.6 | 111.8 |
| Selling, general and administrative | 189.8 | 215.5 | 589.4 | 654.9 |
| Depreciation and amortization | 321.0 | 350.5 | 934.0 | 1,033.0 |
| Merger and integration costs | 2.9 | 3.1 | 10.5 | 74.5 |
| Restructuring charges | 2.5 | 5.3 | 12.8 | 15.7 |
| Total costs and expenses | 1,215.2 | 1,319.8 | 3,634.8 | 3,959.0 |
| Operating income | 129.7 | 178.8 | 443.1 | 379.3 |
| Dividend income on CS&L common stock | — | 17.6 | 17.6 | 30.6 |
| Other income (expense), net | 0.6 | (0.2) | (2.5) | 7.9 |
| Net (loss) gain on disposal of investment in CS&L common stock | (2.1) | — | 15.2 | — |
| Net (loss) gain on early extinguishment of debt | (20.1) | 7.6 | (18.0) | (35.8) |
| Other-than-temporary impairment loss on investment in CS&L common stock | — | — | (181.9) | — |
| Interest expense | (216.4) | (230.2) | (653.5) | (588.8) |
| Loss before income taxes | (108.3) | (26.4) | (380.0) | (206.8) |
| Income tax benefit | (42.3) | (19.4) | (84.3) | (94.7) |
| Net loss | $(66.0) | $(7.0) | $(295.7) | $(112.1) |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions) | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(66.0) | $(7.0) | $(295.7) | $(112.1) |
| Other comprehensive (loss) income: | | | | |
| Available-for-sale securities: | | | | |
| Unrealized holding (loss) gain arising during the period | — | (200.4) | 156.1 | (309.7) |
| Gain on disposal recognized in the period | — | — | (51.5) | — |
| Other-than-temporary impairment loss recognized in the period | — | — | 181.9 | — |
| Change in available-for-sale securities | — | (200.4) | 286.5 | (309.7) |
| Interest rate swaps: | | | | |
| Unrealized loss on designated interest rate swaps | (5.9) | (25.4) | (17.5) | (13.1) |
| Amortization of net unrealized losses on de-designated interest rate swaps | 0.8 | 2.9 | 3.0 | 10.0 |
| Income tax benefit | 1.9 | 8.7 | 5.6 | 1.2 |
| Change in interest rate swaps | (3.2) | (13.8) | (8.9) | (1.9) |
| Postretirement and pension plans: | | | | |
| Change in net actuarial gain (loss) for employee benefit plans | 0.1 | — | 0.5 | (0.6) |
| Plan curtailment | — | (3.0) | (5.5) | (16.4) |
| Amounts included in net periodic benefit cost: | | | | |
| Amortization of net actuarial loss | 0.1 | 0.2 | 0.2 | 0.7 |
| Amortization of prior service credits | (0.3) | (0.8) | (0.9) | (3.4) |
| Income tax benefit | — | 1.6 | 2.2 | 7.5 |
| Change in postretirement and pension plans | (0.1) | (2.0) | (3.5) | (12.2) |
| Other comprehensive (loss) income | (3.3) | (216.2) | 274.1 | (323.8) |
| Comprehensive loss | $(69.3) | $(223.2) | $(21.6) | $(435.9) |

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (Millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 61.4 | $ 31.3 |
| Accounts receivable (less allowance for doubtful accounts of $29.3 and $33.1, respectively) | 649.7 | 643.9 |
| Inventories | 80.3 | 79.5 |
| Prepaid expenses and other | 129.6 | 120.6 |
| Total current assets | 921.0 | 875.3 |
| Goodwill | 4,213.6 | 4,213.6 |
| Other intangibles, net | 1,365.3 | 1,504.7 |
| Net property, plant and equipment | 5,238.8 | 5,279.8 |
| Investment in CS&L common stock | — | 549.2 |
| Other assets | 84.9 | 95.5 |
| Total Assets | $ 11,823.6 | $ 12,518.1 |
| Liabilities and Member Equity | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 13.4 | $ 5.9 |
| Current portion of long-term lease obligations | 164.5 | 152.7 |
| Accounts payable | 327.8 | 430.1 |
| Advance payments and customer deposits | 183.9 | 193.9 |
| Payable to Windstream Holdings, Inc. | 14.9 | 15.1 |
| Accrued taxes | 77.6 | 84.1 |
| Accrued interest | 93.1 | 78.4 |
| Other current liabilities | 273.2 | 306.9 |
| Total current liabilities | 1,148.4 | 1,267.1 |
| Long-term debt | 4,852.7 | 5,164.6 |
| Long-term lease obligations | 4,875.7 | 5,000.4 |
| Deferred income taxes | 199.7 | 287.4 |
| Other liabilities | 496.8 | 492.2 |
| Total liabilities | 11,573.3 | 12,211.7 |
| Commitments and Contingencies (See Note 14) | | |
| Member Equity: | | |
| Additional paid-in capital | 565.8 | 600.3 |
| Accumulated other comprehensive loss | (10.3) | (284.4) |
| Accumulated deficit | (305.2) | (9.5) |
| Total member equity | 250.3 | 306.4 |
| Total Liabilities and Member Equity | $ 11,823.6 | $ 12,518.1 |

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

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

| | Nine Months Ended September 30, | |
|---|---|---|
| (Millions) | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net loss | $(295.7) | $(112.1) |
| Adjustments to reconcile net loss to net cash provided from operations: | | |
| Depreciation and amortization | 934.0 | 1,033.0 |
| Provision for doubtful accounts | 33.1 | 37.1 |
| Share-based compensation expense | 31.8 | 42.9 |
| Deferred income taxes | (80.0) | (103.3) |
| Net gain on disposal of investment in CS&L common stock | (15.2) | — |
| Noncash portion of net loss on early extinguishment of debt | (51.9) | (15.0) |
| Other-than-temporary impairment loss on investment in CS&L common stock | 181.9 | — |
| Amortization of unrealized losses on de-designated interest rate swaps | 3.0 | 10.0 |
| Plan curtailment | (5.5) | (16.5) |
| Other, net | 1.2 | (13.0) |
| Changes in operating assets and liabilities, net | | |
| Accounts receivable | (35.9) | (58.9) |
| Prepaid income taxes | (9.7) | 4.3 |
| Prepaid expenses and other | 17.9 | (9.1) |
| Accounts payable | (91.3) | (37.9) |
| Accrued interest | 14.8 | 34.2 |
| Accrued taxes | (6.4) | (2.0) |
| Other current liabilities | 18.3 | 8.2 |
| Other liabilities | (10.9) | (3.8) |
| Other, net | (10.5) | (40.8) |
| Net cash provided from operating activities | 623.0 | 757.3 |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (753.4) | (744.4) |
| Proceeds from the sale of property | 6.3 | — |
| Grant funds received for broadband stimulus projects | — | 23.5 |
| Network expansion funded by Connect America Fund - Phase I | — | (67.4) |
| Change in restricted cash | — | 6.7 |
| Other, net | (6.5) | 8.9 |
| Net cash used in investing activities | (753.6) | (772.7) |
| Cash Flows from Financing Activities: | | |
| Distributions to Windstream Holdings, Inc. | (73.9) | (375.1) |
| Payment received from CS&L in spin-off | — | 1,035.0 |
| Repayments of debt and swaps | (2,919.6) | (2,098.6) |
| Proceeds of debt issuance | 3,340.0 | 1,620.0 |
| Debt issuance costs | (12.3) | (4.3) |
| Payments under long-term lease obligations | (113.2) | (59.3) |
| Payments under capital lease obligations | (53.1) | (24.7) |
| Other, net | (7.2) | (8.2) |
| Net cash provided from financing activities | 160.7 | 84.8 |

| | | |
|---|---|---|
| Increase in cash and cash equivalents | 30.1 | 69.4 |
| Cash and Cash Equivalents: | | |
| Beginning of period | 31.3 | 27.8 |
| End of period | $61.4 | $97.2 |
| Supplemental Cash Flow Disclosures: | | |
| Interest paid, net of interest capitalized | $629.3 | $545.0 |
| Income taxes paid (refunded), net | $8.3 | $0.8 |

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

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

| (Millions) | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ 600.3 | $ (284.4 ) | $ (9.5 ) | $ 306.4 |
| Net loss | — | — | (295.7 ) | (295.7 ) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in available-for-sale securities | — | 286.5 | — | 286.5 |
| Change in postretirement and pension plans | — | (3.5 ) | — | (3.5 ) |
| Amortization of unrealized losses on de-designated interest rate swaps | — | 1.9 | — | 1.9 |
| Change in designated interest rate swaps | — | (10.8 ) | — | (10.8 ) |
| Comprehensive income (loss) | — | 274.1 | (295.7 ) | (21.6 ) |
| Share-based compensation | 16.8 | — | — | 16.8 |
| Stock options exercised | 0.5 | — | — | 0.5 |
| Stock issued for management incentive compensation plans | 5.6 | — | — | 5.6 |
| Stock issued to employee savings plan (See Note 5) | 24.0 | — | — | 24.0 |
| Taxes withheld on vested restricted stock and other | (8.0 ) | — | — | (8.0 ) |
| Distributions payable to Windstream Holdings, Inc. | (73.4 ) | — | — | (73.4 ) |
| Balance at September 30, 2016 | $ 565.8 | $ (10.3 ) | $ (305.2 ) | $ 250.3 |

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements:

In these consolidated financial statements, unless the context requires otherwise, the use of the terms “Windstream,” “we,” “us” or “our” shall refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Services, LLC, and the term “Windstream Services” shall refer to Windstream Services, LLC and its subsidiaries.

Organizational Structure –Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company and the parent of Windstream Services, LLC (“Windstream Services”). Windstream Holdings common stock trades on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Windstream Holdings owns a 100 percent interest in Windstream Services. Windstream Services and its guarantor subsidiaries are the sole obligors of all outstanding debt obligations and, as a result also file periodic reports with the Securities and Exchange Commission (“SEC”). Windstream Holdings is not a guarantor of nor subject to the restrictive covenants included in any of Windstream Services’ debt agreements. The Windstream Holdings board of directors and officers oversee both companies.

Description of Business – We are a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and wholesale customers across the United States. We offer bundled services, including broadband, security solutions, voice and digital television to consumers. We also provide data, cloud solutions, unified communications and managed services to business and enterprise clients. We supply core transport solutions on a local and long-haul fiber-optic network spanning approximately 129,000 miles.

Consumer service revenues are generated from the provisioning of high-speed Internet, voice and video services to consumers. Small business service revenues include revenues from integrated voice and data services, advanced data and traditional voice and long-distance services provided to small business customers. Wholesale revenues include revenues from other communications services providers for special access circuits and fiber connections, voice and data transport services, and revenues from the reselling of our services. Enterprise service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services provided to enterprise customers. Regulatory revenues include switched access revenues, federal and state Universal Service Fund (“USF”) revenues and amounts received from Connect America Fund - Phase II. Other service revenues include USF surcharge revenues, other miscellaneous services and consumer revenues generated in markets where we lease the connection to the customer premise.

Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2015, 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 statement of results of operations and financial condition for the interim periods presented 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, 2015, which was filed with the SEC on February 25, 2016.

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

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

There are no significant differences between the consolidated results of operations, financial condition, and cash flows of Windstream Holdings and those of Windstream Services other than for certain expenses incurred directly by Windstream Holdings principally consisting of audit, legal and board of director fees, NASDAQ listing fees, other shareholder-related costs, income taxes, common stock activity, and payables from Windstream Services to Windstream Holdings. Earnings per share data has not been presented for Windstream Services, because that entity has not issued publicly held common stock as defined in accordance with U.S. GAAP. Unless otherwise indicated, the note disclosures included herein pertain to both Windstream Holdings and Windstream Services.

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

Recently Issued Authoritative Guidance

Revenue Recognition – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to all periods presented in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect adjustment in the year of adoption. When issued, ASU 2014-09 was to be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption was not permitted.

In July 2015, the FASB deferred the effective date of ASU 2014-09 by one year to December 15, 2017 for annual reporting periods beginning after that date, or January 1, 2018, for calendar companies like Windstream. Entities are permitted to early adopt the standard, but not before the original effective date of December 15, 2016. We are in the process of determining the method of adoption and assessing the impact the new standard will have on our consolidated financial statements. We expect to adopt this standard effective January 1, 2018.

In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date for this ASU is the same as the effective date for ASU 2014-09. In conjunction with our assessment of ASU 2014-09, we are currently evaluating the impacts of this new guidance.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. In May 2016, the FASB also issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-10 provides more detailed guidance with respect to identifying performance obligations and accounting for licensing arrangements, including intellectual property licenses, royalties, license restrictions and renewals. ASU 2016-11 rescinds several SEC Staff announcements that are codified in Topic 605: Revenue Recognition, including, among other items, guidance relating to accounting for consideration given by a vendor to a customer, as well as accounting for shipping and handling fees and freight services. ASU 2016-12 provides clarification to Topic 606 on how to assess collectability, present sales tax, treat noncash consideration, and account for completed and modified contracts at the time of transition. ASU 2016-12 also clarifies that an entity retrospectively applying the guidance in Topic 606 is not required to disclose the effect of the accounting change in the period of adoption. The effective date and transition requirements for each of these amendments are the same as the effective date and transition requirements of ASU 2014-09. In conjunction with our assessment of ASU 2014-09, we are currently evaluating the impacts that these amendments will have on our consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

Fair Value Measurement Disclosures – In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent), which amends certain fair value measurement disclosures. The standard removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient and also removes certain related disclosure requirements. ASU 2015-07 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 31, 2015, with early adoption permitted. Adoption of ASU 2015-07 will impact certain annual disclosures related to our qualified pension plan assets, but otherwise is not expected to have a material impact on our consolidated financial statements.

Valuation of Inventory – In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The updated guidance requires that an entity should measure inventory valued using a first-in, first-out or average cost method at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 should be applied on a prospective basis and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. We do not expect that the adoption of ASU 2015-11 will have a material impact to our consolidated results of operations, financial position or cash flows.

Leases – In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require that virtually all lease arrangements that do not meet the criteria of a short-term lease be presented on the lessee’s balance sheet by recording a right-of-use asset and a lease liability equal to the present value of the related future lease payments. The income statement impacts of the leases will depend on the nature of the leasing arrangement and will be similar to existing accounting for operating and capital leases. The new standard does not substantially change the accounting for lessors. The new standard will also require additional disclosures regarding an entity’s leasing arrangements and will be effective for the first interim reporting period within annual periods beginning after December 15, 2018, although early adoption is permitted. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. We are currently assessing the timing of adoption and the impact the new standard will have on our consolidated financial statements.

Derivatives and Hedging – In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We do not expect that the adoption of ASU 2016-05 will have a material impact on our consolidated financial statements.

Employee Share-Based Payment Accounting – In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the new guidance all excess tax benefits and tax deficiencies, including tax benefits of dividends on share-based payment awards, should be recognized as income tax expense or benefit in the income statement, eliminating the notion of the APIC pool. The excess tax benefits will be classified as operating activities along with other income tax cash flows rather than financing activities in the statement of cash flows. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. ASU 2016-19 also allows entities to elect to either estimate the total number of awards that are expected to vest or account for forfeitures when they occur. Additionally, ASU 2016-09 clarifies that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements should be presented as a financing activity in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted. We are currently assessing the timing of adoption and the impact the new standard will have on our consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

Financial Instruments - Credit Losses – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This new standard also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019, and the guidance is to be applied using a modified retrospective transition approach. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2018. We are currently assessing the timing of adoption and the impact the new standard will have on our consolidated financial statements.

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows, including among others, debt prepayment and extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and distributions received from equity method investees. The standard also clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use of the underlying cash flows. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing the timing of adoption and the impact the new standard will have on our consolidated statement of cash flows.

2. Long-term Debt:

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

Long-term debt was as follows at:

| (Millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Issued by Windstream Services: | | |
| Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019 | $ 573.8 | $ 578.2 |
| Senior secured credit facility, Tranche B6 – variable rates, due March 29, 2021 (a) | 747.0 | — |
| Senior secured credit facility, Revolving line of credit – variable rates, due April 24, 2020 | 625.0 | 300.0 |
| Debentures and notes, without collateral: | | |
| 2017 Notes – 7.875%, due November 1, 2017 | — | 904.1 |
| 2020 Notes – 7.750%, due October 15, 2020 | 700.0 | 700.0 |
| 2021 Notes – 7.750%, due October 1, 2021 | 809.3 | 920.4 |
| 2022 Notes – 7.500%, due June 1, 2022 | 441.2 | 485.9 |
| 2023 Notes – 7.500%, due April 1, 2023 | 343.5 | 540.1 |
| 2023 Notes – 6.375%, due August 1, 2023 | 585.7 | 700.0 |
| Issued by subsidiaries of Windstream Services: | | |

| | | |
|---|---|---|
| Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028 (b) | 100.0 | 100.0 |
| (Discount) premium on long-term debt, net (c) | (5.9) | 4.6 |
| Unamortized debt issuance costs (c) | (53.5) | (62.8) |
| | 4,866.1 | 5,170.5 |
| Less current maturities | (13.4) | (5.9) |
| Total long-term debt | $ 4,852.7 | $ 5,164.6 |

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Long-term Debt, Continued:

(a) If the maturity of the revolving line of credit is not extended prior to April 24, 2020, the maturity date of the Tranche B6 term loan will be April 24, 2020; provided further, if the 2020 Notes have not been repaid or refinanced prior to July 15, 2020 with indebtedness having a maturity date no earlier than March 29, 2021, the maturity date of the Tranche B6 term loan will be July 15, 2020.

(b) These bonds are secured equally with the senior secured credit facility with respect to the assets of Windstream Holdings of the Midwest, Inc.

(c) The net (discount) premium balance and unamortized debt issuance costs are amortized using the interest method over the life of the related debt instrument.

Senior Secured Credit Facility - On March 29, 2016, Windstream Services executed an incremental amendment to its existing senior secured credit facility to provide for the issuance of an aggregate principal amount $600.0 million term loan under Tranche B6 due March 29, 2021, the proceeds of which were used to repurchase $441.1 million of outstanding 7.875 percent notes due November 1, 2017 (the “2017 Notes”) pursuant to a tender offer and to repay other debt obligations of Windstream Services along with related fees and expenses. The Tranche B6 term loan was issued at a discount of $15.0 million. Debt issuance costs associated with the Tranche B6 borrowings were $10.7 million, which were capitalized and will be amortized over the life of the term loan.

On September 30, 2016, Windstream Services repriced at par $597.0 million of borrowings outstanding under Tranche B6 and issued at par an incremental $150.0 million of borrowings under Tranche B6. In connection with the repricing, Windstream Services incurred $6.7 million in arrangement, legal and other fees. Based on an analysis of participating creditors, Windstream Services concluded that a portion of the repricing transaction should be accounted for as a new debt issuance, a portion as a debt modification, and the remainder as a debt extinguishment. As a result, $0.6 million of the arrangement, legal and other fees were recorded as debt issuance costs, with the remaining $6.1 million charged to interest expense in accordance with debt modification accounting. At the time of the repricing transaction, unamortized debt issuance and discount related to the original issuance of Tranche B6 term loan totaled $24.4 million, of which $3.1 million were included in the loss on debt extinguishment recognized in the third quarter of 2016, while the remaining $21.3 million continue to be deferred and amortized to interest expense over the remaining life of the term loan in accordance with debt modification accounting.

On April 24, 2015, Windstream Services had previously amended its existing senior secured credit facility to include a revolving line of credit in an aggregate principal amount of $1,250.0 million and Tranche B5 term loan. The amended credit facility provides that Windstream Services may seek to obtain incremental revolving or term loans in an unlimited amount subject to maintaining a maximum secured leverage ratio and other customary conditions, including obtaining commitments and pro forma compliance with financial maintenance covenants consisting of a maximum debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio and a minimum interest coverage ratio. In addition, Windstream Services may request extensions of the maturity date under any of its existing revolving or term loan facilities.

Interest rates applicable to the Tranche B5 term loan are, at Windstream Services’ option, equal to either a base rate plus a margin of 1.75 percent per annum or London Interbank Offered Rate (“LIBOR”) plus a margin of 2.75 percent per annum. LIBOR and the base rate for the Tranche B5 term loan shall at no time be less than 0.75 percent and 1.75 percent, respectively. As a result of the September 30, 2016 repricing discussed above, interest rates applicable to the Tranche B6 decreased 1.00 percent from LIBOR plus 5.00 percent per annum to LIBOR plus 4.00

percent per annum. Windstream Services retained the option to have interest on Tranche B6 be equal to a base rate plus a margin of 4.00 percent per annum. LIBOR and the base rate for the Tranche B6 term loan shall at no time be less than 0.75 percent and 4.00 percent, respectively. Tranche B5 and B6 term loans made under the credit facility are subject to quarterly amortization payments in an aggregate amount equal to 0.25 percent of the initial principal amount of such term loans, with the remaining balance payable on August 8, 2019 and March 29, 2021, respectively. The senior secured credit facility is guaranteed, jointly and severally, by certain of Windstream Services' wholly owned subsidiaries.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. Long-term Debt, Continued:

Revolving line of credit - As a result of the April 24, 2015 amendment to the credit facility, the maturity date of the revolving line of credit was extended to April 24, 2020. Windstream Services may obtain revolving loans and may issue up to $30.0 million of letters of credit, which upon issuance reduce the amount available for other extensions 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. Borrowings under the revolving line of credit may be used for permitted acquisitions, working capital and other general corporate purposes of Windstream Services and its subsidiaries. Windstream Services will pay a commitment fee on the unused portion of the commitments under the revolving credit facility that will range from 0.40 percent to 0.50 percent per annum, depending on the debt to consolidated EBITDA ratio of Windstream Services and its subsidiaries. Revolving loans made under the credit facility are not subject to interim amortization and such loans are not required to be repaid prior to April 24, 2020, other than to the extent the outstanding borrowings exceed the aggregate commitments under the revolving credit facility. Interest rates applicable to loans under the revolving line of credit are, at Windstream Services' option, equal to either a base rate plus a margin ranging from 0.25 percent to 1.00 percent per annum or LIBOR plus a margin ranging from 1.25 percent to 2.00 percent per annum, based on the debt to consolidated EBITDA ratio of Windstream Services and its subsidiaries.

During the first nine months of 2016, Windstream Services borrowed $2,605.0 million under the revolving line of credit in its senior secured credit facility and retired $2,280.0 million of these borrowings through September 30, 2016. Considering letters of credit of $24.2 million, the amount available for borrowing under the revolving line of credit was $600.8 million at September 30, 2016.

During the first nine months of 2016, the variable interest rate on the revolving line of credit ranged from 2.25 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.54 percent during the period. Comparatively, the variable interest rate ranged from 2.19 percent to 4.50 percent during the first nine months of 2015, with a weighted average rate on amounts outstanding during the period of 2.44 percent.

Completion of Debt-for-Equity Exchange - In connection with the spin-off of certain telecommunications network assets, including fiber and copper networks and other real estate, into an independent, publicly-traded real estate investment trust ("REIT"), Communications Sales & Leasing, Inc. ("CS&L"), completed on April 24, 2015, Windstream Services retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. In two separate transactions completed in June 2016, Windstream Services transferred all of its shares of CS&L common stock to its bank creditors in exchange for the retirement of $672.0 million of aggregate borrowings outstanding under its revolving line of credit and to satisfy transaction-related expenses. In completing the debt for equity exchange, Windstream Services recognized a net gain on the disposal of the CS&L common stock (see Note 9).

Debentures and Notes Repaid in 2016
2017 Notes - On September 30, 2016, Windstream Services redeemed the remaining $369.5 million aggregate principal amount outstanding of its 7.875 percent senior unsecured notes due November 1, 2017, (the "2017 Notes") at a redemption price of $396.4 million, which included a premium payable to creditors of $26.9 million. At the time of redemption, there was $2.7 million in unamortized net discount and debt issuance costs related to these notes.

During the first nine months of 2016, Windstream Services also repurchased $93.5 million aggregate principal amount of the 2017 Notes at a repurchase price of $97.8 million, including accrued and unpaid interest, under a debt repurchase program authorized by Windstream Services' board of directors. In addition, on March 29, 2016, Windstream Services repurchased $441.1 million aggregate principal amount of the 2017 Notes for total consideration of $477.5 million, plus accrued interest, pursuant to a cash tender offer. Under the tender offer, Windstream Services paid total consideration of $1,082.50 per $1,000 principal amount of the 2017 Notes, which included a $30 early tender payment, plus accrued and unpaid interest. At the time of the repurchases, there was $5.7 million in unamortized net discount and debt issuance costs related to the repurchased notes.

Proceeds from the issuance of the Tranche B6 term loan and available borrowings under the amended revolving line of credit were used to fund the redemption and repurchases of the 2017 Notes, which were accounted for as debt extinguishments.

2. Long-term Debt, Continued:

Partial Repurchase of Senior Notes - Pursuant to the debt repurchase program discussed above, during the first nine months of 2016, Windstream Services also repurchased in the open market $466.8 million aggregate principal amount of its senior unsecured notes consisting of the following:

- $111.1 million aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021, (the “2021 Notes”), at a repurchase price of $93.7 million, including accrued and unpaid interest;
- $44.8 million aggregate principal amount of 7.500 percent senior unsecured notes due June 1, 2022, (the “2022 Notes”), at a repurchase price of $36.2 million, including accrued and unpaid interest; and
- $196.6 million aggregate principal amount of 7.500 percent senior unsecured notes due April 1, 2023 and $114.3 million aggregate principal amount of 6.375 percent senior unsecured notes due August 1, 2023, (collectively the “2023 Notes”) at a repurchase price of $168.5 million and $99.6 million, including accrued and unpaid interest, respectively.

The repurchases were funded utilizing available borrowings under the amended revolving line of credit.

At the time of repurchase, there was $5.3 million in unamortized premium and debt issuance costs related to the repurchased notes. The partial repurchases were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized a net gain on the early extinguishment of these debt obligations.

Debentures and Notes Repaid in 2015

During the third quarter of 2015, Windstream Services repurchased in the open market an aggregate principal amount of $253.7 million of its 2017, 2021, 2022 and 2023 Notes. At the time of repurchase, there was $3.3 million in unamortized net discount and debt issuance costs related to the repurchased notes. The partial repurchase was accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized a total pretax gain of $7.6 million during the third quarter of 2015.

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

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

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

Windstream used a portion of the $1.035 billion cash payment received from CS&L in the spin-off of certain telecommunication network assets to redeem the 2018 Notes and the PAETEC 2018 Notes. The redemptions were accounted for as extinguishments and Windstream Services recognized a loss in connection with the early extinguishment of these two debt obligations.

In conjunction with the spin-off, Windstream completed a debt-for-debt exchange retiring $1.7 billion aggregate principal amount of borrowings outstanding under Tranches A3, A4 and B4 of Windstream Services' senior credit facility and $752.2 million aggregate principal amount of borrowings outstanding under the revolving line of credit. Following the completion of the debt-for-debt exchange, Windstream Services repaid the remaining $241.8 million aggregate principal amount of borrowings under Tranche B4. The debt-for-debt exchange and repayment were accounted for under the extinguishment method of accounting and, as a result, Windstream Services recognized a loss due to the extinguishment of the aforementioned debt obligations of $15.9 million in both the three and nine month periods ended September 30, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Long-term Debt, Continued:

Net (Loss) Gain on Early Extinguishment of Debt

The net (loss) gain on early extinguishment of debt was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions) | 2016 | 2015 | 2016 | 2015 |
| Senior secured credit facility: | | | | |
| Premium on early redemption | $ — | $ — | $ — | $ (6.6 ) |
| Third-party fees for early redemption | — | — | — | (0.7 ) |
| Unamortized discount on original issuance | (1.7) | — | (1.7) | |