

WINDSTREAM HOLDINGS, INC.

Form 10-K

March 15, 2019

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

For the transition period
from _____ to

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, 72212
Arkansas
(Address
of
principal
executive
offices)
(Zip
Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (\$0.0001 par per share) (1)	NASDAQ Global Select Market (1)

Securities registered pursuant to Section 12(g) of the Act:

NONE (1)
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Windstream Holdings, Inc. " YES NO

Windstream Services, LLC " YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Windstream Holdings, Inc. " YES NO

Windstream Services, LLC " YES NO

(1) On March 6, 2019, the NASDAQ Stock Market filed a Form 25 with the Securities and Exchange Commission to delist the common stock, par value \$0.0001, per share of Windstream Holdings, Inc. (the “common stock”) from the NASDAQ Global Select Market. The delisting will be effective 10 days after the Form 25 was filed. The deregistration of the common stock under section 12(b) of the Securities Exchange Act of 1934 will be effective 90 days, or such shorter period as the Securities and Exchange Commission may determine, after filing of the Form 25. Following deregistration of the common stock under Section 12(b) of the Securities Exchange Act of 1934, the common stock shall remain registered under Section 12(g) of the Securities Exchange Act of 1934.

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. YES NO

Windstream Services, LLC YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Windstream Holdings, Inc. Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

Windstream Services, LLC Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Windstream Holdings, Inc. YES NO

Windstream Services, LLC YES NO

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 NO

Windstream Services, LLC YES NO

Aggregate market value of voting stock held by non-affiliates as of June 30, 2018 - \$225,274,930

As of March 11, 2019, 42,999,904 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-K is a combined annual 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 I(1)(a) and (b) of Form 10-K 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.

DOCUMENTS INCORPORATED BY REFERENCE

Document

Items 10, 11, 12, 13 and 14 of Part III will be incorporated by reference from the Proxy statement for the 2019 Annual Meeting of Stockholders or a Form 10-K/A to be filed with the Securities and Exchange Commission.

The Exhibit Index is located on pages 52 to 57.

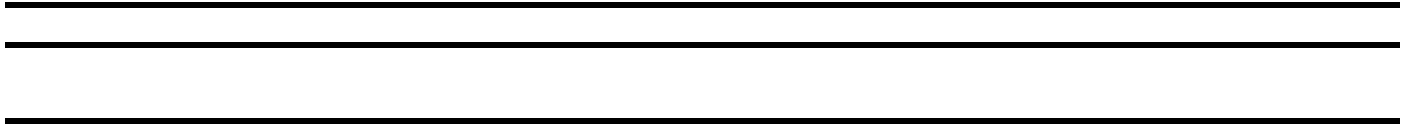


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Windstream Holdings, Inc.
Windstream Services, LLC
Form 10-K, Part I

Item 1. Business
THE COMPANY

Unless the context indicates otherwise, the terms “Windstream,” “we,” “us” or “our” refer to Windstream Holdings, Inc. and its subsidiaries, including Windstream Services, LLC, and the term “Windstream Services” refers to Windstream Services, LLC and its subsidiaries.

ORGANIZATIONAL STRUCTURE

Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company incorporated in the state of Delaware on May 23, 2013, and the parent of Windstream Services, LLC (“Windstream Services”), a Delaware limited liability company organized on March 1, 2004. Following its delisting on March 6, 2019, Windstream Holdings common stock no longer trades on the Nasdaq Global Select Market (“NASDAQ”) but trades on the Over-the-Counter (“OTC”) Pink Sheets market maintained by the OTC Market Group, Inc. under the trading symbol “WINMQ”. 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.

RECENT DEVELOPMENTS

As further discussed under “Legal Proceedings” in Item 3 of this Annual Report on Form 10-K, on September 22, 2017, Windstream Services received a purported notice of default under the indenture governing its 6.375 percent senior notes due August 2023 (the “2023 Notes”) from a purported holder of the senior notes, which alleged that Windstream Services had breached certain covenants under the indenture, primarily that the 2015 spin-off constituted a sale and leaseback transaction (as defined in the indenture). On October 12, 2017, the trustee under the indenture filed suit in the United States District Court for the Southern District of New York (the “District Court”) seeking a declaration that defaults had occurred under the indenture. On November 6, 2017, Windstream Services received consents from holders representing a majority of the outstanding aggregate principal amount of the 2023 Notes to certain waivers and amendments to the indenture relating to the defaults alleged in the notice of default in connection with certain exchange and consent transactions completed in 2017. On December 7, 2017, the purported holder issued a notice of acceleration claiming that the principal amount, along with accrued interest, was due and payable immediately.

Trial in the litigation occurred July 23-25, 2018 and the District Court heard final arguments on July 31, 2018.

On February 15, 2019, Judge Jesse Furman of the District Court issued certain findings of fact and conclusions of law (the “Findings”) regarding the 2015 spin-off and 2017 exchange and consent transactions and found that the trustee under the indenture and/or the noteholder are entitled to a judgment in the litigation.

The Findings resulted in a cross default under Windstream Services’ senior secured credit agreement governing its secured term and revolving loan obligations and remaining obligations under the master lease with Uniti Group, Inc. (“Uniti”). In addition, the acceleration of the 2023 Notes as noted in the Findings resulted in a cross-acceleration event of default under the indentures governing Windstream Services’ other series of secured and unsecured notes. A judgment has not been entered by the District Court.

On February 25, 2019 (the “Petition Date”), Windstream Holdings and all of its subsidiaries, including Windstream Services (collectively, the “Debtors”), filed voluntary petitions (the “Chapter 11 Cases”) for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the U.S. Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). We intend to use the court-supervised process to address obligations that have been accelerated as a result of the recent decision by Judge Furman against Windstream.

The filing of the Chapter 11 Cases also constitutes an event of default under our debt agreements. Due to the Chapter 11 Cases, however, the creditors’ ability to exercise remedies under our debt agreements were stayed as of the Petition Date, and continue to be stayed. See “Risks Related to Chapter 11 Reorganization” in Item 1A.

The Chapter 11 Cases are being jointly administered under the caption In re Windstream Holdings, Inc., et al., No 19-22312 (RDD). We will continue to operate our businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

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In general, as debtors-in-possession under the Bankruptcy Code, we are authorized to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. Pursuant to first day motions filed with the Bankruptcy Court, the Bankruptcy Court authorized us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to obtain debtor-in-possession financing, pay employee wages and benefits, and pay vendors and suppliers in the ordinary course for all goods and services.

Additional resources for customers, vendors and other stakeholders, and other information on the Chapter 11 filings, can be accessed by visiting our restructuring website at www.windstreamrestructuring.com. Court filings and other documents related to the Chapter 11 process are available on a separate website administered by our claims agent, Kurtzman Carson Consultants LLC at <http://www.kccllc.net/windstream>. Information is also available by calling 877-759-8815 (toll-free in the U.S.) or +1-424-236-7262 (for parties outside the U.S.). Documents and other information available on such website are not part of this document and shall not be deemed incorporated by reference in this document.

OVERVIEW

Windstream is a leading provider of advanced network communications and technology solutions for businesses across the U.S. We also offer broadband, entertainment and security solutions to consumers and small businesses primarily in rural areas in 18 states. Additionally, we supply core transport solutions on a local and long-haul fiber network spanning approximately 150,000 miles.

Our mission is to connect people and empower business in a world of infinite possibilities brought on by rapid technological change. Our vision is to provide innovative software and network solutions while consistently delivering a great customer experience.

To execute on our mission and achieve our vision, we have four key priorities for 2019:

1 Deliver consistent excellence in the customer experience.

We have made significant investments in our business over the past several years to provide quality service and enhance network reliability and ease of doing business. We will continue to improve collaboration and organizational effectiveness and enhance the day-to-day reliability of our network to drive improvements in the service we provide customers.

2 Achieve differentiation in the marketplace through development of innovative software.

We have reoriented a significant portion of our information technology (“IT”) resources on the development of next-generation software that will create customer solutions as well as internal tools that will enhance our interactions with customers.

3 Continue to position the company for top-line growth.

We have made significant progress transitioning from legacy telecom products and services to next-generation software-enabled products and services with vastly superior capabilities. We will continue to convert existing customers from legacy voice and data products to our strategic products, including SD-WAN, OfficeSuite®, and Kinetic Broadband, that best meet our customers’ communications needs.

4 Continue to aggressively manage costs.

Our biggest single cash cost consists of interconnection payments we make to other telecommunications carriers to utilize their networks to deliver our products and services to customers. Our annualized interconnection spend is approximately \$1.4 billion. We have been aggressively reducing those payments by approximately 10 percent for several years, and we expect this downward trend to continue. At the same time, we will continue to manage all other expenses with rigorous discipline.

3

Our focused operational strategy for each business segment has the overall objectives to generate strong financial returns for our investors and grow adjusted OIBDA, which is defined as operating income before depreciation and amortization, adjusted to exclude the impact of the goodwill impairment, merger, integration and other costs, restructuring charges, pension expense and share-based compensation.

We disaggregate our operations between customers located in service areas in which we are the incumbent local exchange carrier (“ILEC”) and provide services over network facilities operated by us and those customers located in service areas in which we are a competitive local exchange carrier (“CLEC”) and provide services primarily over network facilities owned by other carriers. We have further disaggregated our CLEC operations between enterprise and wholesale customers. We also operated a consumer CLEC business, which we sold on December 31, 2018, as further discussed below under “Material Dispositions”.

Presented below for each of our existing business segments is an overview and further discussion of our operating strategy, product and service offerings, sales and marketing efforts and the competitive landscape in which we operate.

CONSUMER & SMALL BUSINESS SEGMENT

The Consumer & Small Business segment includes approximately 1.4 million residential and small business customers. This segment generated \$1.9 billion in revenue and \$1.1 billion in contribution margin, or segment income, during 2018.

Strategy

The graph below highlights our significant improvement in broadband customer trends in 2018.

During 2018, we transformed the performance of our core product, consumer broadband. Consumer broadband subscriber trends reversed from years of decline into a growth story as we added over 14,000 new broadband subscribers, compared to a net loss of over 44,000 subscribers in 2017. This accomplishment was driven by a 12 percent year-over-year increase in sales and an 11 percent reduction in customer churn.

The graph below highlights our improved broadband speed capabilities during the past two years.

We continue to improve broadband speed availability throughout our network through fiber expansion, cost-effective network deployment strategies and deployment of new technologies, such as fixed wireless.

As depicted in the chart below, by the end of 2018, we reached 61 percent of our consumer footprint with speeds of 25 megabits per second (Mbps) or higher, 39 percent with speeds of 50 Mbps or higher, and 15 percent with speeds of 100 Mbps or higher. Speed expansion is a key part of our consumer strategy for 2019 as well, and we doubled our 100 Mbps speed availability in the first quarter of 2019. In addition, we offer 1-Gigabit per second (“Gbps”) Internet service in 15 states to deliver faster speeds to more of our customer base. Connect America Fund (“CAF”) funding provides support allowing us to further expand our broadband capabilities.

Our network investments make us more competitive in the marketplace and create a great customer experience, which helps us retain existing customers and grow market share through new customer acquisition. As of December 31, 2018, 41 percent of our consumer broadband customers were on speeds of 25 Mbps or greater. Similarly, our small business strategy centers around investing in our network. During the first quarter of 2019, we will expand the availability of our Kinetic fiber Internet services, which provides speeds up to 1 Gbps, to approximately 100,000 businesses across 16 states. We are marketing both our proprietary TV service and faster speeds under the Kinetic brand, and will expand use of that branding to all of our consumer and small business marketing in early 2019.

Like our consumer experience in 2018, we expect the fiber investments in our business footprint to drive increased sales and lower churn by creating a premium customer experience and enabling more robust solutions for our Kinetic Business product, such as cloud voice services, next-generation networking and affordable business continuity plans. Our network investments will also power bandwidth-intensive applications such as video conferencing, file-sharing and high-definition (“HD”) content consumption.