WINDSTREAM HOLDINGS, INC.
Form 10-Q
May 07, 2015

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

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

For the quarterly period ended March 31, 2015
or

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Windstream Holdings, Inc. ý YES ¨ NO
Windstream Services, LLC ý YES ¨ NO

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

Windstream Services, LLC ý YES ¨ NO

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

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

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

As of April 30, 2015, 100,825,009 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 70.

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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 March 31,	
(Millions, except per share amounts)	2015	2014
Revenues and sales:		
Service revenues:		
Enterprise and small business	$740.9	$748.1
Consumer	312.2	313.0
Carrier	176.5	189.8
Wholesale	98.3	113.8
Other	53.9	55.0
Total service revenues	1,381.8	1,419.7
Product sales	36.8	45.2
Total revenues and sales	1,418.6	1,464.9
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	680.0	657.9
Cost of products sold	31.9	41.1
Selling, general and administrative	225.0	238.9
Depreciation and amortization	340.7	338.9
Merger and integration costs	14.1	7.9
Restructuring charges	7.0	12.4
Total costs and expenses	1,298.7	1,297.1
Operating income	119.9	167.8
Other (expense) income, net	(1.2)	0.9
Interest expense	(141.1)	(141.9)
(Loss) income before income taxes	(22.4)	26.8
Income tax (benefit) expense	(27.7)	10.8
Net income	$5.3	$16.0
Basic and diluted earnings per share:		
Net income	$.05	$.15

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

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

	Three Months Ended March 31,	
(Millions)	2015	2014
Net income	$5.3	$16.0
Other comprehensive (loss) income:		
Interest rate swaps:		
Changes in designated interest rate swaps	(8.6)	(6.9)
Amortization of unrealized losses on de-designated interest rate swaps	3.4	4.2
Income tax benefit	2.0	1.0
Unrealized holding loss on interest rate swaps	(3.2)	(1.7)
Postretirement and pension plans:		
Change in net actuarial gain for postretirement plan	—	(0.8)
Plan curtailment	—	(9.5)
Amounts included in net periodic benefit cost:		
Amortization of net actuarial loss	0.2	—
Amortization of prior service credits	(1.3)	(1.7)
Income tax benefit	0.2	4.5
Change in postretirement and pension plans	(0.9)	(7.5)
Other comprehensive loss	(4.1)	(9.2)
Comprehensive income	$1.2	$6.8

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)	March 31, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$74.0	$27.8
Restricted cash	7.1	6.7
Accounts receivable (less allowance for doubtful accounts of $42.3 and $43.4, respectively)	658.5	635.5
Inventories	63.0	63.7
Deferred income taxes	91.7	105.4
Prepaid expenses and other	171.6	164.6
Total current assets	1,065.9	1,003.7
Goodwill	4,352.8	4,352.8
Other intangibles, net	1,710.5	1,764.0
Net property, plant and equipment	5,315.0	5,412.3
Other assets	174.9	180.6
Total Assets	$12,619.1	$12,713.4
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current maturities of long-term debt	$92.5	$717.5
Current portion of interest rate swaps	28.5	28.5
Accounts payable	332.0	403.3
Advance payments and customer deposits	214.5	214.7
Accrued dividends	151.7	152.4
Accrued taxes	84.3	95.2
Accrued interest	170.4	102.5
Other current liabilities	282.4	328.9
Total current liabilities	1,356.3	2,043.0
Long-term debt	8,728.1	7,934.2
Deferred income taxes	1,828.8	1,878.6
Other liabilities	610.9	632.8
Total liabilities	12,524.1	12,488.6
Commitments and Contingencies (See Note 6)		
Shareholders’ Equity:		
Common stock, $.0001 par value, 166.7 shares authorized, 100.8 and 100.5 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	86.9	212.6
Accumulated other comprehensive income	8.0	12.1
Retained earnings	—	—
Total shareholders’ equity	95.0	224.8
Total Liabilities and Shareholders’ Equity	$12,619.1	$12,713.4

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

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

	Three Months Ended March 31,	
(Millions)	2015	2014
Cash Provided from Operations:		
Net income	$5.3	$16.0
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	340.7	338.9
Provision for doubtful accounts	10.3	12.3
Share-based compensation expense	14.8	13.7
Deferred income taxes	(33.8)	9.3
Amortization of unrealized losses on de-designated interest rate swaps	3.4	4.2
Plan curtailment and other, net	6.9	(4.9)
Changes in operating assets and liabilities, net		
Accounts receivable	(33.3)	(9.7)
Prepaid income taxes	7.8	5.6
Prepaid expenses and other	(24.8)	(20.1)
Accounts payable	(64.2)	(46.1)
Accrued interest	67.4	66.0
Accrued taxes	(10.9)	(15.2)
Other current liabilities	(43.2)	(32.4)
Other liabilities	(2.6)	(3.3)
Other, net	—	(14.5)
Net cash provided from operations	243.8	319.8
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(189.3)	(153.0)
Broadband network expansion funded by stimulus grants	—	(7.1)
Changes in restricted cash	(0.4)	(0.9)
Grant funds received for broadband stimulus projects	7.4	11.4
Grant funds received from Connect America Fund - Phase I	—	26.0
Network expansion funded by Connect America Fund - Phase I	(8.3)	—
Other, net	(2.1)	—
Net cash used in investing activities	(192.7)	(123.6)
Cash Flows from Financing Activities:		
Dividends paid to shareholders	(151.5)	(150.2)
Repayments of debt and swaps	(325.4)	(331.6)
Proceeds of debt issuance	490.0	325.0
Payments under capital lease obligations	(11.2)	(7.8)
Other, net	(6.8)	(9.8)
Net cash used in financing activities	(4.9)	(174.4)
Increase in cash and cash equivalents	46.2	21.8
Cash and Cash Equivalents:		
Beginning of period	27.8	48.2
End of period	$74.0	$70.0
Supplemental Cash Flow Disclosures:		
Interest paid	$74.7	$74.7
Income taxes refunded, net	$(1.2)	$(1.0)

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

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

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2014	$212.7	$12.1	$—	$224.8
Net income	—	—	5.3	5.3
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(0.9)	—	(0.9)
Amortization of unrealized losses on de-designated interest rate swaps	—	2.0	—	2.0
Changes in designated interest rate swaps	—	(5.2)	—	(5.2)
Comprehensive (loss) income	—	(4.1)	5.3	1.2
Share-based compensation expense (See Note 8)	5.0	—	—	5.0
Stock issued to employee savings plan (See Note 7)	21.6	—	—	21.6
Taxes withheld on vested restricted stock and other	(7.1)	—	—	(7.1)
Dividends of $1.50 per share declared to shareholders	(145.2)	—	(5.3)	(150.5)
Balance at March 31, 2015	$87.0	$8.0	$—	$95.0

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 March 31,	
(Millions)	2015	2014
Revenues and sales:		
Service revenues:		
Enterprise and small business	$740.9	$748.1
Consumer	312.2	313.0
Carrier	176.5	189.8
Wholesale	98.3	113.8
Other	53.9	55.0
Total service revenues	1,381.8	1,419.7
Product sales	36.8	45.2
Total revenues and sales	1,418.6	1,464.9
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization included below)	680.0	657.9
Cost of products sold	31.9	41.1
Selling, general and administrative	224.4	238.4
Depreciation and amortization	340.7	338.9
Merger and integration costs	14.1	7.4
Restructuring charges	7.0	12.9
Total costs and expenses	1,298.1	1,296.6
Operating income	120.5	168.3
Other (expense) income, net	(1.2)	0.9
Interest expense	(141.1)	(141.9)
(Loss) income before income taxes	(21.8)	27.3
Income tax (benefit) expense	(27.4)	11.0
Net income	$5.6	$16.3

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

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

	Three Months Ended March 31,	
(Millions)	2015	2014
Net income	$5.6	$16.3
Other comprehensive (loss) income:		
Interest rate swaps:		
Changes in designated interest rate swaps	(8.6)	(6.9)
Amortization of unrealized losses on de-designated interest rate swaps	3.4	4.2
Income tax benefit	2.0	1.0
Unrealized holding loss on interest rate swaps	(3.2)	(1.7)
Postretirement and pension plans:		
Change in net actuarial gain for postretirement plan	—	(0.8)
Plan curtailment	—	(9.5)
Amounts included in net periodic benefit cost:		
Amortization of net actuarial loss	0.2	—
Amortization of prior service credits	(1.3)	(1.7)
Income tax benefit	0.2	4.5
Change in postretirement and pension plans	(0.9)	(7.5)
Other comprehensive loss	(4.1)	(9.2)
Comprehensive income	$1.5	$7.1

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

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WINDSTREAM SERVICES, LLC
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions, except number of shares)	March 31, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$74.0	$27.8
Restricted cash	7.1	6.7
Accounts receivable (less allowance for doubtful accounts of $42.3 and $43.4, respectively)	658.5	635.5
Inventories	63.0	63.7
Deferred income taxes	91.7	105.4
Prepaid expenses and other	171.6	164.6
Total current assets	1,065.9	1,003.7
Goodwill	4,352.8	4,352.8
Other intangibles, net	1,710.5	1,764.0
Net property, plant and equipment	5,315.0	5,412.3
Other assets	174.9	180.6
Total Assets	$12,619.1	$12,713.4
Liabilities and Member Equity		
Current Liabilities:		
Current maturities of long-term debt	$92.5	$717.5
Current portion of interest rate swaps	28.5	28.5
Accounts payable	332.0	403.3
Advance payments and customer deposits	214.5	214.7
Payable to Windstream Holdings, Inc.	151.7	152.4
Accrued taxes	84.3	95.2
Accrued interest	170.4	102.5
Other current liabilities	282.4	328.9
Total current liabilities	1,356.3	2,043.0
Long-term debt	8,728.1	7,934.2
Deferred income taxes	1,828.8	1,878.6
Other liabilities	610.9	632.8
Total liabilities	12,524.1	12,488.6
Commitments and Contingencies (See Note 6)		
Member Equity:		
Additional paid-in capital	87.0	212.7
Accumulated other comprehensive income	8.0	12.1
Retained earnings	—	—
Total member equity	95.0	224.8
Total Liabilities and Member Equity	$12,619.1	$12,713.4

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

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

(Millions)	Three Months Ended March 31, 2015	2014
Cash Provided from Operations:		
Net income	$5.6	$16.3
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	340.7	338.9
Provision for doubtful accounts	10.3	12.3
Share-based compensation expense	14.8	13.7
Deferred income taxes	(33.8)	9.3
Amortization of unrealized losses on de-designated interest rate swaps	3.4	4.2
Plan curtailment and other, net	6.9	(4.9)
Changes in operating assets and liabilities, net		
Accounts receivable	(33.3)	(9.7)
Prepaid income taxes	7.8	5.6
Prepaid expenses and other	(24.8)	(20.1)
Accounts payable	(64.2)	(46.1)
Accrued interest	67.4	66.0
Accrued taxes	(10.9)	(15.0)
Other current liabilities	(43.2)	(32.4)
Other liabilities	(2.6)	(3.3)
Other, net	—	(14.5)
Net cash provided from operations	244.1	320.3
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(189.3)	(153.0)
Broadband network expansion funded by stimulus grants	—	(7.1)
Changes in restricted cash	(0.4)	(0.9)
Grant funds received for broadband stimulus projects	7.4	11.4
Grant funds received from Connect America Fund - Phase I	—	26.0
Network expansion funded by Connect America Fund - Phase I	(8.3)	—
Other, net	(2.1)	—
Net cash used in investing activities	(192.7)	(123.6)
Cash Flows from Financing Activities:		
Distributions to Windstream Holdings, Inc.	(151.8)	(150.7)
Repayments of debt and swaps	(325.4)	(331.6)
Proceeds of debt issuance	490.0	325.0
Payments under capital lease obligations	(11.2)	(7.8)
Other, net	(6.8)	(9.8)
Net cash used in financing activities	(5.2)	(174.9)
Increase in cash and cash equivalents	46.2	21.8
Cash and Cash Equivalents:		
Beginning of period	27.8	48.2
End of period	$74.0	$70.0
Supplemental Cash Flow Disclosures:		
Interest paid	$74.7	$74.7
Income taxes refunded, net	$(1.2)	$(1.0)

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

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

(Millions, except per share amounts)	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2014	$212.7	$12.1	$—	$224.8
Net income	—	—	5.6	5.6
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(0.9)	—	(0.9)
Amortization of unrealized losses on de-designated interest rate swaps	—	2.0	—	2.0
Changes in designated interest rate swaps	—	(5.2)	—	(5.2)
Comprehensive (loss) income	—	(4.1)	5.6	1.5
Share-based compensation expense (See Note 8)	5.0	—	—	5.0
Stock issued to employee savings plan (See Note 7)	21.6	—	—	21.6
Taxes withheld on vested restricted stock and other	(7.1)	—	—	(7.1)
Distributions payable to Windstream Holdings, Inc.	(145.2)	—	(5.6)	(150.8)
Balance at March 31, 2015	$87.0	$8.0	$—	$95.0

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements:

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

Organizational Structure –Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company and the parent of Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation. Windstream Holdings common stock trades on the Nasdaq Global Select Market under the ticker symbol “WIN”. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). As a result, all issued and outstanding common stock of Windstream Corporation held by Windstream Holdings was converted into a 100 percent interest in Windstream Services. The conversion of Windstream Services to a LLC has been accounted for as a change in reporting entity and accordingly, the historical equity presentation of Windstream Services reflect the effect of the LLC conversion for all periods presented. Windstream Services and its guarantor subsidiaries are the sole obligors of all outstanding debt obligations and, as a result also file periodic reports with the Securities and Exchange Commission (“SEC”). Windstream Holdings is not a guarantor of nor subject to the restrictive covenants included in any of Windstream Services’ debt agreements. The Windstream Holdings board of directors and officers oversee both companies.

As further discussed in Note 13, on April 24, 2015, we completed the spin-off certain telecommunications network assets, including our fiber and copper networks and other real estate into an independent, publicly traded real estate investment trust (“REIT”). Upon completion of the spin-off, we amended our certificate of incorporation to decrease the number of authorized shares of common stock from 1.0 billion to 166.7 million and enacted a one-for-six reverse stock split with respect to all of our outstanding shares of common stock which became effective on April 26, 2015. All share data of Windstream Holdings presented has been retrospectively adjusted to reflect the effects of the decrease in its authorized shares and the reverse stock split, as appropriate.

Description of Business – We are a leading provider of advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers primarily in rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 121,000 miles, a robust business sales division and 27 data centers offering managed services and cloud computing.

Enterprise and small 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. Carrier revenues include revenues from other carriers for special access circuits and fiber connections as well as voice and data services sold on a wholesale basis. 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 and Universal Service Fund (“USF”) revenues. Other service revenues include USF surcharge revenues, other miscellaneous services and consumer revenues generated in markets where we lease the connection to the customer premise. We no longer offer new consumer service in those areas.

Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2014, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. In our opinion, these financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 24, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Preparation of Interim Financial Statements, Continued:

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

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

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

Revision to Prior Period Financial Statements

During the first quarter of 2015, as a result of the recent change in our executive management team, we have begun to reorganize the way in which we will manage our business for purposes of operating decisions and assessing profitability. In undertaking this reorganizational effort, which has yet to be completed, management became aware of and corrected for the immaterial misclassification of certain operating expenses. The previously reported amounts included certain costs related to customer service delivery, customer care and field operations that had been classified as selling, general and administrative expense and should have been reported as cost of services. These revisions did not impact previously reported operating income, net income or comprehensive income.

The following tables present the effect of the revisions to Windstream Holdings' consolidated statements of operations for the three months ended March 31, 2014 and the annual periods ended December 31, 2014, 2013 and 2012.

	Three Months Ended March 31, 2014			Year Ended December 31, 2014		
(Millions)	As Previously Reported	Effect of Revision	As Revised	As Previously Reported	Effect of Revision	As Revised
Cost of services	$644.6	$13.3	$657.9	$2,719.3	$54.0	$2,773.3
	252.2	(13.3)	238.9	983.8	(54.0)	929.8

Selling, general and administrative

	Year Ended December 31, 2013			Year Ended December 31, 2012		
(Millions)	As Previously Reported	Effect of Revision	As Revised	As Previously Reported	Effect of Revision	As Revised
Cost of services	$2,492.1	$49.1	$2,541.2	$2,692.2	$43.5	$2,735.7
Selling, general and administrative	923.4	(49.1)	874.3	967.3	(43.5)	923.8

The effect of the revisions to Windstream Services' consolidated statements of operations would be the same for all periods presented. We evaluated the materiality of these revisions and have determined they were not material to any prior period. Upon completion of our reorganizational efforts, we will reassess our segment reporting during the second quarter of 2015.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Preparation of Interim Financial Statements, Continued:

Recently Issued Authoritative Guidance

Presentation of Debt Issuance Costs – In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The standard outlines a simplified presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Debt issuance costs totaling $84.0 million and $87.7 million were included in other assets in our accompanying consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively. In connection with the debt-for-debt exchange and redemption of long-term debt further discussed in Note 13, we expect to write off approximately $13.0 million of unamortized debt issuance costs. Upon adoption of ASU 2015-03, the remaining unamortized debt issuance costs will be reflected as a reduction of long-term debt.

Revenue Recognition – In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. ASU 2014-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. 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. On April 29, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of 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.

2. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets has been recorded as goodwill. In accordance with authoritative guidance, goodwill is to be assigned to a company's reporting units and tested for impairment at least annually using a consistent measurement date, which for us is January 1st of each year. Goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit for which discrete financial information is available and our executive management team regularly reviews the operating results of that component. Additionally, components of an operating segment can be combined as a single reporting unit if the components have similar economic characteristics. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit’s goodwill. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. Prior to performing the two step evaluation, an entity has the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. Under the qualitative assessment, if an entity determines that it is more likely than not that a reporting unit’s fair value exceeds its carrying value, then the entity is not required to complete the two step goodwill impairment evaluation.

As of January 1, 2015, we have three reporting units, excluding corporate level activities. In performing our annual goodwill impairment assessment, we estimated the fair value of each of our three reporting units utilizing both an income approach and a market approach. The income approach is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows of the reporting unit beyond the cash flows from the discrete projection period of five years. We discounted the estimated cash flows for each of the reporting units using a rate that represents a market participant’s weighted average cost of capital commensurate with the reporting unit’s underlying business operations. The market approach included the use of comparable multiples of publicly traded companies operating in businesses similar to ours. We also reconciled the estimated fair value of our reporting units to our total market capitalization.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Goodwill and Other Intangible Assets, Continued:

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

As previously discussed, as a result of recent changes in our executive management team, we have begun to reorganize the way in which we manage our business and will reassess our reporting unit structure during the second quarter of 2015.

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

Other intangible assets were as follows at:

(Millions)	March 31, 2015 Gross Cost	Accumulated Amortization	Net Carrying Value	December 31, 2014 Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	$1,285.1	$(254.0)	$1,031.1	$1,285.1	$(243.3)	$1,041.8
Customer lists	1,914.0	(1,249.8)	664.2	1,914.0	(1,203.4)	710.6
Cable franchise rights	39.8	(28.5)	11.3	39.8	(28.2)	11.6
Other (a)	42.0	(38.1)	3.9	37.9	(37.9)	—
Balance	$3,280.9	$(1,570.4)	$1,710.5	$3,276.8	$(1,512.8)	$1,764.0

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

Intangible asset amortization methodology and useful lives were as follows as of March 31, 2015:

Intangible Assets	Amortization Methodology	Estimated Useful Life
Franchise rights	straight-line	30 years
Customer lists	sum-of-years-digits	9 - 15 years
Cable franchise rights	straight-line	15 years
Other	straight-line	1 - 3 years

Amortization expense for intangible assets subject to amortization was $57.6 million for the three month period ended March 31, 2015, as compared to $65.6 million for the same period in 2014. Amortization expense for intangible assets subject to amortization was estimated to be as follows for each of the twelve month periods ended March 31:

Year	(Millions)
2016	$215.2
2017	187.1
2018	159.1
2019	131.3
2020	106.2
Thereafter	911.6
Total	$1,710.5

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Long-term Debt and Lease Obligations:

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

Long-term debt was as follows at:

(Millions)	March 31, 2015	December 31, 2014
Issued by Windstream Services:		
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016 (a)	$333.5	$344.3
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017 (a)	247.5	255.0
Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020 (a)	1,314.7	1,318.1
Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019	582.6	584.1
Senior secured credit facility, Revolving line of credit – variable rates, due December 17, 2015 (b)	820.0	625.0
Debentures and notes, without collateral:		
2017 Notes – 7.875%, due November 1, 2017	1,100.0	1,100.0
2018 Notes – 8.125%, due September 1, 2018 (c)	400.0	400.0
2020 Notes – 7.750%, due October 15, 2020	700.0	700.0
2021 Notes – 7.750%, due October 1, 2021	950.0	950.0
2022 Notes – 7.500%, due June 1, 2022	500.0	500.0
2023 Notes – 7.500%, due April 1, 2023	600.0	600.0
2023 Notes – 6.375%, due August 1, 2023	700.0	700.0
Issued by subsidiaries of Windstream Services:		
Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028	100.0	100.0
Cinergy Communications Company – 6.58%, due January 1, 2022 (d)	1.9	1.9
Debentures and notes, without collateral:		
PAETEC 2018 Notes – 9.875%, due December 1, 2018 (c)	450.0	450.0
Premium on long-term debt, net	20.4	23.3
	8,820.6	8,651.7
Less current maturities	(92.5)	(717.5)
Total long-term debt	$8,728.1	$7,934.2

(a) Subsequent to March 31, 2015, the debt obligation was retired in connection with completion of the debt-for-debt exchange (see Note 13).

(b) On April 24, 2015, Windstream Services amended the revolving line of credit and extended its maturity to April 24, 2020. In connection with the debt-for-debt exchange, Windstream Services retired $752.2 million of borrowings outstanding under the revolving line of credit. Immediately following the completion of the spin-off, Windstream Services had borrowings outstanding under the amended revolving line of credit of approximately $277.8 million (see Note 13).

(c) On April, 24, 2015, Windstream Services called for the redemption of these notes on May 27, 2015 (see Note 13).

(d) Note was repaid on April 24, 2015 utilizing available borrowings under the amended revolving line of credit.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Senior Secured Credit Facility

Revolving Line of Credit - During the first three months of 2015, Windstream Services borrowed $490.0 million under the revolving line of credit in its senior secured credit facility and repaid $295.0 million of these borrowings through March 31, 2015. Letters of credit are deducted in determining the total amount available for borrowing under the revolving line of credit. Accordingly, the total amount outstanding under the letters of credit and the indebtedness incurred under the revolving line of credit may not exceed $1,250.0 million. Considering letters of credit of $20.8 million, the amount available for borrowing under the revolving line of credit was $409.2 million at March 31, 2015.

During the first quarter of 2015, the variable interest rate on the revolving line of credit ranged from 2.41 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.52 percent during the period. Comparatively, the variable interest rate ranged from 2.41 percent to 4.50 percent during the first three months of 2014, with a weighted average rate on amounts outstanding during the period of 2.53 percent.

Debt Compliance

The terms of Windstream Services' credit facility and indentures include customary covenants that, among other things, require maintenance of certain financial ratios and restrict Windstream Services' ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.5 to 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. In addition, the covenants include restrictions on dividend and certain other types of payments. The terms of the indentures assumed in connection with the acquisition of PAETEC Holding Corp. ("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 March 31, 2015, Windstream Services was in compliance with all of these covenants.

In addition, certain of Windstream Services' debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under Windstream Services' long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more interest in Windstream Services, or breach of certain other conditions set forth in the borrowing agreements. Windstream Services and its subsidiaries were in compliance with these covenants as of March 31, 2015.

Maturities for long-term debt outstanding as of March 31, 2015, excluding $20.4 million of unamortized net premium, were as follows for each of the twelve month periods ended March 31:

Year	(Millions)
2016	$912.5
2017	339.9
2018	1,306.9
2019	869.5
2020	1,820.1
Thereafter	3,551.3
Total	$8,800.2

Capital Lease Obligations

We lease facilities, equipment and software for use in our operations. These facilities and equipment are included in outside communications plant in property, plant and equipment in the accompanying consolidated balance sheets. Lease agreements that include a bargain purchase option, transfer of ownership, contractual lease term equal to or greater than 75 percent of the remaining estimated economic life of the leased facilities or equipment or minimum lease payments equal to or greater than 90 percent of the fair value of the leased facilities or equipment are accounted for as capital leases in accordance with authoritative guidance for capital leases. These capital lease obligations are included in the accompanying consolidated balance sheets within other current liabilities and other liabilities. During the three month periods ended March 31, 2015 and 2014, we acquired assets under capital leases of $4.2 million and $5.1 million, respectively.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Future minimum lease payments under capital lease obligations were as follows for each of the twelve month periods ended March 31:

Year	(Millions)
2016	$31.9
2017	17.0
2018	2.1
2019	0.6
2020	0.6
Thereafter	1.7
Total future payments	53.9
Less: Amounts representing interest	3.8
Present value of minimum lease payments	$50.1

Other Lease Obligations

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

Due to various forms of continuing involvement, including Windstream Services' benefit from the future appreciation of the property, the transaction has been accounted for as a failed contribution-leaseback. Accordingly, the properties continue to be reported as assets of Windstream and depreciated over their remaining useful lives until termination of the lease agreement. We recorded a long-term lease obligation equal to the fair value of the properties at the date of contribution. No gain or loss was recognized on the contribution. As lease payments are made to the Windstream Pension Plan, a portion of the payment will be applied to the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method. At March 31, 2015 and December 31, 2014, the total lease obligation was $81.1 million and $81.0 million, respectively, and was included within other current liabilities and other liabilities in the accompanying consolidated balance sheet.

Future minimum payments during the initial terms of the leases were as follows for each of the twelve month periods ended March 31:

Year	(Millions)
2016	$6.4
2017	6.6
2018	6.8
2019	6.9
2020	7.1
Thereafter	90.2
Total	$124.0

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Interest Expense

Interest expense was as follows for the three month periods ended March 31:

	Three Months Ended	
(Millions)	2015	2014
Interest expense related to long-term debt	$133.6	$134.5
Impact of interest rate swaps	6.6	7.4
Interest on capital and other lease obligations	2.4	1.1
Less capitalized interest expense	(1.5)	(1.1)
Total interest expense	$141.1	$141.9

4. Derivatives:

Windstream Services has entered into the following interest rate swap agreements to mitigate the interest rate risk inherent in its variable rate senior secured credit facility. Derivative instruments are accounted for in accordance with authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on whether the derivative has been designated as, qualifies as and is effective as a hedge. Changes in fair value of the effective portions of cash flow hedges are recorded as a component of other comprehensive income (loss) in the current period. Any ineffective portion of the hedges is recognized in earnings in the current period.

In 2006, Windstream Services entered into four pay fixed, receive variable interest rate swap agreements to serve as cash flow hedges of the interest rate risk inherent in its senior secured credit facility. Windstream Services renegotiated the four interest rate swap agreements in December 2010, and again in August 2012, each time lowering the fixed interest rate paid and extending the maturity. As a result of the August 2012 transaction, Windstream Services reduced its fixed interest rate paid from 4.553 percent to 3.391 percent. The fixed interest rate paid includes a component which serves to settle the liability existing on Windstream Services swaps at the time of the transaction. The variable rate received resets on the seventeenth day of each month to the one-month London Interbank Offered Rate (“LIBOR”). The swaps had a notional value of $900.0 million as of March 31, 2015, which will remain unchanged until maturity on October 17, 2019.

In May 2013, Windstream Services entered into six new pay fixed, receive variable interest rate swap agreements, designated as cash flow hedges of the previously unhedged interest rate risk inherent in its senior secured credit facility. These swaps have a fixed notional value of $750.0 million and mature on June 17, 2016. The fixed rate paid ranges from 1.026 to 1.040 percent plus a fixed spread of 2.750 percent. The variable rate received resets on the seventeenth day of each month to the one-month LIBOR subject to a minimum rate of 0.750 percent.

The current swaps are designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable rate cash flows paid on Windstream Services’ senior secured credit facility, which have varying maturity dates from December 30, 2016 to January 23, 2020. The swaps are hedging probable variable cash flows which extend up to four years beyond the maturity of certain components of the variable rate debt. Consistent with past practice, Windstream Services expects to extend or otherwise replace these components of its debt with variable rate debt.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Derivatives, Continued:

All derivative instruments are recognized at fair value in the accompanying consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the related contracts.

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

(Millions, except for percentages)	March 31, 2015		December 31, 2014	
Designated portion, measured at fair value:				
Other assets	$—		$0.4	
Other current liabilities	$28.5		$28.5	
Other non-current liabilities	$54.7		$48.7	
Accumulated other comprehensive (loss) income	$(3.7	)	$4.9	
De-designated portion, unamortized value:				
Accumulated other comprehensive loss	$(5.5	)	$(8.8	)
Weighted average fixed rate paid	3.57	%	3.57	%
Variable rate received	0.17	%	0.16	%

Derivatives are assessed for effectiveness each quarter and any ineffectiveness is recognized in other (expense) income, net in our consolidated statements of operations. Ineffectiveness recognized on the cash flow hedges was $(2.3) million for the three month period ended March 31, 2015. Comparatively, there was no ineffectiveness recognized for the three month period ended March 31, 2014.

Windstream Services' original four swaps are off-market swaps, meaning they contain an embedded financing element, which the swap counterparties recover through an incremental charge in the fixed rate over what would be charged for an on-market swap. As such, a portion of the cash payment on the swaps represents the rate that Windstream Services would pay on a hypothetical on- market interest rate swap and is recognized in interest expense. The remaining portion represents the repayment of the embedded financing element and reduces the swap liability.

All or a portion of the change in fair value of Windstream Services' interest rate swap agreements recorded in accumulated other comprehensive income may be recognized in earnings in certain situations. If Windstream Services extinguishes all of its variable rate debt, or a portion of its variable rate debt such that the variable rate interest received on the swaps exceeds the variable rate interest paid on its debt, all or a portion of the change in fair value of the swaps would be recognized in earnings. In addition, the change in fair value of the swaps may be recognized in earnings if Windstream Services determines it is no longer probable that it will have future variable rate cash flows to hedge against or if a swap agreement is terminated prior to maturity. Windstream Services has assessed the counterparty risk and determined that no substantial risk of default exists as of March 31, 2015. Each counterparty is a bank with a current credit rating at or above A.

Windstream Services expects to recognize losses of $5.0 million, net of taxes, in interest expense in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements at March 31, 2015. Payments on the swaps are presented in the financing activities section of the accompanying consolidated statements of cash flows due to the embedded financing element discussed above.

Changes in the value of these derivative instruments were as follows for the three month periods ended March 31:

(Millions)	2015		2014	
Changes in fair value of effective portion, net of tax (a)	$(5.2	)	$(4.3	)

Amortization of unrealized losses on de-designated interest rate swaps, net of tax (a)	$2.0	$2.6

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Derivatives, Continued:

The agreements with each of the derivative counterparties contain cross-default provisions, whereby if Windstream Services were to default on certain indebtedness, it could also be declared in default on its derivative obligations and may be required to net settle any outstanding derivative liability positions with its counterparties. In addition, certain of the agreements with the counterparties contain provisions where if a specified event or condition, such as a merger, occurs that materially changes Windstream Services' creditworthiness in an adverse manner, Windstream Services may be required to fully collateralize its derivative obligations. At March 31, 2015, Windstream Services had not posted any collateral related to its interest rate swap agreements.

Balance Sheet Offsetting

Windstream Services is party to master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with counterparties. For financial statement presentation purposes, Windstream Services does not offset assets and liabilities under these arrangements.

The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of March 31, 2015 and December 31, 2014. As of March 31, 2015, all swap agreements with counterparties were in a liability position and, accordingly, there were no assets to be recognized in the accompanying consolidated balance sheet as of that date.

Information pertaining to derivative assets was as follows:

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

Information pertaining to derivative liabilities was as follows:

			Gross Amounts Not Offset in the Consolidated Balance Sheets		
(Millions)	Gross Amount of Recognized Liabilities	Net Amount of Liabilities presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2015:					
Interest rate swaps	$83.2	$83.2	$—	$—	$83.2
December 31, 2014:					
Interest rate swaps	$77.2	$77.2	$(0.3)	$—	$76.9

As further discussed in Note 13, in conjunction with the spin-off, Windstream Services terminated seven of its interest rate swaps.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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5. Fair Value Measurements:

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

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Observable inputs other than quoted prices in active markets for identical assets or liabilities
Level 3 – Unobservable inputs

The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority is given to unobservable inputs (level 3 measurement). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Our non-financial assets and liabilities, including property, plant and equipment, goodwill, intangible assets and asset retirement obligations, are measured at fair value on a non-recurring basis. No event occurred during the three month period ended March 31, 2015 requiring these non-financial assets and liabilities to be subsequently recognized at fair value. Our financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, restricted cash, accounts receivable and accounts payable was estimated by management to approximate fair value due to the relatively short period of time to maturity for those instruments. Cash equivalents, long-term debt and interest rate swaps are measured at fair value on a recurring basis. Cash equivalents were not significant as of December 31, 2014.

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

(Millions)	March 31, 2015	December 31, 2014
Recorded at Fair Value in the Financial Statements:		
Cash equivalents - Level 1	$50.1	$—
Derivatives:		
Interest rate swap assets - Level 2	$—	$0.4
Interest rate swap liabilities - Level 2	$83.2	$77.2
Not Recorded at Fair Value in the Financial Statements: (a)		
Long-term debt, including current maturities - Level 2	$8,835.9	$8,777.5

(a) Recognized at carrying value of $8,820.6 million and $8,651.7 million in long-term debt, including current maturities, in the accompanying consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively.

The fair values of interest rate swaps are determined based on the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swaps and also incorporate credit valuation adjustments to appropriately reflect both Windstream Services' own non-performance risk and non-performance risk of the respective counterparties. As of March 31, 2015 and December 31, 2014, the fair values of the interest rate swaps were reduced by $4.1 million and $3.3 million, respectively, to reflect non-performance risk.

In calculating the fair value of Windstream Services' long-term debt, the fair value of the debentures and notes was calculated based on quoted market prices of the specific issuances in an active market when available. The fair value of the other debt obligations was estimated based on appropriate market interest rates applied to the debt instruments. In calculating the fair value of the Windstream Holdings of the Midwest, Inc. notes, an appropriate market price of similar instruments in an active market considering credit quality, nonperformance risk and maturity of the instrument was used.

We do not have any assets or liabilities measured for purposes of the fair value hierarchy at fair value using significant unobservable inputs (Level 3). We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the three month period ended March 31, 2015.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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6. Commitments and Contingencies:

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

In addition, management is currently not aware of any environmental matters that, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or our results of operations.

7. Employee Benefit Plans and Postretirement Benefits:

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

The components of pension benefit income (including provision for executive retirement agreements) were as follows for the three month periods ended March 31:

	Three Months Ended			
(Millions)	2015		2014	
Benefits earned during the period	$2.4		$2.2	
Interest cost on benefit obligation	13.4		14.7	
Expected return on plan assets	(17.6	)	(17.2	)