

WINDSTREAM HOLDINGS, INC.

Form 10-K

February 25, 2016

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, 2015

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, Arkansas

(Address of principal executive offices)

72212

(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

Common Stock (\$0.0001 par per share)

Name of each exchange on which registered

NASDAQ Global Select Market

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

NONE

(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 ý NO

Windstream Services, LLC ý YES " NO

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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

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 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.    ☒ YES   ☐ NO

Windstream Services, LLC    ☒ YES   ☐ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, 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 <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/>         |
|                           | Non-accelerated filer <input type="checkbox"/>              | Smaller reporting company <input type="checkbox"/> |
| Windstream Services, LLC  | Large accelerated filer <input type="checkbox"/>            | Accelerated filer <input type="checkbox"/>         |
|                           | Non-accelerated filer <input checked="" type="checkbox"/>   | Smaller reporting company <input type="checkbox"/> |

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, 2015 - \$664,073,650

As of February 22, 2016, 91,527,360 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

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Document

Proxy statement for the 2016 Annual Meeting of  
Stockholders

The Exhibit Index is located on pages 41 to 45.

Incorporated Into

Part III

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Windstream Holdings, Inc.  
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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 and the parent of Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation. Windstream Holdings common stock trades on the Nasdaq Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). Following the conversion, Windstream Holdings owns a 100 percent interest in Windstream Services. 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.

## OVERVIEW

We are a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and carrier partners across the United States. We provide data, cloud solutions, unified communications and managed services to small business and enterprise clients. We also offer bundled services, including broadband, security solutions, voice and digital television to consumers. We supply core transport solutions on a local and long-haul fiber-optic network spanning approximately 125,000, the sixth largest fiber network in the nation.

Our vision is to provide a best-in-class customer experience through a world-class network. Our “network first” strategy entails leveraging our existing infrastructure and investing in the latest technologies to create significant value for both our customers and our shareholders. We implemented a new business unit organizational structure focused on our core customer relationships to strengthen our ability to achieve our operational, strategic and financial goals. Our new structure segments our business operations around our four core customer groups: Consumer and Small Business - ILEC, Carrier, Enterprise, and Small Business - CLEC, as further defined below. This structure aligns all aspects of the customer relationship (sales, service delivery, and customer service) to improve accountability to the customer and sharpen our operational focus.

We differentiate our business customers between enterprise and small business primarily based on the monthly recurring revenue generated from the customer with enterprise customers comprising those relationships that generate \$1,500 or more in monthly recurring revenue and small business customers comprising those relationships that generate less than \$1,500 per month. Our small business customer base is further disaggregated between those 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 services areas in which we are a competitive local exchange carrier (“CLEC”) and provide services over network facilities primarily leased from other carriers. Under our new organizational structure, we have combined our Consumer and Small Business ILEC operations due to similarities between these customers with respect to service offerings, marketing strategies and customer service

delivery, as both of these businesses are focused on broadband revenue growth driven by our continued investment in our broadband network.

We have a focused operational strategy for each business with the overall objective to improve our consolidated operational and financial results and reach our goal of stabilizing and growing adjusted OIBDA, which is defined as operating income plus depreciation and amortization, adjusted to exclude the impact of restructuring charges, pension expense and share-based compensation.

Our operational strategy for each of our business segments are as follows:

Presented below for each of our 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 AND SMALL BUSINESS - ILEC SEGMENT

The Consumer and Small Business - ILEC segment includes approximately 1.6 million residential and small business customers. This segment generated \$1.6 billion in revenue and \$935 million in segment income, or contribution margin, during 2015.

##### Strategy

Within Consumer and Small Business - ILEC, we are focused on expanding and enhancing our broadband capabilities to generate solid and sustainable cash flows.

We expect to grow revenue by continuing to increase broadband speeds and capacity throughout our territories. Project Excel, which began in late 2015, accelerates our plans to upgrade and modernize our broadband network by year-end 2016. This program upgrades our fiber-fed infrastructure with Very high-bit-rate Digital Subscriber Line Generation 2 (“VDSL2”) electronics to enable faster broadband speeds and enhances our backhaul capabilities to address future capacity demands and improve network reliability. Upon completion of Project Excel, 25 megabits per second (“Mbps”) speeds will be available to 54 percent of our broadband footprint and 50 Mbps speeds to 30 percent; which are very competitive offerings in our rural markets. These network upgrades will provide a great customer experience and, we believe will drive higher revenue per customer per month and allow us to increase market share.



We expect increases in real-time streaming video and traditional Internet usage to drive demand for faster broadband speeds and generate increased revenues as customers upgrade their services. We also sell value-added Internet services, such as security and online back-up, to leverage our broadband capabilities.

#### Services and Products

Our Consumer services primarily consist of high-speed Internet, traditional voice and video services. We are committed to providing high-speed broadband and additional value-added services to our consumer base, as well as bundling our service offerings to provide a comprehensive solution to meet our customers' needs at a competitive value.

Our Consumer broadband services are described further as follows:

• **High-speed Internet access:** We offer high-speed Internet access with speeds up to 100 Mbps.

• **Internet security services:** Our Security Suite offers customers critical Internet security services, including anti-virus protection, spyware blocking, file back up and restoration.

• **Online backup services:** Our online backup service allows consumers to back up and restore important files through the Internet. Additionally, our backup services provide consumers with the ability to store and share files on network-based storage devices. Files can be accessed from any computer with an Internet connection.

Consumer voice services include basic local telephone services, features and long-distance services. Features include call waiting, caller identification, call forwarding, as well as various other offerings. We also offer a variety of long distance plans, including rate plans based on minutes of use, flexible or unlimited long distance calling services.

We offer video services to consumers primarily through a relationship with Dish Network LLC ("Dish Network"). We also own and operate cable television franchises in some of our service areas. Our video offerings allow us to provide comprehensive bundled services to our consumer base, helping insulate our customers from competitors. Recently, we launched Kinetic, a complete video entertainment offering in our Lincoln, Nebraska and Lexington, Kentucky markets, with plans to launch in Sugar Land, Texas in the second quarter of 2016. We expect to roll out this new service to additional markets during the next few years.

We sell and lease certain equipment to support our consumer high-speed Internet and voice offerings, including broadband modems, home networking gateways and personal computers. We also sell home phones to support voice services.

To our small business customers, we offer a wide range of advanced Internet, voice, and web conferencing products. These services deliver high-speed Internet with competitive speeds, value added services to enhance business productivity and options to bundle services for a global business solution to meet our small business customer needs.

Our Small Business - ILEC services include:

• **High-speed Internet access:** We offer speeds up to 1 gigabits per second ("Gbps") with an option of high-speed Internet or a dedicated solution.

• **Online backup:** Our online backup solution is dedicated to keeping files safe, secure and easily accessible from any location. These services include hosting mission critical servers and computer systems with full redundant subsystems with the ability to set up scheduled backups.

•

Remote IT: We provide a remote tech help service that provides remote support 24x7 and serves as a virtual information technology (“IT”) department without the high expense.

Web and audio conferencing: We are able to connect businesses through our audio, web and event conferencing which enables quick and easy access to organizing, securing, attending and recording conferences all from a telephone keypad.

Managed web design: We provide a professionally developed website design, whether it is a simple site or a complex store, to keep our small business customers competitive in today’s digital world.

Web and E-mail hosting: With our web and e-mail hosting services, our small business - ILEC customers are in control of customizing and branding their own professional online presence. We provide the tools to quickly and efficiently develop a web presence that suits their business needs.

Fax-to-e-mail: We offer the ability to leverage the advantage of mobility to send and receive faxes online from anywhere they can access their email or Internet. We also offer a Health Insurance Portability and Accountability Act ("HIPAA") compliant option to support our customers in the healthcare industry to maintain compliance with current health standards and regulations.

Small Business - ILEC voice services include a variety of line types available to serve customer needs. We offer a standard business local line, Centrex lines, key systems, private branch exchange ("PBX") lines, Voice over Internet Protocol ("VoIP") and complex phone systems. Additional options for our voice lines include long distance services, and several calling features including call waiting, call return, speed calling, caller ID, repeat dialing, three-way calling, rotary hunt, voice mail or rotary hunt voice mail. Our vast voice offerings provide customers a wide range of voice solutions that be fit our small business - ILEC customer voice needs.

### Sales and Marketing

Our sales and marketing strategy is focused on driving top-line revenue growth through stabilizing broadband market share while deepening speed and value-added service penetration for each broadband connection. In our Consumer and Small Business - ILEC segment, our goal is to win and retain the household or business first and then expand the product participation by consulting on the appropriate speed or value-added service to enhance the experience. We employ the following principles to achieve these goals:

Product enhancement: Faster Internet speeds and the launch of Kinetic deliver more value to customers while growing account revenue. These products not only improve the competitiveness of our offering but drive tangible value to the customer while improving the overall account revenue profile. For small businesses, higher speeds and incremental voice lines unlock increased discounts while increasing the value to the customer.

Improved customer experience: Continued improvement in the customer experience for both small businesses and consumers is the key to improved retention that drives stabilized market share. We map the customer journey and target initiatives that improve the processes, systems, and policies that impact the manner in which customers interact with us and our products.

Product simplification: We sell double and triple play bundle packages to customers at competitive price points, offering high-speed Internet voice and video services at a better value than when purchasing those services individually or from different providers. In the small business - ILEC space, we follow a similar bundling approach utilizing voice lines and broadband (dedicated or simple) as the bundle foundation.

Sales are made through various distribution channels giving new and existing customers choices in how to interact and experience our products and services. We offer customers the opportunity to order service and purchase a number of products designed to enhance our existing services, such as tablet computers, telephones and accessories at any of our 27 retail stores located in our local service areas. We augment these traditional channels with online sales, national agents, telephone and direct sales representatives. We utilize a similar multi-channel approach for our Small Business - ILEC sales focusing on a blend of local field sales teams and inbound/outbound call centers to serve this segment.

### Competition

We experience competition for Consumer and Small Business - ILEC services. During 2015, consumer households served decreased by approximately 82,900, or 5 percent, consumer high-speed Internet customers decreased by

approximately 36,500, or 3 percent, and small business - ILEC customers declined by approximately 13,400, or 8 percent. Sources of competition in our service areas include, but are not limited to, the following:

Cable television companies: Cable television providers are aggressively offering high-speed Internet, voice and video services in the majority of our service areas. These services are typically bundled and offered to our customers at competitive prices. It is not unusual to see aggressive broadband pricing to win the household. For small business customers, cable providers leverage discounted TV and broadband pricing to win larger bundles of service.

Wireless carriers: Wireless providers primarily compete for voice services in our markets. Consumers continue to disconnect voice service in favor of wireless service. In addition, wireless companies continue to expand their high-speed Internet offerings which does, in some instances, provide another alternative for customers, intensifying the level of competition in our markets.

Communications carriers: We are required to lease our facilities and capacity to other communications carriers. These companies compete with us by providing voice and high-speed Internet services to both the consumer and small business - ILEC segment. Additionally, some of the more populated service areas are experiencing new-market entry by communications carriers who are building out their own network to compete for high-speed Internet services.

Approximately 17 percent of our footprint does not have a cable broadband provider. Our focus to upgrade our infrastructure and deploy premium Internet speeds in our Consumer and Small Business - ILEC markets will improve our competitive positioning and enable us to respond to demand and competitive pressure.

To retain and grow our Consumer and Small Business - ILEC customer base, we are committed to providing our customers with exceptional service by offering faster broadband speeds and value-added services, while also offering the convenience of bundling those services with voice and video services.

## CARRIER SEGMENT

The Carrier segment leverages our nationwide network to provide 100 Gbps bandwidth and transport services to wholesale partners, including telecom companies, content providers, and cable and other network operators. The carrier business unit produced \$688 million in annual revenue and \$502 million in contribution margin in 2015.

### Strategy

Our Carrier strategy is focused on expanding our network to drive sales. We currently operate the sixth largest fiber network in the nation with approximately 125,000 route miles of fiber. Our fiber network links common interconnection points in tier one locations to our tier two and three markets, enabling our customers to reach their end users through unique and diverse routes. With further expansion of our fiber transport network through capital investment, we are enhancing our ability to provide high bandwidth connectivity. In 2015, we made significant investments in our network, as we completed our fiber-to-the-tower deployments and expanded our 100 Gbps capable long haul express network by adding route miles and approximately 45 new access points.

We believe that we are well positioned to stabilize our carrier business through investment in our network, offering advanced products and solutions, targeting carrier and wholesale customers and controlling costs through our disciplined approach to capital and expense management.

We are also committed to expanding our carrier network to add new routes, connect existing routes and add new carrier access points to increase sales.

## Services and Products

Carrier services provide network bandwidth to other telecommunications carriers and network operators. These include special access services, which provide access and network transport services to end users, and Ethernet and Wave transport up to 100 Gbps. Carrier services also include fiber-to-the-tower connections to support the growing wireless backhaul market. In addition, we offer wholesale voice and data carrier services to other communications providers and to larger-scale purchasers of network capacity.

## Sales and marketing

Our sales and marketing efforts are designed to differentiate us from our competitors by providing a superior customer experience. Our sales and customer support staff are aligned to work closely with each customer to ensure that the customer's specific business needs are met. Whether servicing content providers, cable operators, data centers or other communication services providers who may not have sufficient transport network to support their immediate needs, our goal is to exceed customer expectations by providing personalized service and solutions.

## Competition

The market for carrier services is highly competitive as continued merger and acquisition activity has resulted in fewer customers and intensified pricing pressure. To improve competitiveness and expand new sales opportunities, we have invested in our network to meet the growing demand for 10Gbps and 100Gbps bandwidth. Through network expansion and Ethernet upgrades, we are capable of providing access and transport services to major interconnection points with other networks and to rural markets, often providing unique and diverse routes. By providing a superior customer experience and advanced network technology, we believe we are well positioned to attract new business and increase market share.

## ENTERPRISE SEGMENT

Our Enterprise segment provides advanced communications services to enterprise customers. During 2015, the Enterprise segment generated \$2.1 billion in revenue and \$241 million in contribution margin.

### Strategy

The strategy for our Enterprise business is centered on growing revenue and increasing profitability. As one of the Country's largest network providers, our nationwide presence and broad portfolio of customized solutions provide enterprise customers with a unique service model. We target enterprise customers generating between \$5,000 to \$100,000 in monthly revenue. This competitive differentiation combined with an agile sales and service model has enabled us to increase market share and grow revenue in the 3-5% range.

We believe we can drive meaningful improvements in our Enterprise margins by focusing on profitable growth, increasing sales on our own network facilities to reduce third party network access costs and improving of efficiency with system and process enhancements. We made progress on this goal in 2015 by increasing margins from 10% in the first quarter to 15% in the fourth quarter and will make further improvements over the next 3 years.

### Services and Products

Our Enterprise customers typically have more complex communications requirements and value our customized solution design process, personalized customer service and proactive managed service support. They subscribe to services such as multi-site networking, integrated VoIP and data services, Unified Communications as a Service ("UCaaS"), data center (cloud) connectivity, network security, managed network services, and other cloud services.

Integrated voice and data services: Our integrated services deliver voice and data over a single connection, which helps our customers manage voice and data usage and related costs. These services are delivered over an Internet connection, as opposed to a traditional voice line, and can be managed through equipment at the customer premise or through hosted equipment options, both of which we are able to provide.



**Multi-site networking:** Our advanced network provides private, secure multi-site connections for large businesses with multiple locations. Our core growth networking products include multiprotocol label switching (“MPLS”), Ethernet - Local Area Network (“LAN”) and Wavelength connectivity solutions.

**UCaaS and hosted voice:** Our robust UCaaS and hosted voice solution portfolio leverages the latest technology to enable our customers to improve productivity and avoid the upfront capital expense associated with costly PBX systems.

**Colocation and data center services:** We offer traditional colocation services directly through our data centers and more advanced cloud computing, hosting and disaster recovery solutions through our reciprocal strategic partnerships. We will continue to make investments to expand our fiber network directly to other third party data center facilities.

**Managed services:** We provide a breadth of managed services, for both our network and data center services, including managed Wide Area Network (“WAN”), managed LAN, managed network security, managed Internet and managed voice services that allow our customers information technology (“IT”) organizations to focus on other mission critical activities.

**High-speed Internet:** We offer a range of high-speed broadband Internet access options providing reliable connections designed to help our customers reduce costs and boost productivity.

**Traditional Voice:** Voice services consist of basic telephone services, including voice, long-distance and related features delivered over a traditional copper line.

In addition to the services offered above, we sell and lease customized communications equipment systems tailored specifically to our customers’ needs. We also offer ongoing maintenance plans to support those systems.

## Sales and Marketing

Our sales and marketing team ensures we deliver on our brand promise to enable smart solutions and personalized service to our customers. Our Enterprise sales organization is extensive, including over 65 business sales offices throughout the United States with more than 1,000 sales employees focused on meeting the needs of our customers.

Sales and marketing activities are conducted through:

- the direct sales force, which accounts for the majority of our new sales;

- our dedicated account management team, who focus on pro-actively supporting, retaining and growing existing customers as their needs evolve over time;

- our indirect sales channel, which partners with third-party dealers who sell directly to customers; and

- third-party agents, who refer sales of our products and services to our direct sales force.

## Competition

The market for enterprise customers is highly competitive. We believe we are well positioned to gain market share within the mid-size enterprise segment based upon our ability to leverage our national network to provide complex, customized solutions with personalized service.

Our primary competitors are other communications providers. These providers offer similar services, from traditional voice to advanced data and technology services using similar facilities and technologies as we do, and compete directly with us for customers of all sizes.

To compete most effectively in the middle market segment, we are focused on improving the customer experience and investing in our network and service offerings to provide our customers with the most technologically advanced solutions available. We believe that many of our largest competitors are focused primarily on serving the largest global enterprises and as a result are increasingly under-serving the middle market. Accordingly, we rely on scalable, customizable solutions and a service model tailored to the middle market to meet all of our customers' communications needs.

## SMALL BUSINESS - CLEC SEGMENT

Our Small Business CLEC segment consists of small business customers residing outside of our ILEC footprint. During 2015, this segment generated revenue of \$559 million and contribution margin of \$181 million.

Our Small Business - CLEC strategy is focused on retaining our most profitable customers, selling incremental services and locations to existing customers, targeting new sales in select markets, and managing customer-level profit margins to moderate revenue and contribution margin declines and maximize profitability. Operational efficiency and a highly disciplined sales and support model are cornerstones of our Small Business - CLEC strategy that should enable us to maximize cash flows generated from this business.

Products and services provided to our Small Business - CLEC customers include integrated voice and data services, advanced data and traditional voice and long distance services. We also offer on-line back-up, remote IT, managed web design, web hosting and various email services to small business customers in our CLEC footprint.

Similar to our Small Business - ILEC operations, we experience competition from cable television companies and other communications carriers in areas served by our Small Business - CLEC segment.

## REGULATORY AND OTHER REVENUES

Regulatory and certain other operating revenues are derived from activities that are centrally-managed by us and, accordingly, these revenues are not included in any of our four segments presented above. Regulatory revenues include switched access revenues, federal and state Universal Service Fund (“USF”) revenues, Connect America Fund (“CAF”) support and funds received from the access recovery mechanism (“ARM”). Switched access revenues include usage sensitive revenues from long-distance companies and other local exchange carriers for access to our network in connection with the completion of long-distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for the use of our network facilities. We also receive compensation from wireless and other local exchange carriers for the use of our facilities.

USF revenues are government subsidies designed to partially offset the cost of providing wireline services in high-cost areas. CAF Phase II funding is administered by the Federal Communications Commission (“FCC”) for the purpose of expanding and supporting broadband service in rural areas and effectively replaces frozen USF support in those states in which we elected to receive the CAF Phase II funding, as further described below. The ARM is additional federal universal service support available to help mitigate revenue losses from intercarrier compensation reform not covered by the access recovery charge (“ARC”), a monthly charge assessed to customers established by the FCC.

On August 5, 2015, we notified the FCC of our acceptance of CAF Phase II support of approximately \$175.0 million per year for a six year period to fund the deployment of voice and high-speed Internet capable infrastructures for approximately 400,000 eligible locations in 17 of the 18 states in which we are the incumbent provider, declining only

the annual statewide funding in New Mexico because our projected cost to comply with the FCC's deployment requirements greatly exceeded the funding offer. The CAF Phase II support for the 17 states we accepted substantially replaces funding we received under the federal USF high-cost support program. We will be eligible to participate in a competitive bidding process for the CAF Phase II support in New Mexico, along with other interested eligible competitors under an auction process administered by the FCC, which is expected to be held during 2016. We will continue to receive annual USF support in New Mexico frozen at 2011 levels until the CAF Phase II competitive bidding process is completed.

Other operating revenues primarily consist of USF surcharges and other costs passed through to our customers, sales of communications equipment to third party contractors and revenues from other miscellaneous service offerings.

## SIGNIFICANT CUSTOMERS

No single customer, or group of related customers, represented 10 percent or more of our operating revenues in 2015, 2014 or 2013.

## SEASONALITY

Our business is not subject to significant seasonal fluctuations.

## NETWORK

As further discussed below under “Material Dispositions”, in April 2015, we completed the spin-off of our fiber and copper networks and other real estate, into an independent, publicly traded real estate investment trust and entered into an agreement to leaseback the network assets. Following the spin-off, we exclusively operate a robust, flexible network allowing us to deliver advanced voice and data services. As of December 31, 2015, our network consists of approximately 125,000 miles of fiber optic plant in both our fiber backbone and local service areas and a combination of owned and leased facilities in our local markets.

The fiber transport network we operate is fully integrated and allows us to offer a full suite of voice and advanced data services, including, but not limited to, multi-site networking, dedicated Internet and Ethernet solutions, high-speed Internet and VoIP services.

In certain territories, we serve business customers by leasing last-mile connections from other carriers. These connections link our business customers to our facilities-based network. In areas in which we operate last-mile facilities, we are able to connect to our customers directly. Through the last-mile facilities we operate, we are able to offer up to 100 Gbps of Ethernet managed services.

The local networks we operate consist of central office digital switches, routers, loop carriers and virtual and physical colocations interconnected primarily with fiber and copper facilities. A mix of fiber optic and copper facilities connect our customers with the core network.

Our network service areas as of December 31, 2015 are detailed in the map below

## REGULATION

We are subject to regulatory oversight by the FCC for particular interstate matters and state public utility commissions (“PUCs”) for certain intrastate matters. We are also subject to various federal and state statutes that direct such regulations. We actively monitor and participate in proceedings at the FCC and PUCs and engage federal and state legislatures on matters of importance to us.

From time to time, federal and state legislation is introduced dealing with various matters that could affect our business. Most proposed legislation of this type never becomes law. It is difficult to predict what kind of legislation, if any, may be introduced and ultimately become law.

For additional information on these and other regulatory items, please refer to the “Regulatory Matters” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K.

## DIVIDEND POLICY

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. On January 15, 2016, we paid our previously declared quarterly dividend of \$.15 per share. On February 10, 2016, we declared a cash dividend of \$.15 per share on our common stock which is payable on April 15, 2016, to shareholders of record on March 31, 2016. Our dividend practice can be changed at any time at the discretion of our board of directors. Accordingly, we cannot assure you we will continue paying dividends at the current rate. See Item 1A, “Risk Factors,” for more information concerning our dividend practice.

## MATERIAL ACQUISITIONS AND DISPOSITIONS

### Acquisitions

On November 30, 2011, we acquired PAETEC Holding Corp. in an all stock transaction valued at approximately \$2.4 billion. In this transaction, we added an attractive base of medium to large-sized business customers, approximately 36,700 fiber route miles, seven data centers, and an experienced sales force focused on serving enterprise-level customers.

### Dispositions

**Sale of Data Center Business** - On December 18, 2015, we completed the sale of a substantial portion of our data center business to TierPoint LLC (“TierPoint”) for \$575.0 million in cash. In the transaction, TierPoint acquired 14 of Windstream’s 27 data centers, including data centers located in Arkansas, Illinois, Massachusetts, North Carolina, Pennsylvania, and Tennessee. The remaining data centers retained by us are primarily shared colocation facilities. As part of the transaction, we established an ongoing reciprocal strategic partnership with TierPoint, allowing both companies to sell their respective products and services to each other’s prospective customers through referrals.

**Spin-off of Certain Network and Real Estate Assets** - On April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate, into an independent, publicly traded real estate investment trust. The spin-off also included substantially all of our consumer CLEC business. The telecommunications network assets consisted of copper cable and fiber optic cable lines, telephone poles, underground conduits, concrete pads, attachment hardware (e.g., bolts and lashings), pedestals, guy wires, anchors, signal repeaters, and central office land and buildings, with a net book value of approximately \$2.5

billion at the time of spin-off. We requested and received a private letter ruling from the Internal Revenue Service on the qualification of the spin-off as a tax-free transaction and the designation of the telecommunications network assets as real estate.

Pursuant to the plan of distribution and immediately prior to the effective time of the spin-off, we contributed the telecommunications network assets and the consumer CLEC business to Communications Sales & Leasing, Inc. (“CS&L”), a wholly owned subsidiary of Windstream, in exchange for: (i) the issuance to Windstream of CS&L common stock of which 80.4 percent of the shares were distributed on a pro rata basis to Windstream’s stockholders, (ii) cash payment to Windstream in the amount of \$1.035 billion and (iii) the distribution by CS&L to Windstream of approximately \$2.5 billion of CS&L debt securities. After giving effect to the interest in CS&L retained by Windstream, each Windstream Holdings shareholder received one share of CS&L for every five shares of Windstream Holdings common stock held as of the record date of April 10, 2015 in the form of a tax-free dividend. On April 24, 2015, following the completion of the spin-off, we transferred the CS&L Securities and cash to two investment banks, in exchange for approximately \$2.5 billion of debt securities of Windstream Services held by the investment banks. On May 27, 2015, we completed the redemption of \$850.0 million of Windstream Services unsecured notes using a portion of the \$1.035 billion cash payment received from CS&L in the spin-off transaction.

As of the spin-off date, excluding restricted shares held by Windstream employees and directors, Windstream retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions.

## MANAGEMENT

Staff at our headquarters and regional offices supervise, coordinate and assist subsidiaries in management activities including investor relations, acquisitions and dispositions, corporate planning, tax planning, cash and debt management, accounting, insurance, sales and marketing support, government affairs, legal matters, human resources and engineering services.

## EMPLOYEES

At December 31, 2015, we had 12,326 employees, of which 1,533 employees are part of collective bargaining units. During 2015, we had no material work stoppages due to labor disputes with our unionized employees (see Item 1A, “Risk Factors”).

## MORE INFORMATION

Our web site address is [www.windstream.com](http://www.windstream.com). We file with, or furnish to, the Securities and Exchange Commission (the “SEC”) annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports, as well as various other information. The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information can also be found on the SEC website at [www.sec.gov](http://www.sec.gov). In addition, we make available free of charge through the Investor Relations page on our web site our annual reports, quarterly reports, and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC. In addition, in the “Corporate Governance” section of the Investor Relations page on our web site, we make available our code of ethics, the Board of Directors’ Amended and Restated Corporate Governance Board Guidelines, and the charters for our Audit, Compensation, and Governance Committees. We will provide to any stockholder a copy of the Code of Ethics, Governance Board Guidelines and the Committee charters, without charge, upon written request to Investor Relations, Windstream Holdings, Inc., 4001 Rodney Parham Road, Little Rock, Arkansas 72212.





## FORWARD-LOOKING STATEMENTS

We claim the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this Annual Report on Form 10-K. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward looking statements include, but are not limited to, statements about our expectation to return a portion of our cash flow to shareholders through our dividend, expectations regarding our “network first” strategy to improve financial performance and increase market share, expectations regarding revenue trends and growth, cost management, and improving margins in our business segments, growth in adjusted OBIDA, the amount that Windstream may reduce its debt by selling its equity stake in CS&L and its ability to improve its debt profile and reduce interest, expected levels of support from universal service funds or other government programs, expected rates of loss of consumer households served or inter-carrier compensation, expected increases in high-speed Internet and business data connections, including increasing availability of higher Internet speeds, expectations regarding expanding IPTV and 1 Gbps services to more locations and expanding our carrier network, our expected ability to fund operations, expected required contributions to our pension plan, the completion and benefits from network investments related to the Connect America Fund to fund the deployment of broadband services and forecasted capital expenditure amounts related to these investments, anticipated benefits of Project Excel, anticipated capital expenditures and certain debt maturities from cash flows from operations, and expected effective federal income tax rates. These and other forward-looking statements are based on estimates, projections, beliefs, and assumptions that we believe are reasonable but are not guarantees of future events and results. Actual future events and our results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in our forward looking statements include, among others:

- further adverse changes in economic conditions in the markets served by us;
- the extent, timing and overall effects of competition in the communications business;
- our election to accept state-wide offers under the FCC’s Connect America Fund, Phase 2, and the impact of such election on our future receipt of federal universal service funds and capital expenditures;
- the impact of new, emerging or competing technologies;
- for certain operations where we lease facilities from other carriers, adverse effects on the availability, quality of service, price of facilities and services provided by other carriers on which our services depend;
- unfavorable rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;
- material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;
- changes to our current dividend practice which is subject to our capital allocation policy and may be changed at any time at the discretion of our board of directors;
- our ability to make rent payments under the master lease to CS&L, which may be affected by results of operations, changes in our cash requirements, cash tax payment obligations, or overall financial position;

- unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements, or otherwise;

- the availability and cost of financing in the corporate debt markets;

- the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations;

- earnings on pension plan investments significantly below our expected long term rate of return for plan assets or a significant change in the discount rate or other actuarial assumptions;

- unfavorable results of litigation or intellectual property infringement claims asserted against us;

- the risks associated with non-compliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and government subsidies, or non-compliance by us, our partners, or our subcontractors with any terms of our government contracts;

- the effects of federal and state legislation, and rules and regulations governing the communications industry;

- continued loss of consumer households served and consumer high-speed Internet customers;

- the impact of equipment failure, natural disasters or terrorist acts;

- the effects of work stoppages by our employees or employees of other communications companies on whom we rely for service; and

• those additional factors under “Risk Factors” in Item 1A of this Annual Report and in subsequent filings with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect our future results included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and in our other filings with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

Item 1A. Risk Factors  
Risks Relating to Our Business

The following discussion of “Risk Factors” identifies the most significant factors that may adversely affect our business, results of operations or financial position. This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in this report. The following discussion of risks is not all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our business and expectations. These factors could cause our future results to differ materially from our historical results and from expectations reflected in forward-looking statements. Additionally, this discussion should not be construed as a listing of risks by order of potential magnitude or probability to occur.

Competition in our business markets could adversely affect our results of operations and financial condition.

We serve business customers in markets across the country, competing against other communications providers and cable television companies for business customers. Competition in our business markets could adversely affect growth in business revenues and ultimately have a material adverse impact on our results of operations and financial condition. If we are unable to compete effectively, we may be forced to lower prices or increase our sales and marketing expenses. In addition, we may need to continue to make significant capital expenditures to keep up with technological advances and offer competitive services. For additional information, see the risk factor “Rapid changes in technology could affect our ability to compete for business customers.”

In certain markets where we serve business customers, we lease significant amounts of network capacity to provide service to our customers. We lease these facilities from companies competing directly with us for business customers. For additional information, see the risk factor “In certain operating territories, we are dependent on other carriers to provide facilities which we use to provide service to our customers.”

Rapid changes in technology could affect our ability to compete for business customers.

The technology used to deliver communications services has changed rapidly in the past and will likely continue to do so in the future. If we are unable to keep up with such changes, we may not be able to offer competitive services to our business customers. This could adversely affect our ability to compete for business customers, which, in turn, would adversely affect our results of operations and financial condition.

In certain operating territories and/or at certain locations, we are dependent on other carriers to provide facilities that we use to provide service to our customers.

In certain markets and/or at certain locations, especially where we provide services to businesses, we may lease a significant portion of our network capacity from other carriers. These carriers may compete directly with us for customers. The prices for network services are contained in tariffs, interconnection agreements, and negotiated contracts. Terms, conditions and pricing for tariff network services may be changed, but they must be approved by the appropriate regulatory agency before they go into effect. For network service purchased pursuant to interconnection agreements, the rates, terms and conditions included therein are approved by state commissions while other network services, such as some high-capacity Ethernet services, may be obtained through commercial contracts subject to limited government oversight.

The availability and pricing of network services purchased via commercial agreements are subject to change without regulatory oversight. For interconnection agreement-based network services, if an agreement cannot be negotiated and we have to invoke binding arbitration by a state regulatory agency, that process is expensive, time consuming, and the results may not be favorable to us. In addition, rates for network services set forth above are susceptible to changes in

the availability and pricing of the provider's facilities and services. Furthermore, in the event a provider becomes legally entitled to deny or limit access to capacity (or already is, as is the case with respect to certain services) or if state commissions allow the providers to increase rates for tariffed or interconnection agreement-based rates, we may not be able to effectively compete. In addition, if the provider does not adequately maintain or timely install these facilities, despite legal obligations, our service to customers may be adversely affected. As a result of all these items, our competitive position, our operations, financial condition and operating results could be materially affected.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions or reduced capacity for customers.

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity to avoid service disruptions or reduced capacity for customers.

Alternatively, we may choose to implement reasonable network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, and these actions could negatively affect customer experience and increase customer churn.

While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our results of operations and financial condition.

Disruptions and congestion in our networks and infrastructure may cause us to lose customers and incur additional expenses.

Our customers depend on reliable service over our network. Some of the risks to our network infrastructure include physical damage to lines, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we will experience disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third party service providers. Additionally, we could face disruptions due to capacity limitations as a result of changes in our customers' high-speed Internet usage patterns. These patterns have changed in recent years, for example through the increased usage of video, resulting in a significant increase in the utilization of our network.

We could experience more significant disruptions in the future. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers or incur additional expenses or capital expenditures. Such results could adversely affect our results of operations and financial condition.

The value of our retained interest in CS&L could be impacted by future sales or distributions of shares of CS&L common stock, which could make it difficult to liquidate some or all of our retained interest at favorable market prices.

In the spin-off, we retained a passive ownership interest in approximately 19.6 percent of CS&L common stock. We intend to use all of our shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions. In addition, some of the holders of shares of CS&L common stock are index funds tied to stock or investment indices or are institutional investors bound by various investment guidelines. Companies are generally selected for investment indices, and in some cases selected by institutional investors, based on factors such as market capitalization, industry, trading liquidity and financial condition. CS&L common stock may not qualify for those investment indices and may not meet the investment guidelines of some institutional investors. Consequently, these index funds and institutional investors may have to sell some or all of our common stock they receive in the spin-off.

Any disposition by us or any other significant shareholder of CS&L of shares of CS&L common stock, or the perception in the market that such dispositions could occur, may cause the share price of CS&L common stock to fall. Any such decline could impair our ability to sell our shares of CS&L common stock in the future at favorable market prices, reduce the value of our retained interest in CS&L, and impact our plans to retire debt as planned in a debt for equity exchange.

A change in ownership may limit our ability to utilize our net operating loss carryforwards.

If Windstream experiences a 50% or greater change in ownership involving shareholders owning 5% or more of its stock, it could adversely impact Windstream's ability to utilize its existing net operating loss carryforwards. The inability to utilize existing net operating loss carryforwards would significantly increase the amount of Windstream's annual cash taxes reducing the overall amount of cash available to be used in other areas of the business.



In September 2015, Windstream's board of directors adopted a shareholder rights plan (the "Rights Plan"), under which Windstream shareholders of record as of the close of business on September 28, 2015 received one preferred share purchase right for each share of common stock outstanding. The Rights Plan is designed to protect Windstream's net operating loss carryforwards from the effect of limitations under Section 382 of the Internal Revenue Code ("IRC"), if an ownership change should occur in the future. In general, an ownership change will occur when the percentage of Windstream's ownership by one or more "5-percent shareholders" (as defined under IRC Section 382) has increased by more than 50 percent at any time during the prior three years (calculated on a rolling basis). Pursuant to the Rights Plan, if a shareholder (or group) acquires beneficial ownership of 4.9 percent or more of the outstanding shares of Windstream's common stock without prior approval of our Board of Directors or without meeting certain customary exceptions, the rights would become exercisable and entitle shareholders (other than the acquiring shareholder or group) to purchase additional shares of Windstream at a significant discount and result in significant dilution in the economic interest and voting power of acquiring shareholder or group. Although the Rights Plan is intended to reduce the likelihood of an "ownership change" that could adversely affect us, there is no assurance that the restrictions on transferability in the Rights Plan will prevent all transfers that could result in such an "ownership change". The Rights Plan is subject to shareholder approval at the Company's Annual Meeting in May. If the shareholders do not approve the Rights Plan, it will result in termination of the Rights Plan on September 17, 2016.

If the spin-off, and certain related transactions, fails to qualify as a tax-free transaction for U.S. federal income tax purposes, we could be subject to significant tax liabilities and, in certain circumstances, we could be required to indemnify CS&L for material taxes pursuant to indemnification obligations that we entered into with CS&L.

We received a private letter ruling from the IRS (the "IRS Ruling") to the effect that, on the basis of certain facts presented and representations and assumptions, the spin-off will qualify as tax-free under Sections 355 and 368(a)(1)(D) of the Code. Although a private letter ruling generally is binding on the IRS, if the factual representations and assumptions made in the letter ruling request are untrue or incomplete in any material respect, then we will not be able to rely on the IRS Ruling. In addition, the IRS Ruling does not address certain requirements for tax-free treatment of the spin-off under Sections 355 and 368(a)(1)(D) of the Code and our use of CS&L indebtedness and common stock to retire certain of our indebtedness (the "debt exchanges"). Accordingly, the spin-off was conditioned upon the receipt of a tax opinion from our tax counsel with respect to the requirements on which the IRS did not rule, which concluded that such requirements also should be satisfied. The tax opinion was based on, among other things, the IRS Ruling, current law and certain representations and assumptions as to factual matters made by us and CS&L. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached in the tax opinion. In addition, the tax opinion is not binding on the IRS or the courts, and the IRS and/or the courts may not agree with the tax opinion. However, if the spin-off or the debt exchanges failed to qualify as tax free for U.S. federal income tax purposes, we may incur significant tax liabilities that could materially affect our business, financial condition and results of operations.

If the spin-off ultimately was determined to be taxable, then a shareholder that received shares of CS&L common stock in the spin-off would be treated as having received a distribution of property in an amount equal to the fair market value of such shares and could incur significant income tax liabilities. Such distribution would be taxable to such shareholder as a dividend to the extent of our current and accumulated earnings and profits (including earnings and profits resulting from the recognition of gain by us in the spin-off). Any amount that exceeded our earnings and profits would be treated first as a non-taxable return of capital to the extent of such shareholder's tax basis in its shares of our common stock with any remaining amount being taxed as a capital gain. In addition, if the spin-off were determined to be taxable, we would recognize taxable gain.

Under the terms of the tax matters agreement that we entered into with CS&L, CS&L is generally responsible for any taxes imposed on us that arise from the failure of the spin-off and the debt exchanges to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Section 355 and Section 368(a)(1)(D) of the Code, as applicable, to the extent such failure to qualify is attributable to certain actions, events or transactions relating to CS&L's stock, indebtedness, assets or business, or a breach of the relevant representations or any covenants made by CS&L in the tax

matters agreement, the materials submitted to the IRS in connection with the request for the IRS Ruling or the representations provided in connection with the tax opinion. CS&L's indemnification obligations to us are not limited by any maximum amount and such amounts could be substantial. If CS&L were required to indemnify us under the circumstances set forth in the tax matters agreement, CS&L may be subject to substantial liabilities and there can be no assurance that CS&L will be able to satisfy such indemnification obligations.

In connection with the spin-off, CS&L will indemnify us and we will indemnify CS&L for certain liabilities. There can be no assurance that the indemnities from CS&L will be sufficient to insure us against the full amount of such liabilities, or that CS&L's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the separation and distribution agreement and other agreements that we entered into with CS&L in connection with the spin-off, CS&L agreed to indemnify us for certain liabilities, and we agreed to indemnify CS&L for certain liabilities. However, third parties might seek to hold us responsible for liabilities that CS&L agreed to retain, and there can be no assurance that CS&L will be able to fully satisfy its indemnification obligations under these agreements. Even if we ultimately succeed in recovering from CS&L any amounts for which we are held liable to a third party, we may be temporarily required to bear the losses while seeking recovery. In addition, indemnities that we may be required to provide to CS&L could be significant and could adversely affect our business.

We are required to pay rent under the master lease with CS&L, and our ability to do so could be adversely impaired by results of our operations, changes in our cash requirements and cash tax obligations, or overall financial position; conversely, payment of the rent could adversely affect our ability to fund our operations and growth and limit our ability to react to competitive and economic changes.

We are required to pay a portion of our cash flow from operations to CS&L pursuant to and subject to the terms and conditions of the master lease. Our ability to pay the rent owed to CS&L could be adversely impaired by results of our operations, changes in our cash obligations and requirements, or general financial position. Additionally, our obligation to pay rent could impair our ability to fund our own operations, raise capital, make acquisitions and otherwise respond to competitive and economic changes may be adversely affected, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our failure to comply with the provisions of the master lease with CS&L could materially adversely affect our business, financial position, results of operations and liquidity.

We currently lease a significant portion of our telecommunications network assets, including our fiber and copper networks and other real estate, under the master lease with CS&L. Our failure to pay the rent or otherwise comply with the provisions of the master lease would result in an event of default regarding the master lease and also could result in a default under other agreements. Upon an event of default, remedies available to CS&L include terminating the master lease and requiring us to transfer the business operations we conduct at the leased assets so terminated (with limited exceptions) to a successor tenant for fair market value pursuant to a process set forth in the master lease and cooperate with CS&L to ensure that an operational facility is transferred to the successor tenant, dispossessing us from the leased assets, and/or collecting monetary damages for the breach (including rent acceleration), electing to leave the master lease in place and sue for rent and any other monetary damages, and seeking any and all other rights and remedies available under law or in equity. The exercise of such remedies could have a material adverse effect on our business, financial position, results of operations and liquidity.

Cyber security incidents could have a significant operational and financial impact.

We store customers' proprietary business information in our facilities through our colocation, managed services and cloud computing services. In addition, we maintain certain sensitive customer information in our financial and operating systems. While we have implemented data security policies and other internal controls to safeguard and protect against misuse or loss of this information, if their data were compromised through a cyber security incident, it could have a significant impact on our results of operations and financial condition. Additionally, we have implemented network and data security policies and other internal controls to safeguard and protect against malicious interference with our networks and information technology infrastructure and related systems and technology, as well as misappropriation of data and other malfeasance, but we cannot eliminate the risk associated with these types of occurrences. While we continue to adapt to new threats, increasing incidents of unsuccessful and successful "cyber attacks", such as computer hacking, dissemination of computer viruses and denial of service attacks, as well as misappropriation of data, pose growing risks of a significant effect on our results of operations and financial condition and we cannot fully predict the evolution of such threats.



We cannot assure you we will continue paying dividends at the current rate.

Our board of directors maintains a current dividend practice for the payment of quarterly cash dividends at a rate of \$0.15 per share of common stock. This practice can be changed at any time at the discretion of the board of directors, and our common stockholders should be aware that they have no contractual or other legal right to dividends. The amount of dividends we may distribute to stockholders is limited by restricted payment and leverage covenants in our credit facility and indentures, and, potentially, by terms of any future indebtedness that we may incur.

Any determination to pay cash dividends in the future is contingent on a variety of factors, including our financial condition, results of operations, and our board of directors' continuing determination that such dividends are in the best interests of our stockholders and in compliance with all applicable laws and agreements. Also, the other risk factors described in this section could materially reduce the cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause sufficient funds not to be available to support continuing payment of a dividend. Accordingly, if our board of directors were to change the current dividend practice or reduce the amount of dividends, such change could have a material and adverse effect on the market price of our common stock.

We are subject to various forms of regulation from the Federal Communications Commission ("FCC") and state regulatory commissions in the states in which we operate, which limit our pricing flexibility for regulated voice and high-speed Internet products, subject us to service quality, service reporting and other obligations and expose us to the reduction of revenue from changes to the universal service fund, the intercarrier compensation system, or access to interconnection with competitors' facilities.

As of December 31, 2015, we had operating authority from each of the 48 states and the District of Columbia in which we conducted local service operations, and we are subject to various forms of regulation from the regulatory commissions in each of these areas as well as from the FCC. State regulatory commissions have jurisdiction over local and intrastate services including, to some extent, the rates that we charge and service quality standards. The FCC has primary jurisdiction over interstate services including the rates that we charge other telecommunications companies that use our network and other issues related to interstate service. In some circumstances, these regulations restrict our ability to adjust rates to reflect market conditions and may affect our ability to compete and respond to changing industry conditions.

Future revenues, costs, and capital investment in our wireline business could be adversely affected by material changes to or decisions regarding applicability of government requirements, including, but not limited to, changes in rules governing intercarrier compensation, state and federal USF support, competition policies, and other pricing and requirements. Federal and state communications laws and regulations may be amended in the future, and other laws and regulations may affect our business. In addition, certain laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts and could be changed at any time. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes would have. In addition, these regulations could create significant compliance costs for us. Delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and conditions imposed in connection with such approvals could adversely affect the rates that we are able to charge our customers. Our business also may be affected by legislation and regulation imposing new or greater obligations related to, for example, assisting law enforcement, bolstering homeland and cyber-security, protecting intellectual property rights of third parties, minimizing environmental impacts, protecting customer privacy, or addressing other issues that affect our business.

Our operations require substantial capital expenditures, and if funds for capital expenditures are not available when needed, this could affect our service to customers and our growth opportunities.

We require substantial capital to maintain our network, and our growth strategy will require significant capital investments for network enhancements and build-out. During 2015, we incurred \$1,055.3 million in capital expenditures, and we expect to incur \$800.0 million to \$850.0 million in capital expenditures during 2016, excluding approximately \$200.0 million in capital expenditures related to Project Excel, a capital program begun in late 2015 that accelerates our plans to upgrade our broadband network by the end of 2016 funded using a portion of the proceeds from the sale of the data center business. See Management's Discussion and Analysis of Financial Condition, Liquidity and Capital Resources in the Financial Supplement to this Annual Report on Form 10-K.

We use a significant portion of our cash generated from operations to pay dividends to stockholders, which could limit our ability to make the capital expenditures necessary to support our business needs and growth plans. We expect to be able to fund required capital expenditures from cash generated from operations. However, other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements. If this occurs, funds for capital expenditures may not be available when needed, which could affect our service to customers and our growth opportunities.

The level of returns on our pension plan investments and changes to the actuarial assumptions used to value our pension obligations could have a material effect on our earnings and result in material funding requirements to meet our pension obligations.

Our pension plan invests in marketable securities, including marketable debt and equity securities denominated in foreign currencies, which are exposed to changes in the financial markets. During 2015, the fair market value of these investments decreased from \$1,042.0 million to \$966.6 million primarily due to the return on assets held of \$1.6 million, and routine benefit payments of \$74.7 million. Returns generated on plan assets have historically funded a large portion of the benefits paid under our pension plan.

Funding requirements may increase as a result of a decline in the market value of plan assets, a decline in the interest rates used to calculate the present value of future plan obligations or government regulations that increase minimum funding requirements of the pension liability. We estimate that the long term rate of return on plan assets will be 7.0 percent, but returns below this estimate could significantly increase our contribution requirements, which could adversely affect our cash flows from operations. Also, reductions in discount rates and extensions of participant mortality rates directly increase our pension liability and expose us to greater funding obligations in the future. Our earnings reported under accounting principles generally accepted in the United States ("U.S. GAAP") may also be adversely affected due to our method of accounting for pension costs, whereby we immediately recognize gains and losses resulting from the return on plan assets as well as other changes in actuarial assumptions impacting our discount rate and mortality estimates.

Our substantial debt could adversely affect our cash flow and impair our ability to raise additional capital on favorable terms.

As of December 31, 2015, we had approximately \$5,170.5 million long-term debt outstanding, including current maturities. We may also obtain additional long-term debt to meet future financing needs or to fund potential acquisitions, subject to certain restrictions under our existing indebtedness, which would increase our total debt. Our substantial amount of debt could have negative consequences to our business. For example, it could:

- Increase our vulnerability to general adverse economic and industry conditions;
- Require us to dedicate a substantial portion of cash flows from operations to interest and principal payments on outstanding debt, thereby limiting the availability of cash flow to fund future capital expenditures, working capital and other general corporate requirements;
- Limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry;
- Place us at a competitive disadvantage compared with competitors that have less debt; and
- Limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facility and its other debt agreements. If we are unable to satisfy the financial covenants contained in those

agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness.



We may not generate sufficient cash flows from operations, or have future borrowings available under our credit facility or from other sources sufficient to enable us to make our debt payments or to fund dividends and other liquidity needs. We may not be able to refinance any of our debt, including our credit facility, on commercially reasonable terms or at all. If we are unable to make payments or refinance our debt, or obtain new financing under these circumstances, we would have to consider other options, such as selling assets, issuing additional equity or debt, or negotiating with our lenders to restructure the applicable debt. Our credit agreement and the indentures governing our senior notes may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

As of February 22, 2016, Moody's Investors Service ("Moody's"), S&P and Fitch Ratings ("Fitch") had granted Windstream the following senior secured, senior unsecured and corporate credit ratings:

| Description                    | Moody's | S&P    | Fitch  |
|--------------------------------|---------|--------|--------|
| Senior secured credit rating   | Ba3     | BB     | BBB-   |
| Senior unsecured credit rating | B2      | B+     | BB     |
| Corporate credit rating        | B1      | B+     | BB     |
| Outlook                        | Stable  | Stable | Stable |

Factors that could affect our short and long-term credit ratings include, but are not limited to, a material decline in our operating results, increased debt levels relative to operating cash flows resulting from future acquisitions, increased capital expenditure requirements, or changes to our dividend policy. In addition, we are not currently paying down a significant amount of debt. If our credit ratings were to be downgraded from current levels, we might incur higher interest costs on future borrowings, and our access to the public capital markets could be adversely affected.

Tax legislation and administrative initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

We are frequently subject to routine audits by federal, state and local tax authorities. While we believe we have adequately provided for tax contingencies, these audits may result in tax liabilities that differ materially from what we have recognized in our consolidated financial statements.

Furthermore, legislators and regulators at all levels of government may from time to time change existing tax rules and regulations or enact new rules that could negatively impact our operating results and financial condition.

Competition in our consumer service areas could reduce our market share and adversely affect our results of operations and financial condition.

We face intense competitive pressures in our consumer service areas. If we continue to lose consumer households as we have historically, our results of operations and financial condition could be adversely affected. During 2015, our consumer households declined 5.4 percent.

Sources of competition include, but are not limited to, wireless companies, cable television companies and other communications carriers. Many of our competitors, especially wireless and cable television companies, have advantages over us, including substantially larger operational and financial resources, larger and more diverse networks, less stringent regulation and superior brand recognition. For additional discussion regarding competition, see "Competition" in Item 1.

Cable television companies have aggressively expanded in our consumer markets, offering voice and high-speed Internet services in addition to video services. Some of our customers have chosen to move to cable television providers for their voice, high-speed Internet and television bundles. Cable television companies are subject to less

stringent regulations than our consumer operations. For more information, refer to the risk factor, “Our competitors, especially cable television companies, in our consumer markets are subject to less stringent industry regulations.”

Wireless competition has contributed to a reduction in our voice lines and generally has caused pricing pressure in the industry. Some customers have chosen to stop using traditional wireline phone service and instead rely solely on wireless service. We anticipate that this trend toward solely using wireless services will continue, particularly if wireless prices continue to decline and the quality of wireless services improves.

Competition in our consumer markets could affect our revenues and profitability in several ways, including accelerated consumer household loss, reductions by customers in usage-based services or shifts to less profitable services and a need to lower our prices or increase marketing expenses to stay competitive.

If we are prohibited from participating in government programs, our results of operations could be materially and adversely affected.

We are the recipient of a material amount of end user revenue and government funding under various government programs and also serve as a government contractor for services for various state, local and federal agencies. Our failure to comply with the complex government regulations and statutes applicable to the programs, or the terms of one or more of our government contracts, could result in our being suspended or disbarred from future government programs for a significant period of time or result in harm to our reputation with the government and possible restriction from future government activities. While we have implemented compliance programs and internal controls that are reasonably designed to prevent misconduct and non-compliance relating to the government programs and contracting, we cannot eliminate the risk that our employees, partners or subcontractors may independently engage in such activities.

If we are suspended or debarred from government programs, or if our government contracts are terminated for any reason, we could suffer a significant reduction in expected revenue which could have a material and adverse effect on our operating results.

New technologies may affect our ability to compete in our consumer markets.

Wireless companies are aggressively developing networks using next-generation data technologies, which are capable of delivering high-speed Internet service via wireless technology to a larger geographic footprint. If these technologies continue to expand in availability and reliability, they could become an effective alternative to our high-speed Internet services. In addition, cable operators may be able to take advantage of certain technology to deploy faster broadband speeds more rapidly than Windstream.

In addition to broadband technology, evolving voice technologies, such as over-the-top VoIP, may effectively compete with voice and long-distance services in our consumer markets.

These and other new and evolving technologies could result in greater competition for our voice and high-speed Internet services. If we cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by our customers, our results of operations could be adversely affected.

Competitors, especially cable television companies, in our consumer markets are subject to less stringent industry regulations, which could result in voice line and revenues losses in the future.

Cable television companies are generally subject to less stringent regulations than our consumer operations. Cable voice offerings and others are subject to fewer service quality and reporting requirements than our consumer operations, and their rates are generally not subject to regulation, unlike our consumer voice services. Our consumer areas also may be subject to “carrier of last resort” obligations, which generally obligate us to provide basic voice services to any person within our service area regardless of the profitability of the customer. Our competitors in these areas are not subject to such requirements.

Because of these regulatory disparities, we have less flexibility in our consumer markets than our competitors. This could result in accelerated voice line and revenue losses in the future.

Different interpretation and/or implementation of certain sections contained in the FCC's Intercarrier Compensation and Universal Service reform order could result in additional access revenue reductions.

The FCC's reform order adopted in 2011 provides that intrastate traffic that originates in VoIP format and is delivered by long distance carriers to us for termination will be assessed interstate access charges. During 2012, we coordinated with long distance carriers to transition to these reduced interstate access rates, and this transition resulted in further reductions on July 2, 2013.

In a subsequent order, the FCC determined that intrastate traffic we originate through the traditional telephone network and deliver to a customer served under a VoIP platform would be subject to interstate access charges beginning on July 1, 2014. As a result, we incurred additional access revenue reductions beginning on July 1, 2014. While we have petitioned the FCC to create a recovery mechanism, it has not yet done so. We expect additional reductions in intrastate originating access revenue as carriers report higher VoIP factors, but we cannot predict the impact at this time or whether some or all of the impact will be offset by an FCC recovery mechanism.

In 2015, we received approximately 6 percent of our revenues from state and federal USF, and any material adverse regulatory developments with respect to these funds could adversely affect our financial and operating condition.

We receive state and federal USF revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted approximately 6 percent of our revenues for the year ended December 31, 2015. Pending regulatory proceedings to reform state and federal USF programs and our implementation of those reforms could, depending on the outcome, materially reduce our USF revenues.

The FCC is implementing the Connect America Fund, which was adopted in 2011 and includes a short-term (“CAF Phase I”) and a longer-term (“CAF Phase II”) framework. Windstream has elected to participate in both programs. To obtain the available funding, which is greater than the amount Windstream received from the legacy federal universal service program, Windstream has committed to offer broadband to a certain number of locations at specified speeds in particular portions of its service areas. This will require substantial capital investment and large scale construction by Windstream in rural and hard-to-serve geography. Costs of either Phase could exceed estimates by a material amount. The scale and scope of the network buildout to meet the obligations is challenging and complex. If Windstream is not able to fulfill its commitments, it would be required to return some funding and may be subject to additional penalties.

At the state level, the Public Utility Commission (“PUC”) in Texas, which is our largest source of universal service funding, recently adopted a rule that allows a provider to avoid statutorily mandated support reductions beginning in 2017 if the provider can make a showing of financial need. Under the financial needs test adopted by the Texas PUC, a provider can petition for continued support under a two-step process that considers the level of competition and a provider’s expenses. Texas state USF revenues were \$59.5 million in 2015. On December 28, 2015, we filed a petition for our Texas affiliate’s large company support; this petition will be considered by the Texas PUC in a contested proceeding. We also may file petitions next year for continuation of small company support.

We are required to make contributions to state and federal USF programs each year. Most state and federal regulations allow us to recover these contributions by including a surcharge on our customers’ bills. If state and/or federal regulations change, and we become ineligible to receive support, such support is reduced, or we become unable to recover the amounts we contribute to the state and federal USF programs from our customers, our results of operations and financial condition would be directly and adversely affected.

We may need to defend ourselves against lawsuits or claims that we infringe upon the intellectual property rights of others.

From time to time, we receive notices from third parties, or we are named in lawsuits filed by third parties, claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. In certain situations, we may have the ability to seek indemnification from our vendors regarding these lawsuits or claims. If we cannot enforce our indemnification rights or if our vendors lack the financial means to indemnify us, these claims may require us to expend significant time and money defending our alleged use of the affected technology, may require us to enter into licensing agreements requiring one-time or periodic royalty payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, it may result in an adverse impact to our results of operations and

financial condition. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could adversely affect the way we conduct our business.

Weak economic conditions may decrease demand for our services.

We could be affected by economic conditions and downturns in the economy, especially in regards to our business customers. Downturns in the economy in the markets we serve could cause our existing customers to reduce their purchases of our services and make it difficult for us to obtain new customers.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect us.

We originate and terminate calls for long distance and other voice carriers over our network in exchange for access charges. These access charges represent a significant portion of our revenues. Additionally, we are making significant capital investments to deploy fiber-to-the-tower and other network services in return for long-term revenue generating contracts. If these carriers go bankrupt or experience substantial financial difficulties and we are unable to timely collect payments from them, it may have a negative effect on our results of operations and financial condition.

Key suppliers may experience financial difficulties that may affect our operations.

Windstream purchases a significant amount of equipment from key suppliers to maintain, upgrade and enhance our network facilities and operations. Should these suppliers experience financial difficulties, their issues could adversely affect our business through increased prices to source purchases through alternative vendors or unanticipated delays in the delivery of equipment and services purchased.

Adverse developments in our relationship with our employees could adversely affect our business, our results of operations and financial condition.

As of December 31, 2015, we had 1,533 employees, or approximately 12 percent of all of our employees, covered by collective bargaining agreements. Our relationship with these unions generally has been satisfactory.

We are currently party to 23 collective bargaining agreements and one National Pension Agreement with several unions, which expire at various times. Of our existing collective bargaining agreements, nine agreements covering approximately 500 employees are due to expire in 2016. In addition, the national pension agreement covers approximately 500 employees. This agreement expired in 2010 but has been extended indefinitely, subject to the right of Windstream or the unions to terminate the agreement with 30 days notice. Historically, we have succeeded in negotiating new collective bargaining agreements without work stoppages; however, no assurances can be given that we will succeed in negotiating new collective bargaining agreements to replace the expiring ones without work stoppages. Increases in organizational activity or any future work stoppages could have a material adverse effect on our business, our results of operations and financial condition.

#### Item 1B. Unresolved Staff Comments

No reportable information under this item.

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## Item 2. Properties

Our property, plant and equipment consists primarily of land and buildings, office and warehouse facilities, central office equipment, software, outside plant and related equipment. Outside communications plant includes aerial and underground cable, conduit, poles and wires. Central office equipment includes digital switches and peripheral equipment. As such, our properties do not provide a basis for description by character or location of principal units. All of our property is considered to be in good working condition and suitable for its intended purpose.

Our gross investment in property, by category, as of December 31, 2015, was as follows:

| (Millions)                              | Assets Owned<br>by<br>Windstream | Assets Leased<br>from CS&L<br>(a) | Total       |
|-----------------------------------------|----------------------------------|-----------------------------------|-------------|
| Land                                    | \$ 14.8                          | \$ 28.6                           | \$ 43.4     |
| Building and improvements               | 290.8                            | 314.1                             | 604.9       |
| Central office equipment                | 6,013.0                          | 0.9                               | 6,013.9     |
| Outside communications plant            | 1,500.3                          | 5,745.0                           | 7,245.3     |
| Furniture, vehicles and other equipment | 1,655.6                          | 4.6                               | 1,660.2     |
| Total                                   | \$ 9,474.5                       | \$ 6,093.2                        | \$ 15,567.7 |

In connection with the spin-off (see Note 3), Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. For financial reporting purposes, the transaction (a) was accounted for as a failed spin-leaseback. As a result, the net book value of the network assets transferred to CS&L continue to be reported in our consolidated balance sheet.

Certain of our properties are pledged as collateral to secure long-term debt obligations of Windstream Services. The obligations under Windstream Services' senior secured credit facility are secured by liens on all of the personal property assets and the related operations of our subsidiaries who are guarantors of the senior secured credit facility.



### Item 3. Legal Proceedings

On February 9, 2015, a putative stockholder filed a Shareholder Class Action Complaint in the Delaware Court of Chancery, captioned *Doppelt v. Windstream Holdings, Inc., et al.*, C.A. No. 10629-VCN, against the Company and its Board of Directors. This complaint was accompanied by a motion for a preliminary injunction seeking to enjoin the spin-off. The Court, ruling from the bench on February 19, 2015 - the day before a special meeting of stockholders was scheduled to vote on a reverse stock split and amended governing documents (the "Proposals") - denied plaintiff's motion for a preliminary injunction, reasoning that much of the information sought by plaintiff had been disclosed in public filings available on the United States Securities and Exchange Commission's website, the Windstream Board was in no way conflicted, and while approval of the Proposals would facilitate the spin-off, approval was not necessary to effect the spin-off. On March 16, 2015, plaintiff, joined by a second putative Windstream stockholder, filed an Amended Shareholder Class Action Complaint alleging breaches of fiduciary duty by the Company and its Board concerning Windstream's disclosures and seeking to rescind the spin-off and unspecified monetary damages. On February 5, 2016, the Court granted in part and denied in part defendants' motion to dismiss the amended complaint. The Court dismissed Windstream, and plaintiffs' demand to rescind the spin-off, but otherwise denied the motion.

In addition, numerous copyright holders represented by RightsCorp have asserted that our customers have utilized our services to allegedly illegally download and share alleged copyrighted material via peer-to-peer or "filesharing" programs. These holders maintain that Windstream is responsible for alleged infringement because after notification, Windstream did not shut off service to customers alleged to be repeat infringers, and, further, that Windstream may not claim safe harbor pursuant to the Digital Millennium Copyright Act of 1998.

We believe that we have valid defenses to both the lawsuit and the alleged infringement claim, and we plan to vigorously defend the pursuit of both matters. While the ultimate resolution of the matters is not currently predictable, if there are adverse rulings against Windstream in either of these two matters, either ruling could constitute a material adverse outcome on the future consolidated results of our income, cash flows, or financial condition.

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.

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

### Item 4. Mine Safety Disclosures

Not applicable.

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## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Market Information, Holders and Dividends

Our common stock is traded on the NASDAQ Global Select Market under the symbol "WIN." The following table reflects the range of high, low and closing prices of our common stock as reported by Dow Jones & Company, Inc. (a) for each quarter in 2015 and 2014. The stock prices and dividends declared presented below have been adjusted for the one-for-six reverse stock split of our common stock effected on April 26, 2015:

| Year     | Quarter | High    | Low     | Close   | Dividend Declared |     |
|----------|---------|---------|---------|---------|-------------------|-----|
| 2015 (1) | 4th     | \$7.76  | \$5.52  | \$6.44  | \$0.15            |     |
|          | 3rd     | \$8.09  | \$4.42  | \$6.14  | \$0.15            |     |
|          | 2nd     | \$50.82 | \$6.10  | \$6.38  | \$0.51            | (2) |
|          | 1st     | \$53.94 | \$43.38 | \$44.40 | \$1.50            |     |
| 2014 (1) | 4th     | \$65.82 | \$49.32 | \$49.44 | \$1.50            |     |
|          | 3rd     | \$79.80 | \$58.98 | \$64.68 | \$1.50            |     |
|          | 2nd     | \$61.32 | \$49.44 | \$59.76 | \$1.50            |     |
|          | 1st     | \$50.70 | \$43.08 | \$49.44 | \$1.50            |     |

On April 24, 2015, we completed the spin-off of CS&L. The closing price of our common stock on April 24, 2015 (1) was \$46.98, and the opening price on April 27, 2015, the first trading date following consummation of the spin-off, was \$11.72.

On April 24, 2015, we made a cash distribution of \$.3954 per share (or \$.0659 per share on a pre-spin-off/pre-reverse split basis) to our stockholders of record on April 10, 2015. On May 5, 2015, we declared (2) a cash dividend of \$.1104 per share on our common stock, which is equivalent of a prorated per share quarterly dividend for the period beginning April 25, 2015 and ending June 30, 2015, which was payable on July 15, 2015 to shareholders of record on June 30, 2015.

As of February 22, 2016, the approximate number of holders of common stock, including an estimate for those holding shares in street name, was 284,493.

For a discussion of certain restrictions on our ability to pay dividends under Windstream Services' debt instruments, see Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Condition, Liquidity and Capital Resources in the Financial Supplement to this Annual Report on Form 10-K.

(b) Not applicable.

(c) Not applicable.



## Stock Performance

Set forth below is a line graph showing comparisons of annual stockholder returns since December 31, 2010. The graph includes the total cumulative stockholder returns on our common stock, and comparative returns on the S&P 500 Stock Index and the S&P Telecom Index. The S&P Telecom Index consists of the following companies: AT&T Inc., CenturyLink, Inc., Crown Castle International Corp., Frontier Communications Corp., Sprint Communications, Inc., T-Mobile US, Inc., Verizon Communications Inc., Windstream Holdings, Inc. The graph and table below provide the cumulative change of \$100.00 invested on December 31, 2010, including reinvestment of dividends, for the periods indicated.

### Total Cumulative Shareholder Returns

|             | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     |
|-------------|----------|----------|----------|----------|----------|----------|
| Windstream  | \$100.00 | \$91.29  | \$71.21  | \$77.60  | \$89.23  | \$54.87  |
| S&P 500     | \$100.00 | \$102.11 | \$118.43 | \$156.77 | \$178.22 | \$180.66 |
| S&P Telecom | \$100.00 | \$106.27 | \$125.72 | \$140.14 | \$144.33 | \$149.24 |

### Notes to Comparative Shareholder Return:

On April 24, 2015, Windstream completed the spin-off and distribution of CS&L. As a result, Windstream Holdings shareholders received one share of CS&L common stock for every five shares of Windstream Holdings common stock owned. The return calculation for 2015 assumes that the dollar value of the CS&L shares distributed in connection with the spin-off was reinvested in Windstream Holdings common stock on April 27, 2015. The dollar value of the CS&L shares distributed is based on a price per share of CS&L of \$28.60, which was the closing price of CS&L in the “when issued” market on April 24, 2015. The dollar value of the CS&L shares distributed was assumed to be reinvested at a price per share of Windstream Holdings common stock of \$10.61, which was the closing price on April 27, 2015.

## Notes to Comparative Shareholder Return, Continued:

The comparative shareholder return chart is presented in accordance with SEC rules, which treats the CS&L distribution as a dividend that is reinvested back into Windstream Holdings common stock. We believe a more accurate view of shareholder return would treat the distribution of CS&L shares as a one-time, special cash distribution that is not reinvested back into Windstream Holdings common stock. Under this methodology, Windstream Holdings' total shareholder return would have been (11) percent during 2015, and the ending value of the investment in Windstream would have been \$79.39 versus \$54.87 reflected in the chart.

The foregoing performance graph contained in Item 5 shall not be deemed to be soliciting material or be filed with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

## Securities Authorized for Issuance Under Equity Compensation Plans

Under our share-based compensation plans, we may issue restricted stock and other equity securities to directors, officers and other key employees. The maximum number of shares available for issuance under the Windstream 2006 Amended and Restated Equity Incentive Plan is 9.1 million shares and under the PAETEC Holding Corp. 2011 Omnibus Incentive Plan is approximately 0.4 million shares.

The following table sets forth information about our equity compensation plans as of December 31, 2015:

## Equity Compensation Plan Information

| Plan Category                                              | Number of securities to be issued upon exercise of outstanding options, warrants and rights [a] | Weighted-average exercise price of outstanding options, warrants and rights [b] | Number of securities remaining available for future issuance under equity compensation plans [c] (excluding securities reflected in column [a]) |      |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Equity compensation plans not approved by security holders | 1,150,712                                                                                       | \$8.62                                                                          | 395,350                                                                                                                                         | (1 ) |
| Equity compensation plans approved by security holders     | —                                                                                               | —                                                                               | 9,088,011                                                                                                                                       | (2 ) |
| Total                                                      | 1,150,712                                                                                       | \$8.62                                                                          | 9,483,361                                                                                                                                       |      |

(1) Includes shares available under the Amended and Restated PAETEC Holding Corp. 2011 Omnibus Incentive Plan.

(2) The Amended and Restated Windstream 2006 Equity Incentive Plan.

## Unregistered Sales of Equity Securities and Use of Proceeds

On August 5, 2015, our board of directors authorized a stock repurchase program of up to \$75.0 million to be completed by December 31, 2016. Under the repurchase plan, we may repurchase shares, from time to time, on the open market. Information associated with this plan for the fourth quarter of 2015 is included in the following table:

| Period                | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Dollar Value that May Yet Be Purchased Under the Plan (Millions) |
|-----------------------|--------------------------------------|------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------|
| October 1 - 30, 2015  | —                                    | —                            | —                                                                    | \$55.0                                                                   |
| November 1 - 30, 2015 | 2,310,143                            | 5.89                         | 2,307,076                                                            | \$41.4                                                                   |
| December 1 - 31, 2015 | 2,064,514                            | 6.23                         | 2,015,034                                                            | \$28.8                                                                   |
| Total                 | 4,374,657                            | \$6.05                       | 4,322,110                                                            |                                                                          |

Includes 52,547 shares that were not part of our publicly announced share repurchase program. These shares represent shares which were withheld for tax payments due upon the vesting of employee restricted stock awards, (1) and do not reduce the dollar value that may yet be purchased under our publicly announced share repurchase program. We intend to continue to satisfy statutory minimum tax withholding obligations in connection with the vesting of outstanding restricted stock through the withholding of shares.

## Item 6. Selected Financial Data

For information pertaining to our Selected Financial Data, refer to page F-33 of the Financial Supplement, which is incorporated by reference herein.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For information pertaining to Management's Discussion and Analysis of our Financial Condition and Results of our Operations, refer to pages F-2 to F-32 of the Financial Supplement, which is incorporated by reference herein.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information pertaining to our market risk disclosures, refer to page F-27 of the Financial Supplement, which is incorporated by reference herein.

## Item 8. Financial Statements and Supplementary Data

For information pertaining to our Financial Statements and Supplementary Data, refer to pages F-39 to F-99 of the Financial Supplement, which is incorporated by reference herein.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The term “disclosure controls and procedures” (defined in Exchange Act Rule 13a-15(e)) refers to the controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Windstream Holdings’ and Windstream Services’ disclosure controls and procedures as of the end of the period covered by these annual reports (the “Evaluation Date”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such disclosure controls and procedures were effective.

(b) Management’s report on internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting, which appears on page F-36 of the Financial Supplement, is incorporated by reference herein.

(c) Changes in internal control over financial reporting.

The term “internal control over financial reporting” (defined in Exchange Act Rule 13a-15(f)) refers to the process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in Windstream Holdings’ and Windstream Services’ internal control over financial reporting that occurred during the period covered by these annual reports, and they have concluded that there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

No reportable information under this item.





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## Item 10. Directors, Executive Officers, and Corporate Governance

For information pertaining to our Directors refer to “Proposal No. 1 – Election of Directors” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the Audit Committee financial expert and corporate governance refer to “Board and Board Committee Matters” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the Audit Committee, refer to “Audit Committee Report” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.

Our executive officers as of December 31, 2015, were as follows:

| Name                   | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                             | Age |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Anthony W. Thomas      | President and Chief Executive Officer of Windstream since December 12, 2014; Chief Financial Officer of Windstream from August 2013 to December 2014; Chief Financial Officer and Treasurer of Windstream from May 2012 to August 2013; Chief Financial Officer of Windstream from August 2009 to May 2012; Controller of Windstream from July 2006 to August 2009.                                                                             | 44  |
| Robert E. Gunderman    | Chief Financial Officer of Windstream since June 2015; Chief Financial Officer and Treasurer of Windstream from December 12, 2014 to June 2015; Senior Vice President - Financial Planning and Treasurer of Windstream from August 2013 to December 2014; Senior Vice President - Financial Planning and Treasury of Windstream from June 2012 to August 2013; Vice President - Financial Planning of Windstream from August 2008 to June 2012. | 43  |
| John P. Fletcher       | Executive Vice President and General Counsel of Windstream since January 2015; Executive Vice President, General Counsel and Secretary of Windstream from July 2006 to January 2015.                                                                                                                                                                                                                                                            | 50  |
| James David Works, Jr. | President - Enterprise of Windstream since December 12, 2014; Executive Vice President and Chief Human Resources Officer of Windstream from February 2012 to December 2014; Senior Vice President and President, Talent and Human Capital Services of Sears Holdings Corp. from September 2009 to January 2012.                                                                                                                                 | 48  |
| John C. Eichler        | Vice President and Controller of Windstream since August 10, 2009; Vice President of Internal Audit from July 2006 to August 2009.                                                                                                                                                                                                                                                                                                              | 44  |

We have a code of ethics that applies to all employees and members of the Board of Directors. Our code of ethics, referred to as the “Working with Integrity” guidelines, is posted on the Investor Relations page on our web site ([www.windstream.com](http://www.windstream.com)) under “Corporate Governance”. We will disclose in the “Corporate Governance” section of the Investor Relations page on our web site amendments and waivers with respect to the Code of Ethics that would otherwise be required to be disclosed under Item 5.05 of Form 8-K. We will provide to any stockholder a copy of the foregoing information, without charge, upon written request to Investor Relations, Windstream, 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

For information regarding compliance with Section 16(a) of the Exchange Act, refer to “Section 16 (a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.



Item 11. Executive Compensation

For information pertaining to Executive Compensation, refer to “Compensation Discussion and Analysis” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information pertaining to beneficial ownership of our securities and director independence, refer to “Security Ownership of Directors and Executive Officers”, “Security Ownership of Certain Beneficial Owners” and “Board and Board Committee Matters” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information pertaining to Certain Relationships and Related Transactions, refer to “Relationships and Certain Related Transactions” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

For information pertaining to fees paid to our principal accountant and the Audit Committee’s pre-approval policy and procedures with respect to such fees, refer to “Audit and Non-Audit Fees” in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.

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

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

Financial Statements:

1. Our Consolidated Financial Statements are included in the Financial Supplement, which is incorporated by reference herein:

Financial  
Supplement  
Page Number

Management's Report on Internal Control Over Financial Reporting

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Reports of Independent Registered Public Accounting Firm

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Windstream Holdings, Inc. Consolidated Financial Statements

Consolidated Statements of Operations -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Comprehensive Income (Loss) -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Balance Sheets - as of December 31, 2015 and 2014

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Consolidated Statements of Cash Flows -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Shareholders' Equity -

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for the years ended December 31, 2015, 2014, and 2013

Windstream Services, LLC Consolidated Financial Statements

Consolidated Statements of Operations -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Comprehensive Income (Loss) -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Balance Sheets - as of December 31, 2015 and 2014

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Consolidated Statements of Cash Flows -

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for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Member Equity -

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for the years ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

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2. Financial Statement Schedules:

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Schedule I. Condensed Financial Information of the Registrant

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Schedule II. Valuation and Qualifying Accounts

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3. Exhibits:

Exhibit Index

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All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.



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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINDSTREAM HOLDINGS, INC.  
(Registrant)

WINDSTREAM SERVICES, LLC  
(Registrant)

By /s/ Anthony W. Thomas Date: February 25, 2016  
Anthony W. Thomas, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Robert E. Gunderman Date: February 25, 2016  
Robert E. Gunderman, Chief Financial Officer (Principal Financial Officer)

By /s/ Anthony W. Thomas February 25, 2016  
Anthony W. Thomas, President and Chief Executive Officer

By /s/ John C. Eichler February 25, 2016  
John C. Eichler, Vice President and Controller (Principal Accounting Officer)

\*Carol B. Armitage, Director

\*Samuel E. Beall, III, Director

Jeannie Diefenderfer, Director

\*Jeffrey T. Hinson, Director

\*Judy K. Jones, Director

\*William G. LaPerch, Director

Larry Laque, Director

\*William A. Montgomery, Director

\*Michael G. Stoltz, Director

\*Alan L. Wells, Director

By /s/ Kristi M. Moody  
\* (Kristi M. Moody,  
Attorney-in-fact)

February 25, 2016

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WINDSTREAM HOLDINGS, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF  
THE REGISTRANT (PARENT COMPANY)

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| (Millions)                                               | For the Year<br>Ended<br>December 31,<br>2015 | For the Year<br>Ended<br>December 31,<br>2014 | For the period of<br>August 30, 2013<br>(date of formation)<br>to December 31,<br>2013 |
|----------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------|
| Operating revenues:                                      |                                               |                                               |                                                                                        |
| Leasing income from subsidiaries                         | \$446.0                                       | \$—                                           | \$—                                                                                    |
| Total operating revenues                                 | 446.0                                         | —                                             | —                                                                                      |
| Costs and expenses:                                      |                                               |                                               |                                                                                        |
| Selling, general and administrative                      | 2.0                                           | 2.3                                           | 0.5                                                                                    |
| Depreciation expense                                     | 239.7                                         | —                                             | —                                                                                      |
| Total costs and expenses                                 | 241.7                                         | 2.3                                           | 0.5                                                                                    |
| Operating income (loss)                                  | 204.3                                         | (2.3                                          | ) (0.5                                                                                 |
| Interest expense on long-term lease obligation with CS&L | (351.6                                        | ) —                                           | —                                                                                      |
| Loss before income taxes and equity in subsidiaries      | (147.3                                        | ) (2.3                                        | ) (0.5                                                                                 |
| Income tax benefit                                       | (57.0                                         | ) (0.9                                        | ) (0.2                                                                                 |
| Loss before equity in subsidiaries                       | (90.3                                         | ) (1.4                                        | ) (0.3                                                                                 |
| Equity earnings (losses) from subsidiaries               | 117.7                                         | (38.1                                         | ) 137.6                                                                                |
| Net income (loss)                                        | \$27.4                                        | \$(39.5                                       | ) \$137.3                                                                              |
| Comprehensive (loss) income                              | \$(269.1                                      | ) \$(55.9                                     | ) \$134.4                                                                              |

See Notes to Condensed Financial Information (Parent Company) and Notes to Consolidated Financial Statements of Windstream Holdings, Inc. and Subsidiaries included in the Financial Supplement

WINDSTREAM HOLDINGS, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF  
THE REGISTRANT (PARENT COMPANY)

## BALANCE SHEETS

(Millions, except par value)

| Assets                                                                                                  | 2015      | 2014     |
|---------------------------------------------------------------------------------------------------------|-----------|----------|
| Current Assets:                                                                                         |           |          |
| Distributions receivable from Windstream Services                                                       | \$ 15.1   | \$ 152.4 |
| Total current assets                                                                                    | 15.1      | 152.4    |
| Investment and affiliate related balances                                                               | 2,009.5   | 224.8    |
| Net property, plant and equipment                                                                       | 2,301.3   | —        |
| Deferred income taxes                                                                                   | 1,076.0   | —        |
| Total Assets                                                                                            | \$5,401.9 | \$377.2  |
| Liabilities and Shareholders' Equity                                                                    |           |          |
| Current liabilities:                                                                                    |           |          |
| Accrued dividends                                                                                       | \$ 15.1   | \$ 152.4 |
| Current portion of long-term lease obligation                                                           | 152.7     | —        |
| Total current liabilities                                                                               | 167.8     | 152.4    |
| Long-term lease obligation                                                                              | 4,927.7   | —        |
| Total liabilities                                                                                       | 5,095.5   | 152.4    |
| Shareholders' Equity:                                                                                   |           |          |
| Common stock, \$0.0001 par value, 166.7 shares authorized, 96.7 and 100.5 shares issued and outstanding | —         | —        |
| Additional paid-in capital                                                                              | 602.9     | 252.2    |
| Accumulated other comprehensive (loss) income                                                           | (284.4    | ) 12.1   |
| Accumulated deficit                                                                                     | (12.1     | ) (39.5  |
| Total shareholders' equity                                                                              | 306.4     | 224.8    |
| Total Liabilities and Shareholders' Equity                                                              | \$5,401.9 | \$377.2  |

See Notes to Condensed Financial Information (Parent Company) and Notes to Consolidated Financial Statements of Windstream Holdings, Inc. and Subsidiaries included in the Financial Supplement



WINDSTREAM HOLDINGS, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF  
THE REGISTRANT (PARENT COMPANY)

## STATEMENTS OF CASH FLOWS

| (Millions)                                                                       | For the Year<br>Ended<br>December 31,<br>2015 | For the Year<br>Ended<br>December 31,<br>2014 | For the period of<br>August 30, 2013<br>(date of formation)<br>to December 31,<br>2013 |
|----------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------|
| Cash Provided from Operations:                                                   |                                               |                                               |                                                                                        |
| Net income (loss)                                                                | \$27.4                                        | \$(39.5                                       | ) \$137.3                                                                              |
| Adjustments to reconcile net income (loss) to net cash provided from operations: |                                               |                                               |                                                                                        |
| Equity (earnings) losses from subsidiaries                                       | (117.7                                        | ) 38.1                                        | (137.6 )                                                                               |
| Depreciation expense                                                             | 239.7                                         | —                                             | —                                                                                      |
| Deferred income taxes                                                            | (56.2                                         | ) —                                           | —                                                                                      |
| Changes in operating assets and liabilities, net:                                |                                               |                                               |                                                                                        |
| Other current assets                                                             | —                                             | —                                             | (0.1 )                                                                                 |
| Net cash provided from (used in) operating activities                            | 93.2                                          | (1.4                                          | ) (0.4 )                                                                               |
| Cash Flows from Investing Activities:                                            |                                               |                                               |                                                                                        |
| Additions to property, plant and equipment                                       | (43.1                                         | ) —                                           | —                                                                                      |
| Net cash used in investing activities                                            | (43.1                                         | ) —                                           | —                                                                                      |
| Cash Flows from Financing Activities:                                            |                                               |                                               |                                                                                        |
| Distributions from Windstream Services                                           | 416.6                                         | 603.6                                         | 149.4                                                                                  |
| Funding received from CS&L                                                       | 43.1                                          | —                                             | —                                                                                      |
| Dividends paid to shareholders                                                   | (369.2                                        | ) (602.2                                      | ) (149.0 )                                                                             |
| Stock repurchases                                                                | (46.2                                         | ) —                                           | —                                                                                      |
| Payments under long-term lease obligation                                        | (94.4                                         | ) —                                           | —                                                                                      |
| Net cash (used in) provided from financing activities                            | (50.1                                         | ) 1.4                                         | 0.4                                                                                    |
| Change in cash and cash equivalents                                              | —                                             | —                                             | —                                                                                      |
| Cash and Cash Equivalents:                                                       |                                               |                                               |                                                                                        |
| Beginning of period                                                              | —                                             | —                                             | —                                                                                      |
| End of period                                                                    | \$—                                           | \$—                                           | \$—                                                                                    |

See Notes to Condensed Financial Information (Parent Company) and Notes to Consolidated Financial Statements of Windstream Holdings, Inc. and Subsidiaries included in the Financial Supplement

WINDSTREAM HOLDINGS, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF  
THE REGISTRANT (PARENT COMPANY)

Background and Basis of Presentation: Notwithstanding the accounting treatment for the spin-off transaction as further discussed below, following its formation on August 30, 2013, Windstream Holdings, Inc. (“Windstream Holdings”) has no material assets or operations other than its ownership in Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation, and its subsidiaries. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company. Following the conversion Windstream Holdings owns a 100 percent interest in Windstream Services.

On April 24, 2015, Windstream Holdings completed the spin-off of certain telecommunications network assets and other real estate, into an independent, publicly traded real estate investment trust, Communications Sales & Leasing, Inc. (“CS&L”). Immediately prior to the effective time of the spin-off, Windstream Services and its subsidiaries contributed the network assets to Windstream Holdings for distribution to CS&L. The telecommunications network assets consisted of copper cable and fiber optic cable lines, telephone poles, underground conduits, concrete pads, attachment hardware (e.g., bolts and lashings), pedestals, guy wires, anchors, signal repeaters, and central office land and buildings, with a net book value of approximately \$2.5 billion at the time of spin-off. Following the spin-off transaction, on April 24, 2015, Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. Due to various forms of continuing involvement, including Windstream Services or its subsidiaries, retaining bare legal title (but not beneficial ownership) to the various easements, permits and pole attachments related to the telecommunications network assets, the transaction was accounted for as a failed spin-leaseback for financial reporting purposes. As a result, the accompanying condensed parent company financial statements include the telecommunications network assets and other real estate assets, the long-term lease obligation associated with the master lease and the related deferred income taxes. As the master lease was entered into by Windstream Holdings for the direct benefit of Windstream Services and its subsidiaries, Windstream Services is also deemed to have continuing involvement due to retaining its regulatory obligations associated with operating the telecommunications network assets. Accordingly, the effects of the failed spin-leaseback transaction have also been reflected in the standalone consolidated financial statements of Windstream Services (collectively referred to as “CS&L spin transactions”).

Certain covenants within Windstream Services’ senior secured credit facility may restrict its ability to distribute funds to Windstream Holdings in the form of dividends, loans or advances. Accordingly, these condensed financial statements of Windstream Holdings have been presented on a “Parent Only” basis. Under this basis of presentation, Windstream Holdings’ investment in its consolidated subsidiaries are presented under the equity method of accounting. Amounts reflected in these condensed parent company financial statements for investment and affiliated related balances and equity earnings from subsidiaries have been adjusted to account for the effects of the telecommunications network assets, long-term lease obligation, depreciation expense, principal and interest payments on the long-term lease obligation and related income tax effects that are also included in the net income and equity of Windstream Services. Equity income (losses) from subsidiaries for 2015 includes \$89.1 million of intercompany income related to the CS&L spin transactions.

On April 24, 2015, Windstream Holdings amended its 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 outstanding shares of common stock which became effective April 26, 2015. Share data of Windstream Holdings has been retrospectively adjusted to reflect the decrease in authorized shares and the reverse stock split.

The condensed parent company financial statements should be read in conjunction with the consolidated financial statements and notes of Windstream Holdings and subsidiaries included in the Financial Supplement to this Annual Report on Form 10-K.



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WINDSTREAM HOLDINGS, INC.  
WINDSTREAM SERVICES, LLC  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
(Millions)

| Column A                                                                      | Column B                       | Column C                               |                           | Column D   | Column E                 |
|-------------------------------------------------------------------------------|--------------------------------|----------------------------------------|---------------------------|------------|--------------------------|
| Description                                                                   | Balance at Beginning of Period | Additions Charged to Cost and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
| Allowance for doubtful accounts, customers and others:                        |                                |                                        |                           |            |                          |
| For the years ended:                                                          |                                |                                        |                           |            |                          |
| December 31, 2015                                                             | \$43.4                         | \$47.1                                 | \$—                       | \$57.4     | (a) \$33.1               |
| December 31, 2014                                                             | \$40.0                         | \$54.8                                 | \$—                       | \$51.4     | (a) \$43.4               |
| December 31, 2013                                                             | \$42.6                         | \$63.5                                 | \$—                       | \$66.1     | (a) \$40.0               |
| Valuation allowance for deferred tax assets:                                  |                                |                                        |                           |            |                          |
| For the years ended:                                                          |                                |                                        |                           |            |                          |
| December 31, 2015                                                             | \$94.9                         | \$3.8                                  | \$75.4                    | (b) \$26.2 | (c) \$147.9              |
| December 31, 2014                                                             | \$84.9                         | \$10.0                                 | \$—                       | \$—        | \$94.9                   |
| December 31, 2013                                                             | \$85.9                         | \$7.1                                  | \$—                       | \$8.1      | (d) \$84.9               |
| Accrued liabilities related to merger, integration and restructuring charges: |                                |                                        |                           |            |                          |
| For the years ended:                                                          |                                |                                        |                           |            |                          |
| December 31, 2015                                                             | \$11.2                         | \$115.7                                | (e) \$—                   | \$121.8    | (h) \$5.1                |
| December 31, 2014                                                             | \$14.0                         | \$76.3                                 | (f) \$—                   | \$79.1     | (h) \$11.2               |
| December 31, 2013                                                             | \$20.1                         | \$38.8                                 | (g) \$—                   | \$44.9     | (h) \$14.0               |

## Notes:

(a) Accounts charged off net of recoveries of amounts previously written off.

(b) Reflects adjustment to valuation allowances on net operating loss carryforwards due to the effects of the REIT spin-off, which was charged to additional paid-in capital.

(c) Reduction of valuation allowances on net operating loss carryforwards due to the effects of the reorganization of certain subsidiaries to limited liability companies completed during the first quarter of 2015.

(d) Reversal of valuation allowances on net operating loss carryforwards realized due to the sale of Pinnacle Software Company and on capital loss carryforwards realized as a result of capital gains recognized.

Costs primarily consist of charges incurred related to the REIT spin-off, the sale of our data center business and charges related to a network optimization project designed to consolidate traffic onto network facilities operated by (e) us and reduce the usage of other carriers' networks, including service areas acquired in the PAETEC acquisition. Restructuring charges primarily include severance and other employee benefit costs resulting from workforce reductions completed during the year and costs incurred related to a special shareholder meeting.

Costs primarily consist of charges for various information technology conversions, consulting fees and other (f) expenses incurred related to the REIT spin-off and severance and other employee benefit costs resulting from workforce reductions completed during the year.

(g) Costs primarily represent charges related to information technology conversions and network efficiency projects.

(h) Represents cash outlays for merger, integration and restructuring costs.

See Note 10, “Merger, Integration and Restructuring Charges”, to the consolidated financial statements on page F-82 in the Financial Supplement, which is incorporated herein by reference, for additional information regarding the merger, integration and restructuring charges recorded by us in 2015, 2014 and 2013.

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EXHIBIT INDEX

Number and Name

- |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                           |   |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 2.1 | Agreement and Plan of Merger, dated August 29, 2013, by and among Windstream Corporation, Windstream Holdings, Inc., and WIN Merger Sub, Inc. (incorporated herein by reference to Exhibit 2.1 to Windstream Holdings, Inc.'s Form 8-K dated August 30, 2013).                                                                                                                                                                                            | * |
| 2.2 | Separation and Distribution Agreement, dated as of March 26, 2015, by and among Windstream Holdings, Inc., Windstream Services, LLC and Communications Sales & Leasing, Inc. (incorporated herein by reference to Exhibit 2.1 to Windstream Holdings, Inc.'s and Windstream Services, LLC's Form 8-K dated March 26, 2015).                                                                                                                               | * |
| 3.1 | Amended and Restated Certificate of Incorporation of Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to Windstream Holdings, Inc.'s Form 8-K dated August 30, 2013).                                                                                                                                                                                                                                                           | * |
| 3.2 | Certificate of Amendment to Windstream Holdings, Inc.'s Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on April 24, 2015 and effective on April 26, 2015 (incorporated herein by reference to Exhibit 3.1 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015).                                                                                                                               | * |
| 3.3 | Amended and Restated Bylaws of Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 to Windstream Holdings, Inc.'s Form 8-K dated August 30, 2013).                                                                                                                                                                                                                                                                                 | * |
| 3.4 | Second Amended and Restated Bylaws of Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to Windstream Holdings, Inc.'s Form 8-K dated February 14, 2014).                                                                                                                                                                                                                                                                        | * |
| 3.5 | Third Amended and Restated Bylaws of Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to Windstream Holdings, Inc.'s Form 8-K dated November 19, 2015).                                                                                                                                                                                                                                                                         | * |
| 3.6 | Amended and Restated Certificate of Incorporation of Windstream Corporation (incorporated herein by reference to Exhibit 3.3 to Windstream Holdings Inc.'s Form 8-K dated August 30, 2013).                                                                                                                                                                                                                                                               | * |
| 3.7 | State of Delaware Certificate of Formation of Windstream Services, LLC (incorporated herein by reference Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015).                                                                                                                                                                                                                                                                                         | * |
| 3.8 | Certificate of Designations of Series A Participating Preferred Stock of Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to Windstream Holdings, Inc.'s Form 8-K dated September 18, 2015).                                                                                                                                                                                                                                    | * |
| 4.1 | Indenture dated as of October 8, 2009 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K date October 8, 2009), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). | * |
| 4.2 | Indenture dated as of October 6, 2010 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated October 6, 2010), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor                                            | * |

subsidiaries are identified on Exhibit 21).

- 4.3 Indenture dated March 16, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated March 16, 2011). \*
- 4.4 Indenture dated as of March 28, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated 28, 2011). \*
- 4.5 Indenture dated as of November 22, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated November 22, 2011). \*
- 4.6 Indenture dated as of January 23, 2013, among Windstream Corporation, as Issuer, and US Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated January 23, 2013). \*
- 4.7 Indenture dated as of August 26, 2013, among Windstream Corporation, as Issuer, and US Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to Windstream Corporation's Form 8-K dated August 28, 2013). \*

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EXHIBIT INDEX, Continued

Number and Name

- |      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |   |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 4.8  | Form of 7.875% Senior Note due 2017 of Windstream Corporation (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K date October 8, 2009).                                                                                                                                                                                                                                                                                                                        | * |
| 4.9  | Form of 7.75% Senior Note due 2020 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated October 6, 2010).                                                                                                                                                                                                                                                                                     | * |
| 4.10 | Form of 7.5% Senior Notes due 2023 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of March 16, 2011).                                                                                                                                                                                                                                                                                | * |
| 4.11 | Form of 7.75% Senior Notes due 2021 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of March 28, 2011).                                                                                                                                                                                                                                                                               | * |
| 4.12 | Form of 7.5% Senior Notes due 2022 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of November 22, 2011).                                                                                                                                                                                                                                                                             | * |
| 4.13 | Form of 6.375% Senior Notes due 2023 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Form 8-K dated January 23, 2013).                                                                                                                                                                                                                                                                                                    | * |
| 4.14 | Seventh Supplemental Indenture to the 7.875% Senior Notes due 2017, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the "Company"), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015). | * |
| 4.15 | Second Supplemental Indenture to the 7.75% Senior Notes due 2020, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the "Company"), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015).   | * |
| 4.16 | First Supplemental Indenture to the 7.50% Senior Notes due 2023, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the "Company"), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015).    | * |
| 4.17 | First Supplemental Indenture to the 7.75% Senior Notes due 2021, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the "Company"), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015).    | * |
| 4.18 | First Supplemental Indenture to the 7.50% Senior Notes due 2022, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability                                                                                                                                                                                                                                                                                          | * |



company (the “Company”), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.’s Form 10-Q dated May 7, 2015).

4.19 First Supplemental Indenture to the 6 3/8% Senior Notes due 2023, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the “Company”), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.’s Form 10-Q dated May 7, 2015).

4.20 First Supplemental Indenture to the 7.75% Senior Notes due 2021, dated as of March 2, 2015, among Windstream Services, LLC (as successor to Windstream Corporation), a Delaware limited liability company (the “Company”), Windstream Finance Corp., a Delaware corporation, together the Issuers, the guarantor subsidiaries of the Company, and U.S. Bank National Association, as Trustee (incorporated herein by reference Windstream Holdings Inc.’s Form 10-Q dated May 7, 2015).

4.21 Rights Agreement, dated as of September 17, 2015, by and between Windstream Holdings, Inc. and Computershare Trust Company, N.A., as Rights Agent (incorporated herein by reference to Exhibit 4.1 \* to Windstream Holdings, Inc.’s Form 8-K dated September 18, 2015).

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| 10.1  | Fifth Amended and Restated Credit Agreement, dated as of January 23, 2013, among Windstream Corporation, as borrower, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, certain Co-Documentation Agents, J.P. Morgan Securities, Inc., Bookrunner and Lead Arranger, and certain Joint Bookrunners and Joint Arrangers (incorporated herein by reference to Exhibit A to Exhibit 10.1 to the Corporation's Form 8-K dated January 23, 2013). | * |
| 10.2  | Amendment No. 1, dated as of August 23, 2013, to the Fifth Amended and Restated Credit Agreement dated as of January 23, 2013, among Windstream Corporation, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative and collateral agent (incorporated herein by reference to Exhibit 10.30 of Windstream Corporation's Form 10-Q dated November 7, 2013).                                                                                                                    | * |
| 10.3  | Sixth Amended and Restated Credit Agreement originally dated as of July 17, 2006, as amended and restated as of April 24, 2015, by and among Windstream Services, LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the other agents party thereto (incorporated herein by reference to Exhibit 10.10 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015).                                                                     | * |
| 10.4  | Holdings Agreement, dated April 24, 2015, by and between Windstream Holdings, Inc., Windstream Services, LLC, and JPMorgan Chase Bank, N.A., as administrative agent under the Sixth ARCA (incorporated herein by reference to Exhibit 10.11 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015).                                                                                                                                                                                        | * |
| 10.5  | Director Compensation Program dated February 6, 2013 as assumed by Windstream Holdings, Inc., as of August 30, 2013 (incorporated herein by reference to Windstream Holdings Inc.'s Form 10-K dated February 19, 2013).                                                                                                                                                                                                                                                                            | * |
| 10.6  | Form of Restricted Shares Agreement (Non-Employee Directors) entered into between Windstream Corporation and non-employee directors (incorporated herein by reference to Exhibit 10.3 to the Corporation's Current Report on Form 8-K dated February 6, 2007) and as assumed by Windstream Holdings, Inc.                                                                                                                                                                                          | * |
| 10.7  | Windstream Corporation Performance Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.8 to the Corporation's Current Report on Form 8-K dated July 17, 2006).                                                                                                                                                                                                                                                                                                             | * |
| 10.8  | Amendment No. 1 to Windstream Corporation Performance Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Corporation's Current Report on Form 8-K dated January 4, 2008).                                                                                                                                                                                                                                                                                        | * |
| 10.9  | Windstream Corporation Benefit Restoration Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K dated January 4, 2008).                                                                                                                                                                                                                                                                              | * |
| 10.10 | Windstream Corporation 2007 Deferred Compensation Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated January 4, 2008).                                                                                                                                                                                                                                                                       | * |
| 10.11 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | * |

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Form of Indemnification Agreement entered into between Windstream Corporation and its directors and executive officers (incorporated herein by reference to Exhibit 10.13 to the Corporation's Current Report on Form 8-K dated July 17, 2006) and as assumed by Windstream Holdings, Inc.

- 10.12 Form of Indemnification Agreement entered into between Windstream Holdings, Inc., Windstream Corporation, and its directors and executive officers (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated February 14, 2014). \*
- 10.13 Form of Restricted Shares Agreement (Officers: Restricted Stock-Clawback Policy) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated February 19, 2010) and as assumed by Windstream Holdings, Inc. \*
- 10.14 Form of Performance Based Restricted Stock Unit Agreement (Officers: RSU-Clawback Policy) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated February 8, 2011) and as assumed by Windstream Holdings, Inc. \*
- 10.15 Form of 2016 Performance-Based Restricted Stock Unit Agreement entered into between Windstream Holdings, Inc., and its executive officers as of February 9, 2016. (a)
- 10.16 Agreement, by and between Windstream Holdings, Inc. and Anthony W. Thomas, dated as of December 11, 2014 (incorporated herein by reference to Exhibit 10.2 to Windstream Holdings Inc.'s Form 8-K dated December 12, 2014). \*

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| 10.17 | Amendment to Employment Agreement by and between Windstream Holdings, Inc., and Anthony W. Thomas, dated as of February 9, 2016.                                                                                                                                                                   | (a) |
| 10.18 | Form of Change-In-Control Agreement, dated as of January 1, 2013, entered into between Windstream Corporation and certain executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Form 8-K dated January 1, 2013) and as assumed by Windstream Holdings, Inc.    | *   |
| 10.19 | Windstream 2006 Equity Incentive Plan (as amended and restated effective February 17, 2010 (incorporated herein by reference to Appendix A to the Corporation's Proxy Statement dated March 26, 2010) and as assumed by Windstream Holdings, Inc.                                                  | *   |
| 10.20 | Amendment to Windstream 2006 Equity Incentive Plan (as amended and restated effective February 12, 2014) and as assumed by Windstream Holdings, Inc. (incorporated herein by reference to Windstream Holdings Inc.'s Form 10-Q dated August 6, 2015).                                              | *   |
| 10.21 | Amendment to PAETEC Holding Corp. 2011 Amended and Restated Omnibus Incentive Plan as assumed by Windstream Holdings, Inc. (incorporated herein by reference to Windstream Holdings Inc.'s* Form 10-Q dated August 6, 2015).                                                                       |     |
| 10.22 | PAETEC Holding Corp. 2011 Omnibus Incentive Plan. (incorporated herein by reference to Exhibit 10.1 to PAETEC Holding Corp.'s Current Report on Form 8-K filed with the SEC on June 3, 2011) for equity awards issued on or prior to November 30, 2011 and as assumed by Windstream Holdings, Inc. | *   |
| 10.23 | PAETEC Holding Corp. 2007 Omnibus Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.1 to the PAETEC's Form 8-K dated May 20, 2008) and as assumed by Windstream Holdings,* Inc.                                                                                           |     |
| 10.24 | PAETEC Corp. 2001 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.10.1 to the Registration Statement on Form S-4 filed by PAETEC Holding Corp. with the SEC on November 13, 2006 (SEC File No. 333-138594)) and as assumed by Windstream Holdings, Inc.            | *   |
| 10.25 | Form of US LEC Corp. 1998 Omnibus Stock Plan, as amended (incorporated herein by Exhibit (d) Schedule TO filed by US LEC Corp. with the SEC on February 23, 2006 (File No. 005-54177) and as assumed by Windstream Holdings, Inc.                                                                  | *   |
| 10.26 | McLeodUSA Incorporated 2006 Omnibus Equity Plan (incorporated herein by reference to Exhibit 10.1 to Registration Statement on Form S-8 filed by PAETEC Holding Corp. with the SEC on February 8, 2008 (SEC File No. 333-149130)) and as assumed by Windstream Holdings, Inc.                      | *   |
| 10.27 | PAETEC Holding Corp. 2009 Agent Incentive Plan (filed as Exhibit 4.7 to PAETEC Holding Corp.'s Registration Statement on Form S-3 (SEC File Number 333-159344) and incorporated herein by reference) and as assumed by Windstream Holdings, Inc.                                                   | *   |
| 10.28 | Form of Assignment and Assumption Agreement between Windstream Corporation and Windstream Holdings, Inc. (incorporated herein by reference to Exhibit 10.1 to Windstream Holdings, Inc.'s Form 8-K dated August 30, 2013).                                                                         | *   |

- 10.29 Operating Agreement of Windstream Services, LLC. (incorporated herein by reference to Windstream Holdings Inc.'s Form 10-Q dated May 7, 2015). \*
- 10.30 Master Lease, entered into as of April 24, 2015, by and among CSL National, L.P. and the other entities listed therein, as Landlord, and Windstream Holdings, Inc. as Tenant (incorporated herein by reference to Exhibit 10.1 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015). \*
- 10.31 Tax Matters Agreement, entered into as of April 24, 2015, by and among Windstream Holdings, Inc., Windstream Services, LLC and Communications Sales & Leasing, Inc. (incorporated herein by reference to Exhibit 10.2 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015). \*
- 10.32 Stockholder's and Registration Rights Agreements, made as of April 24, 2015, by and between Windstream Services, LLC and Communications Sales & Leasing, Inc. (incorporated herein by reference to Exhibit 10.7 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015). \*
- 10.33 Recognition Agreement, dated April 24, 2015, by and among CSL National, LP and the other entities listed therein, as Landlord, and Windstream Holdings, Inc., as Tenant, and JPMorgan Chase Bank, N.A., as administrative agent under the Sixth ARCA (incorporated herein by reference to Exhibit 10.12 to Windstream Holdings, Inc.'s Form 8-K dated April 27, 2015). \*

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| 23      | Consents of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.                                                              | (a) |
| 24      | Power of Attorney.                                                                                                                                  | (a) |
| 31(a)   | Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                | (a) |
| 31(b)   | Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                | (a) |
| 32(a)   | Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (a) |
| 32(b)   | Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (a) |
| 101.INS | XBRL Instance Document                                                                                                                              | (a) |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                             | (a) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                               | (a) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                | (a) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                     | (a) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                              | (a) |
| *       | Incorporated herein by reference as indicated.                                                                                                      |     |
| (a)     | Filed herewith.                                                                                                                                     |     |

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

The following sections provide an overview of our results of operations and highlight key trends and uncertainties in our business. Certain statements constitute forward-looking statements. See “Forward-Looking Statements” at the end of this discussion for additional factors relating to such statements, and see “Risk Factors” in Item 1A of Part I of this annual report for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

### 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. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). Following the conversion, Windstream Holdings owns a 100 percent interest in Windstream Services. Windstream Holdings common stock trades on the Nasdaq Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. All shares of Windstream Services common stock are held by Windstream Holdings and do not trade on any stock market. 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 SEC. Windstream Holdings is not a guarantor of nor subject to the restrictive covenants included in any of Windstream Services’ debt agreements.

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 directly incurred 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. For the years ended December 31, 2015 and 2014, the amount of expenses directly incurred by Windstream Holdings were approximately \$2.0 million and \$2.3 million, respectively, on a pretax basis, or \$1.2 million and \$1.4 million on an after-tax basis. Unless otherwise indicated, the following discussion of our business strategy, trends and results of operations pertain to both Windstream Holdings and Windstream Services.

### OVERVIEW

We are a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and carrier partners across the United States. We offer bundled services, including broadband, security solutions, voice and digital television to consumers. We also provide data, cloud solutions, unified communications and managed services to small business and enterprise clients. We supply core transport solutions on a local and long-haul fiber-optic network spanning approximately 125,000 miles.

Our vision is to provide a best-in-class customer experience through a world-class network. Our “network first” strategy entails leveraging our existing infrastructure and investing in the latest technologies to create significant value for both our customers and our shareholders. In 2015, we implemented a new business unit organizational structure focused on our core customer relationships to strengthen our ability to achieve our operational, strategic and financial goals. Our new structure segments our business operations around our four core customer groups; Consumer and Small Business - ILEC, Carrier, Enterprise, and Small Business- CLEC as further defined below. We differentiate our business customers between enterprise and small business based on the monthly revenue generated from the customer with

enterprise customers comprising those relationships that generate \$1,500 or more in monthly recurring revenues and small business comprising those relationships that generate less than \$1,500 per month. Our small business customer base is further disaggregated between those 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 services areas in which we are a competitive local exchange carrier (“CLEC”) and provide services over network facilities primarily leased from other carriers. We manage as one business our consumer and small business - ILEC operations due to the similarities with respect to service offerings, marketing strategies and customer service delivery. Our new business unit structure aligns all aspects of the customer relationship (sales, service delivery, and customer service) to improve accountability to the customer and sharpen our operational focus.

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### EXECUTIVE SUMMARY

Key strategic achievements in 2015 included:

As further discussed below, we completed the spin-off of certain telecommunications network assets into an independent, publicly traded real estate investment trust (“REIT”) and then entered into an agreement to leaseback the network assets from Communications Sales & Leasing, Inc. (“CS&L”). As part of this transaction, we retained a 19.6 percent ownership interest in CS&L and reduced long-term debt by approximately \$3.2 billion lowering our cash interest on long-term debt by approximately \$80.5 million in 2015. Through the monetization of our retained ownership interest in CS&L, we are positioned to retire additional long-term debt.

We repurchased in the open market \$299.5 million of long-term debt, which improved our debt maturity profile and will lower annual interest expense on long-term debt by approximately \$17.5 million.

We completed the sale of a substantial portion of our data center business to TierPoint, LLC (“TierPoint”), a leading national provider of cloud, colocation and managed services, for \$575.0 million in cash. As part of the transaction, we established an ongoing reciprocal strategic partnership with TierPoint, allowing both companies to sell their respective products and services to each other’s prospective customers through referrals. This arrangement with TierPoint allows us to invest capital in our core telecommunications offerings while continuing to offer traditional data center services to enterprise customers across a broader TierPoint data center footprint.

We made capital investments of nearly \$1.1 billion which included upgrades and expansion of our broadband and carrier network capabilities to provide faster consumer high-speed Internet services and to improve overall network reliability and efficiency. We believe these capital investments will improve our competitiveness in the marketplace and provide a path to grow revenue and gain market share.

To return value to shareholders, on August 5, 2015, our board of directors authorized a stock repurchase program of up to \$75.0 million to be completed by December 31, 2016. Under this plan, we will buy back shares opportunistically through open market purchases. During 2015, we repurchased 7.5 million of our common shares at a total cost of \$46.2 million. We completed the stock repurchase in February 2016 having repurchased \$28.8 million of our stock subsequent to year-end.

Operating results during 2015 were favorably impacted by the gain from the sale of our data center business, additional subsidy revenues received from the Connect America Fund (“CAF”) Phase II, growth in enterprise revenues, reflecting increased demand for integrated data and voice services, multi-site networking and data center services, and dividend income earned on our retained ownership interest in CS&L. Operating results during 2015 were impacted by additional interest expense attributable to the long-term lease obligation under the master lease agreement with CS&L and REIT-related transaction costs, including investment banker fees, legal and accounting fees, and losses incurred on the early extinguishment of long-term debt. Reductions in small business, carrier and switched access revenues due to customer losses from business closures and competition, declining demand for copper-based circuits to towers and the adverse effects of intercarrier compensation reform, respectively, also impacted our operating results during 2015, when compared to 2014.

For 2016, our goals are focused on executing on our business unit strategies, specifically to grow Consumer and Small Business - ILEC revenues and to grow revenues and improve margins in our Enterprise segment. We will continue to make significant targeted investments to leverage our existing fiber network to provide faster consumer high-speed Internet services, expand our carrier long-haul network and reduce network-related expenses. We will continue to simplify our IT systems and processes to improve operating efficiency and to better serve our customers.

COMPLETION OF SPIN-OFF OF CERTAIN NETWORK AND REAL ESTATE ASSETS

On April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate, into an independent, publicly traded REIT. The spin-off also included substantially all of our consumer CLEC business. Pursuant to the plan of distribution and immediately prior to the effective time of the spin-off, we contributed the network assets and the consumer CLEC business to CS&L, a wholly owned subsidiary of Windstream, in exchange for: (i) the issuance to Windstream of CS&L common stock of which 80.4 percent of the shares were distributed on a pro rata basis to Windstream's stockholders, (ii) cash payment to Windstream in the amount of \$1.035 billion and (iii) the distribution by CS&L to Windstream of approximately \$2.5 billion of CS&L debt securities. After giving effect to the interest in CS&L retained by Windstream, each Windstream Holdings shareholder received one share of CS&L for every five shares of Windstream Holdings common stock held in the form of a tax-free dividend.

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In connection with the distribution, CS&L borrowed approximately \$2.14 billion through a new senior credit agreement. CS&L also issued debt securities in the private placement market to fund the cash payment and to issue its debt securities to Windstream, consisting of \$1,110.0 million aggregate principal amount of 8.25 percent senior notes due April 15, 2023 and \$400.0 million aggregate principal amount of 6.0 percent senior secured notes due October 15, 2023. The CS&L unsecured notes and the borrowings under CS&L's new senior credit agreement were issued at a discount, and accordingly, at the date of distribution, CS&L issued to Windstream approximately \$2.5 billion of its debt securities consisting of \$970.2 million in term loans, \$400.0 million in secured and \$1,077.3 million in unsecured notes (the "CS&L Securities").

On April 24, 2015, following the completion of the spin-off transaction, Windstream transferred the CS&L Securities and cash to two investment banks, in exchange for the transfer by the investment banks to Windstream of certain debt securities of Windstream Services consisting of \$1.7 billion aggregate principal amount of borrowings outstanding under Tranche 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 in Windstream Services' senior credit facility held by the investment banks.

On April 24, 2015, Windstream Services called for redemption all of its \$400.0 million aggregate principal amount of 8.125 percent senior unsecured notes due September 1, 2018, 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 up to the redemption date. Also on April 24, 2015, PAETEC Holding, LLC, ("PAETEC") a direct, wholly-owned subsidiary of Windstream Services, called for redemption all \$450.0 million of its outstanding aggregate principal amount of 9.875 percent notes due 2018, 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 up to the redemption date. On May 27, 2015, we completed the redemption of these two debt obligations, using a portion of the \$1.035 billion cash payment received from CS&L to fund the redemption price.

As of the spin-off date, excluding restricted shares issued to Windstream employees and directors, Windstream retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions.

See Note 3 for additional information regarding the spin-off.

## MASTER LEASE AGREEMENT

On April 24, 2015, Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. Under the terms of the master lease, Windstream Holdings has the exclusive right to use the telecommunications network assets for an initial term of 15 years with up to four, five-year renewal options and Windstream Holdings is required to pay all property taxes, insurance, and repair or maintenance costs associated with the leased property. The master lease provides for an annual rent of \$650.0 million paid in equal monthly installments in advance and is fixed for the first three years. Thereafter, rent will increase on an annual basis at a base rent escalator of 0.5 percent. During December 2015, we requested and CS&L agreed to fund \$43.1 million of capital expenditures. As a result, the annual lease payment increased at a rate of 8.125 percent of the funds received from CS&L, or from \$650.0 million to \$653.5 million. Future lease payments due under the agreement reset to fair market rental rates upon Windstream Holdings' execution of the renewal options. Due to various forms of continuing involvement, including Windstream Services retaining bare legal title (but not beneficial ownership) to the various easements, permits and pole attachments related to the telecommunications network assets, we have accounted for the transaction as a failed spin-leaseback for financial reporting purposes. As a result, the net book value of the network assets transferred to CS&L continue to be reported in our consolidated balance sheet and all depreciable assets will be fully depreciated over the initial lease term of 15 years. At inception of the master lease, we recorded a long-term

lease obligation of approximately \$5.1 billion equal to the sum of the minimum future annual lease payments over the 15-year lease term discounted to the present value based on Windstream Services' incremental borrowing rate. Funding received from CS&L in December 2015 for capital expenditures was recorded as an increase to the long-term lease obligation. As annual lease payments are made, a portion of the payment will decrease the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

See Note 5 for additional information regarding the master lease agreement.

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## REVERSE STOCK SPLIT

At a special meeting held on February 20, 2015, Windstream shareholders approved a proposal regarding an amendment to our restated certificate of incorporation to effect a reclassification (reverse stock split) of Windstream Holdings common stock, whereby (i) each outstanding six (6) shares of common stock would be combined into and become one (1) share of common stock and (ii) to decrease the number of authorized shares of common stock proportionately.

On April 24, 2015, Windstream Holdings filed a certificate of amendment to its restated certificate of incorporation with the secretary of state of the State of Delaware. The certificate of amendment effected the previously approved reverse stock split of Windstream Holdings outstanding common stock at a ratio of one-for-six (the “reverse stock split”). As a result of the reverse stock split, effective April 26, 2015, Windstream Holdings’ authorized share capital was reduced to 200.0 million shares, consisting of 33.3 million shares of preferred stock, par value \$.0001 per share, and 166.7 million shares of common stock, par value \$.0001 per share and the number of issued and outstanding shares of common stock of Windstream Holdings was reduced to approximately 100.9 million shares.

## CONSOLIDATED RESULTS OF OPERATIONS

The following table reflects the consolidated operating results of Windstream Holdings as of December 31:

| (Millions)                                      | 2015      | 2014      | 2013      | 2015 to 2014           |      | 2014 to 2013           |       |
|-------------------------------------------------|-----------|-----------|-----------|------------------------|------|------------------------|-------|
|                                                 |           |           |           | Increase<br>(Decrease) | %    | Increase<br>(Decrease) | %     |
| Revenues and sales:                             |           |           |           |                        |      |                        |       |
| Service revenues                                | \$5,598.6 | \$5,647.6 | \$5,775.5 | \$(49.0)               | (1)  | \$(127.9)              | (2)   |
| Product sales                                   | 166.7     | 181.9     | 212.6     | (15.2)                 | (8)  | (30.7)                 | (14)  |
| Total revenues and sales                        | 5,765.3   | 5,829.5   | 5,988.1   | (64.2)                 | (1)  | (158.6)                | (3)   |
| Costs and expenses:                             |           |           |           |                        |      |                        |       |
| Cost of services (a) (b)                        | 2,762.0   | 2,773.3   | 2,541.2   | (11.3)                 | —    | 232.1                  | 9     |
| Cost of products sold                           | 145.2     | 156.6     | 183.9     | (11.4)                 | (7)  | (27.3)                 | (15)  |
| Selling, general, and administrative (a)        | 866.5     | 929.8     | 874.3     | (63.3)                 | (7)  | 55.5                   | 6     |
| Depreciation and amortization                   | 1,366.5   | 1,386.4   | 1,340.9   | (19.9)                 | (1)  | 45.5                   | 3     |
| Merger and integration costs                    | 95.0      | 40.4      | 30.2      | 54.6                   | 135  | 10.2                   | 34    |
| Restructuring charges                           | 20.7      | 35.9      | 8.6       | (15.2)                 | (42) | 27.3                   | 317   |
| Total costs and expenses                        | 5,255.9   | 5,322.4   | 4,979.1   | (66.5)                 | (1)  | 343.3                  | 7     |
| Operating income                                | 509.4     | 507.1     | 1,009.0   | 2.3                    | —    | (501.9)                | (50)  |
| Other income (expense), net                     | 57.5      | 0.1       | (12.5)    | 57.4                   | *    | 12.6                   | (101) |
| Gain on sale of data center business            | 326.1     | —         | —         | 326.1                  | —    | —                      | —     |
| Loss on early extinguishment of debt            | (36.4)    | —         | (28.5)    | (36.4)                 | —    | 28.5                   | (100) |
| Interest expense                                | (813.2)   | (571.8)   | (627.7)   | (241.4)                | 42   | 55.9                   | (9)   |
| Income (loss) from continuing operations        | 43.4      | (64.6)    | 340.3     | 108.0                  | 167  | (404.9)                | (119) |
| before income taxes                             |           |           |           |                        |      |                        |       |
| Income tax (benefit) expense                    | 16.0      | (25.1)    | 105.3     | 41.1                   | 164  | (130.4)                | (124) |
| Income (loss) income from continuing operations | 27.4      | (39.5)    | 235.0     | 66.9                   | 169  | (274.5)                | (117) |
| Discontinued operations, net of tax             | —         | —         | 6.0       | —                      | —    | (6.0)                  | (100) |
| Net income (loss)                               | \$27.4    | \$(39.5)  | \$241.0   | \$66.9                 | 169  | \$(280.5)              | (116) |

\* Not meaningful

(a) Prior year amounts for cost of services and selling, general and administrative have been adjusted to reflect the proper classification of certain operating expenses. See Note 1 for additional information.

(b) Excludes depreciation and amortization included below.

A detailed discussion and analysis of our consolidated operating results is presented below.

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The following table reflects the primary drivers of year-over-year changes in service revenues:

| (Millions)                                                 | Year Ended<br>December 31, 2015 |        | Year Ended<br>December 31, 2014 |        |
|------------------------------------------------------------|---------------------------------|--------|---------------------------------|--------|
|                                                            | Increase<br>(Decrease)          | %      | Increase<br>(Decrease)          | %      |
| Due to increases in enterprise (a)                         | \$77.1                          |        | \$84.4                          |        |
| Due to decreases in consumer and small business - ILEC (b) | (24.3)                          | )      | (23.9)                          | )      |
| Due to decreases in carrier (c)                            | (41.8)                          | )      | (49.4)                          | )      |
| Due to decreases in small business - CLEC (d)              | (99.3)                          | )      | (107.2)                         | )      |
| Due to changes in regulatory and other (e)                 | 31.2                            |        | (52.6)                          | )      |
| Net decreases in service revenues                          | \$(57.1)                        | ) (1 ) | \$(148.7)                       | ) (2 ) |

Increases in enterprise revenues were primarily due to the continued demand for advanced data services partially (a) offset by decreases in traditional voice and long-distance revenues due to lower usage and the adverse effects of competition.

Decreases were primarily due to declines in voice-only revenues attributable to the reductions in customers from (b) the impacts of competition. The decreases are partially offset by growth in high-speed Internet bundles due to the continued migration of customers to higher speeds, increased sales of value added services, and targeted price increases.

(c) Decreases were due to declines in wireless TDM revenues that consist of monthly recurring charges for dedicated copper-based circuits as a result of carriers migrating to fiber-based networks.

(d) Decreases were primarily due to a decline in the number of customers served as a result of business closures and competition.

Regulatory revenues include switched access revenues, federal and state Universal Service Fund (“USF”) revenues, CAF Phase II support, and funds received from the access recovery mechanism (“ARM”). Switched access revenues include usage sensitive revenues from long distance companies and other carriers for access to our network in connection with the completion of long distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for the use of our network facilities. USF revenues are government subsidies (e) designed to partially offset the cost of providing wireline services in high-cost areas. CAF Phase II funding is administered by the FCC for the purpose of expanding and supporting broadband service in rural areas and effectively replaces frozen USF support in those states in which we elected to receive the CAF Phase II funding. The ARM is additional federal universal service support available to help mitigate revenue losses from intercarrier compensation reform not covered by the access recovery charge (“ARC”). See Regulatory Matters for further discussion.

Other service revenues include USF surcharge revenues, revenues from other miscellaneous services, wholesale reseller revenues generated from the master services agreement with CS&L, and consumer revenues generated in markets where we lease the connection to the customer premise. As previously discussed, we transferred substantially all of this consumer business to CS&L in connection with the spin-off of certain network and real estate assets. Revenues attributable to the sold data center and directory publishing businesses, as well as the consumer CLEC business transferred to CS&L are not assigned to the segments and are also included in other service revenues for all periods prior to the dates of disposal.

The increase during 2015 was primarily attributable to the CAF Phase II incremental support received that was retroactive to January 1, 2015, partially offset by reductions in switched access revenues due to the impacts of

intercarrier compensation reform and the transfer of the consumer CLEC business to CS&L in conjunction with the spin-off. Conversely, the decrease in 2014 was primarily attributable to reductions in switched access revenues due to the impacts of intercarrier compensation reform.

See “Segment Operating Results” for a further discussion of changes in enterprise, consumer and small business - ILEC, carrier, and small business - CLEC revenues.

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## Product Sales

Product sales consist of sales of various types of communications equipment to our customers. We also sell network equipment to contractors on a wholesale basis. Enterprise product sales includes high-end data and communications equipment which facilitate the delivery of advanced data and voice services to our enterprise customers. Consumer product sales include high-speed Internet modems, home networking equipment, computers and phones. Sales of high-speed Internet modems to consumers have declined as a result of our implementation of a modem rental program.

The following table reflects the primary drivers of year-over-year changes in product sales:

| (Millions)                                   | Year Ended<br>December 31, 2015 |        | Year Ended<br>December 31, 2014 |         |
|----------------------------------------------|---------------------------------|--------|---------------------------------|---------|
|                                              | Increase<br>(Decrease)          | %      | Increase<br>(Decrease)          | %       |
| Due to changes in contractor sales           | \$12.3                          |        | \$(13.1)                        | )       |
| Due to decreases in enterprise product sales | (12.9)                          | )      | (18.4)                          | )       |
| Due to changes in consumer product sales     | (14.6)                          | )      | 0.9                             |         |
| Net decreases in product sales               | \$(15.2)                        | ) (8 ) | \$(30.6)                        | ) (14 ) |

## Cost of Services

Cost of services expense primarily consists of charges incurred for network operations, interconnection, bad debt and business taxes. Network operations charges include salaries and wages, materials, contractor costs, IT support and costs to lease certain network facilities. Interconnection consists of charges incurred to access the public switched network and transport traffic to the Internet, including charges paid to other carriers for access points where we do not own the primary network infrastructure. Other expense consists of third-party costs for ancillary voice and data services, business and financial services, bad debt and business taxes.

The following table reflects the primary drivers of year-over-year changes in cost of services:

| (Millions)                                               | Year Ended<br>December 31, 2015 |     | Year Ended<br>December 31, 2014 |   |
|----------------------------------------------------------|---------------------------------|-----|---------------------------------|---|
|                                                          | Increase<br>(Decrease)          | %   | Increase<br>(Decrease)          | % |
| Due to increases in interconnection expense (a)          | \$76.1                          |     | \$8.8                           |   |
| Due to increases in network operations (b)               | 32.9                            |     | 4.0                             |   |
| Due to increases in federal USF expenses (c)             | 8.2                             |     | 18.7                            |   |
| Due to changes in employee medical expenses              | (5.8)                           | )   | 7.6                             |   |
| Due to decreases in other expenses                       | (20.7)                          | )   | (10.4)                          | ) |
| Due to changes in pension and postretirement expense (d) | (102.0)                         | )   | 203.4                           |   |
| Net changes in cost of services                          | \$(11.3)                        | ) — | \$232.1                         | 9 |

(a) Increases in interconnection expense were primarily attributable to increased purchases of circuits due to the growth in data customers, as well as higher capacity circuits to service existing customers and increase the transport capacity of our network, partially offset by rate reductions and cost improvements from the continuation of network efficiency projects.

(b) Increases in network operations were primarily due to higher leased network facilities costs attributable to expansion of our fiber transport network.

(c) Increases in the federal USF contributions were driven by an increase in the average USF contribution factor each year.

The decrease in pension and postretirement expense in 2015 was primarily attributable to the difference in the net actuarial losses recognized in the current and prior year periods. During 2015, we recognized a net actuarial loss of (d) \$8.7 million, of which \$6.7 million was included in cost of services. Comparatively, we recognized an actuarial loss of \$128.6 million in 2014, of which \$101.0 million was recorded to cost of services, and we recognized an actuarial gain of \$110.4 million

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in 2013, of which \$83.7 million was included in cost of services. The net actuarial loss in 2015 resulted primarily from our pension plan assets not performing as well as expected, partially offset by the effects of an increase in the discount rate used to measure our pension obligations, which increased from 4.14 percent in 2014 to 4.55 percent in 2015. Conversely, the net actuarial loss in 2014 resulted from a decrease in the discount rate from 5.01 percent in 2013 to 4.14 percent in 2014 and changes to our mortality assumptions reflecting longer life expectancies of plan participants. The net actuarial gain in 2013 was attributable to an increase in the discount from 3.85 percent in 2012 to 5.01 percent in 2013. Year-over-year comparisons also reflected the effects of curtailment and settlement gains recognized in each year from the elimination of medical and prescription subsidies for certain active and retired participants. These gains reduced cost of services by \$14.3 million in 2015 compared to \$7.1 million in 2014. See Note 8 to the consolidated financial statements for additional information regarding our pension and postretirement benefit plans.

**Cost of Products Sold**

Cost of products sold represents the cost of equipment sales to customers. The changes in cost of products sold were generally consistent with the changes in product sales.

The following table reflects the primary drivers of year-over-year changes in cost of products sold:

| (Millions)                                                | Year Ended<br>December 31, 2015 |        | Year Ended<br>December 31, 2014 |         |
|-----------------------------------------------------------|---------------------------------|--------|---------------------------------|---------|
|                                                           | Increase<br>(Decrease)          | %      | Increase<br>(Decrease)          | %       |
| Due to changes in sales to contractors                    | \$12.1                          |        | \$(12.9)                        | )       |
| Due to decreases in product sales to consumers            | (7.9)                           | )      | (1.6)                           | )       |
| Due to decreases in product sales to enterprise customers | (15.6)                          | )      | (12.8)                          | )       |
| Net decreases in cost of products sold                    | \$(11.4)                        | ) (7 ) | \$(27.3)                        | ) (15 ) |

**Selling, General and Administrative (“SG&A”)**

SG&A expenses result from sales and marketing efforts, advertising, IT support, costs associated with corporate and other support functions and professional fees. These expenses include salaries, wages and employee benefits not directly associated with the provisioning of services.

The following table reflects the primary drivers of year-over-year changes in SG&A expenses:

| (Millions)                                                    | Year Ended<br>December 31, 2015 |        | Year Ended<br>December 31, 2014 |   |
|---------------------------------------------------------------|---------------------------------|--------|---------------------------------|---|
|                                                               | Increase<br>(Decrease)          | %      | Increase<br>(Decrease)          | % |
| Due to changes in sales and marketing expenses (a)            | \$(7.0)                         | )      | \$45.8                          |   |
| Due to decreases in salaries and wages and other benefits (b) | (13.0)                          | )      | (46.2)                          | ) |
| Due to decreases in other costs                               | (14.4)                          | )      | (6.1)                           | ) |
| Due to changes in pension and postretirement expense (c)      | (28.9)                          | )      | 62.0                            |   |
| Net changes in SG&A                                           | \$(63.3)                        | ) (7 ) | \$55.5                          | 6 |

The decrease in 2015 was primarily attributable to reduced advertising spend related to demand generation of sales (a) leads and customer research and analytics. The increase in 2014 primarily due to the expansion of enterprise marketing campaigns designed to generate sales leads and promote brand awareness.

(b) The decrease in salaries and wages and other benefits in 2015 was primarily attributable to the completion of several small workforce reductions during the year. The decrease in 2014 was primarily due to a reduction in our

enterprise sales force.

The decrease in pension and postretirement expense in 2015 was primarily attributable to the difference in the net actuarial losses recognized. During 2015, a net actuarial loss of \$8.7 million was recognized, of which \$2.0 million was included in SG&A. Comparatively, we recognized an actuarial loss of \$128.6 million in 2014, of which \$27.6 (c) million was included in SG&A, and we recognized an actuarial gain of \$110.4 million in 2013, of which \$26.7 million was included in SG&A. The net actuarial loss in 2015 resulted primarily from our pension plan assets not performing as well as expected, partially

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offset by the effects of an increase in the discount rate used to measure our pension obligations, which increased from 4.14 percent in 2014 to 4.55 percent in 2015. Conversely, the net actuarial loss in 2014 resulted from a decrease in the discount rate from 5.01 percent in 2013 to 4.14 percent in 2014 and changes to our mortality assumptions reflecting longer life expectancies of plan participants. The net actuarial gain in 2013 was attributable to an increase in the discount from 3.85 percent in 2012 to 5.01 percent in 2013. Year-over-year comparisons also reflected the effects of curtailment and settlement gains recognized from the elimination of medical and prescription subsidies for certain active and retired participants. These gains reduced SG&A by \$3.7 million in 2015 compared to \$4.4 million in 2014. See Note 8 to the consolidated financial statements for additional information regarding our pension and postretirement benefit plans.

**Depreciation and Amortization Expense**

Depreciation and amortization expense includes the depreciation of property, plant and equipment and the amortization of intangible assets.

The following table reflects the primary drivers of year-over-year changes in depreciation and amortization expense:

| (Millions)                                           | Year Ended<br>December 31, 2015 |        | Year Ended<br>December 31, 2014 |   |
|------------------------------------------------------|---------------------------------|--------|---------------------------------|---|
|                                                      | Increase<br>(Decrease)          | %      | Increase<br>(Decrease)          | % |
| Due to increases in depreciation expense (a)         | \$16.0                          |        | \$80.5                          |   |
| Due to decreases in amortization expense (b)         | (35.9)                          | )      | (35.0)                          | ) |
| Net changes in depreciation and amortization expense | \$(19.9)                        | ) (1 ) | \$45.5                          | 3 |

(a) Increases in depreciation expense were primarily due to additions to property, plant and equipment.

Decreases in amortization expense reflected the use of the sum-of-the-years-digits method for customer lists. The (b) effect of using an accelerated amortization method results in incremental declines in expense each year as the intangible assets amortize.

**Merger, Integration and Restructuring Costs**

We incur costs to complete a merger or acquisition and integrate its operations into our business, which are presented as merger and integration expense in our consolidated results of operations. These costs include transaction costs, such as accounting, legal and broker fees; severance and related costs; IT and network conversion; rebranding; and consulting fees. We also incurred investment banking fees, legal, accounting and other consulting fees related to the REIT spin-off and the sale of a portion of our data center business. During the fourth quarter of 2015, we began a network optimization project designed to consolidate traffic onto network facilities operated by us and reduce the usage of other carriers' networks, including service areas acquired in the PAETEC acquisition. In undertaking this initiative, which we expect to complete during 2016, we incurred costs to migrate traffic to lower cost circuits and to terminate existing contracts prior to their expiration. The PAETEC acquisition and costs related to the spin-off and sale of our data center business account for the merger and integration costs incurred for the periods presented.

Restructuring charges are primarily incurred as a result of evaluations of our operating structure. Among other things, these evaluations explore opportunities to provide greater flexibility in managing and financing existing and future strategic operations, for task automation and the balancing of our workforce based on the current needs of our customers. Severance, lease exit costs and other related charges are included in restructuring charges.

During 2015, we incurred restructuring charges of \$15.6 million related to the completion of several small workforce reductions. Additionally, we incurred charges of \$3.1 million related to the special shareholder meeting held on February 20, 2015 to approve the one-for-six reverse stock split and the conversion of Windstream Corporation to Windstream Services.

During 2014, we completed two workforce reductions to increase operational efficiency by eliminating a total of approximately 750 positions, including 295 resulting from voluntary separation initiatives. We also completed several smaller workforce reductions throughout the year. In connection with these workforce reductions, we incurred pre-tax restructuring charges of \$24.1 million during 2014, primarily consisting of severance and other employee benefit costs. As a result of certain changes in our executive management team, we also incurred severance-related costs of \$6.3 million in 2014.

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Set forth below is a summary of restructuring and merger and integration costs for the years ended December 31:

| (Millions)                                          | 2015    | 2014   | 2013   |
|-----------------------------------------------------|---------|--------|--------|
| Merger and integration costs:                       |         |        |        |
| Information technology conversion costs (a)         | \$7.5   | \$20.8 | \$17.3 |
| Costs related to REIT spin-off                      | 65.1    | 15.5   | —      |
| Costs related to sale of data center business       | 10.3    | —      | —      |
| Network optimization and conversion costs           | 5.9     | —      | —      |
| Consulting and other costs (b)                      | 6.2     | 4.1    | 12.9   |
| Total merger and integration costs                  | 95.0    | 40.4   | 30.2   |
| Restructuring charges (c)                           | 20.7    | 35.9   | 8.6    |
| Total merger, integration and restructuring charges | \$115.7 | \$76.3 | \$38.8 |

(a) Information technology conversion costs incurred primarily consisted of redundant IT platform integrations designed to improve processes and drive efficiencies.

(b) Consulting and other costs, during 2015, mostly consisted of consulting fees related to the sale of a substantial portion of our data center business. In 2013, we incurred consulting fees related to network efficiency projects.

Restructuring charges are primarily due to small workforce reductions completed during 2015, an early termination of a software licensing agreement and the special shareholder meeting, as discussed above. In 2014, restructuring charges primarily relate to the workforce reduction completed in the first quarter of 2014, also discussed above, as well as other restructuring activities. In 2013, we incurred charges related to a voluntary workforce reduction initiated to better align our focus on enterprise customer opportunities.

#### Summary of Liability Activity Related to Both Merger and Integration Costs and Restructuring Charges

As of December 31, 2015, we had unpaid merger, integration and restructuring liabilities totaling \$5.1 million, which consisted of \$2.6 million associated with the restructuring initiatives and \$2.5 million related to merger and integration activities, which are included in other current liabilities in the accompanying consolidated balance sheet. Payments of these liabilities will be funded through operating cash flows (see Note 10).

#### Operating Income

Operating income increased \$2.3 million in 2015 primarily due to the differences in the amount of net actuarial losses and curtailment and settlement gains recognized in pension and postretirement expense compared to 2014, incremental CAF Phase II revenues received in the second half of 2015, and growth in enterprise revenues, reflecting continued demand for advanced data services. These increases were partially offset by an increase in interconnection costs, transaction costs related to the REIT spin-off and sale of the data center business and reductions in small business - CLEC and carrier revenues due to customer losses from business closures and competition and declining demand for copper-based circuits, respectively. In 2014, operating income decreased \$501.9 million, or 50 percent. The decrease was primarily due to reductions in consumer, carrier and regulatory revenues as a result of continued voice line losses, declining demand for dedicated copper-based circuits, and the adverse effects of intercarrier compensation reform, respectively. Higher sales and marketing expenses attributable to our brand awareness initiatives, restructuring costs related to workforce reductions and additional depreciation expense resulting from additions to property, plant and equipment also contributed to the declines in operating income in 2014.



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## Other Income (Expense), Net

Set forth below is a summary of other income (expense), net for the years ended December 31:

| (Millions)                             | 2015   | 2014   | 2013      |
|----------------------------------------|--------|--------|-----------|
| Interest income                        | \$1.3  | \$1.0  | \$1.0     |
| Dividend income on CS&L common stock   | 48.4   | —      | —         |
| Gain (loss) on disposal (a)            | 10.7   | —      | (6.4 )    |
| Other income (expense), net (b)        | 0.8    | (0.6 ) | (8.7 )    |
| Ineffectiveness of interest rate swaps | (3.7 ) | (0.3 ) | 1.6       |
| Other income (expense), net            | \$57.5 | \$0.1  | \$(12.5 ) |

The gain recognized during 2015 represents the gain from the sale of our remaining non-strategic directory (a) publishing business completed on April 1, 2015. The loss realized in 2013 was primarily due to the disposal of various non-operating real estate assets.

(b) Other income (expense), net during 2013, primarily consisted of costs incurred in connection with the Holding Company Formation.

## Loss on Extinguishment of Debt

The net loss on extinguishment of debt by debt instrument was as follows for the year ended December 31, 2015:

|                                                       | (Millions) |
|-------------------------------------------------------|------------|
| Senior secured credit facility borrowings             | \$(15.9 )  |
| 2018 Notes                                            | (21.7 )    |
| Partial repurchase of 2017, 2021, 2022 and 2023 Notes | 7.0        |
| PAETEC 2018 Notes                                     | (5.3 )     |
| Cinergy Communication Company Notes                   | (0.5 )     |
| Net loss on early extinguishment of debt              | \$(36.4 )  |

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.

On May 27, 2015, Windstream Services retired all \$400.0 million of the outstanding aggregate principal amount of 8.125 percent senior unsecured notes due September 1, 2018 (the "2018 Notes") and all \$450.0 million of the outstanding aggregate principal amount of 9.875 percent notes due 2018 (the "PAETEC 2018 Notes") using a portion of the cash payment received from CS&L in conjunction with the spin-off. On April 24, 2015, Windstream Services also repaid all \$1.9 million of unsecured notes of its subsidiary. The retirements were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations during the second quarter of 2015.

During the third and fourth quarters of 2015, Windstream Services repurchased in the open market certain of its senior unsecured notes representing an aggregate principal amount of \$299.5 million, utilizing available borrowings under Windstream Services' revolving line of credit. The partial repurchase was accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized a pretax gain of \$7.0 million.

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The loss on extinguishment of debt by debt instrument was as follows for the year ended December 31, 2013:

| (Millions)                           | (Millions) |
|--------------------------------------|------------|
| 2019 Notes                           | \$(14.7 )  |
| Senior secured credit facility       | (2.5 )     |
| PAETEC 2017 Notes                    | (11.3 )    |
| Loss on early extinguishment of debt | \$(28.5 )  |

During 2013, Windstream Services retired all \$500.0 million of the outstanding 7.000 percent notes due March 15, 2019 (“2019 Notes”) using proceeds from the private placement of \$500.0 million in aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021 (“2021 Notes”). During 2013, Windstream Services also retired all \$650.0 million of the outstanding 8.875 percent PAETEC Notes due June 30, 2017 (“PAETEC 2017 Notes”). The PAETEC 2017 Notes were repurchased using proceeds from the issuance of \$700.0 million of 6.375 percent notes due August 1, 2023 (“2023 Notes”). Windstream Services also amended its senior secured credit facility including issuance of Tranche B4, the proceeds of which were used to repay Tranche A2, Tranche B and Tranche B2 during the first quarter of 2013. The retirements and a portion of the credit facility amendment were accounted for under the extinguishment method of accounting, and, as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations.

## Interest Expense

Set forth below is a summary of interest expense for the years ended December 31:

| (Millions)                                               | 2015    | 2014    | 2013    |
|----------------------------------------------------------|---------|---------|---------|
| Senior secured credit facility, Tranche A                | \$5.4   | \$17.2  | \$19.4  |
| Senior secured credit facility, Tranche B                | 37.7    | 71.2    | 78.4    |
| Senior secured credit facility, revolving line of credit | 21.1    | 22.2    | 14.6    |
| Senior unsecured notes                                   | 355.4   | 384.4   | 418.1   |
| Credit facility extension fees                           | —       | —       | 6.2     |
| Notes issued by subsidiaries                             | 22.4    | 44.9    | 48.0    |
| Interest expense - long-term lease obligations:          |         |         |         |
| Telecommunications network assets                        | 351.6   | —       | —       |
| Real estate contributed to pension plan                  | 6.7     | 2.8     | —       |
| Impacts of interest rate swaps                           | 20.5    | 29.0    | 48.0    |
| Interest on capital leases and other                     | 2.8     | 3.8     | 2.9     |
| Less capitalized interest expense                        | (10.4 ) | (3.7 )  | (7.9 )  |
| Total interest expense                                   | \$813.2 | \$571.8 | \$627.7 |

Interest expense increased \$241.4 million, or 42 percent in 2015, and decreased \$55.9 million, or 9 percent in 2014. The increase in 2015 was primarily due to the additional interest associated with the long-term lease obligation under the master lease with CS&L. The increase was partially offset by the retirement of amounts outstanding under Tranches A3, A4 and B4 of Windstream Services’ senior secured credit facility through the completion of the debt-for-debt exchange and pay-off of the remaining balance of Tranche B4 and, to a lesser extent, the redemption of the 2018 Notes and PAETEC 2018 notes completed on May 27, 2015. The decrease in 2014 was primarily due to the payoffs of \$800.0 million of 8.125 percent notes due August 1, 2013 and \$500.0 million of 7.000 percent notes due March 15, 2019 which were both completed in the third quarter of 2013, the payoff of the PAETEC 2017 Notes completed in January 2013, and the absence of credit facility extension fees related to refinancing activities completed in the first quarter of 2013. These decreases were partially offset by additional borrowings under the revolving line of credit and Tranche B5 of the senior credit facility.

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### Income Taxes

We recognized income tax expense of \$16.0 million in 2015, as compared to an income tax benefit of \$25.1 million in 2014. The income tax expense recorded in 2015 reflected income before taxes and additional discrete tax expense of \$8.1 million for non-deductible transaction costs associated with the REIT spin-off. This expense was partially offset by discrete income tax benefits of \$12.1 million to adjust our deferred taxes for the effects of the reorganization of certain of our subsidiaries, including Windstream Services, to limited liability companies completed during the first quarter of 2015. Our effective tax rate in 2015 was 36.9 percent, compared to 38.9 percent in 2014 and 30.9 percent in 2013. The effective tax rate in 2015 was impacted by the effects of the discrete items discussed above.

For 2016, our annualized effective income tax rate is expected to range between 38 percent and 39 percent, excluding one-time discrete items. Changes in our relative profitability of our business, as well as recent and proposed changes to federal and state tax laws may cause the rate to change from historical rates. See Note 13 to the consolidated financial statements for further discussion of income tax expense and deferred taxes.

### Discontinued Operations, net of tax

On December 5, 2013, we completed the sale of Pinnacle Software Company, a software business acquired as part of the PAETEC acquisition, which provided comprehensive solutions for supporting the full lifecycle of information technology and telecommunications services. The operating results of the software business has been separately presented as discontinued operations in the accompanying consolidated statements of operations. See Note 17 to the consolidated financial statements for additional information.

## SEGMENT OPERATING RESULTS

During the fourth quarter of 2015, we implemented a new organizational structure focused on our core customer relationships to strengthen our ability to achieve our operational, strategic and financial goals. Prior to this reorganization, we operated as one reportable segment. Following this reorganization, we now operate and report the following four customer-based segments:

**Consumer and Small Business - ILEC** - We manage as one business our residential and small business customers who reside in markets in which we are the ILEC due to the similarities with respect to service offerings, marketing strategies and customer service delivery. Products and services offered to these customers include traditional local and long-distance voice services and high-speed Internet services, which are delivered primarily over network facilities operated by us. We offer consumer video services primarily through a relationship with Dish Network LLC and we also own and operate cable television franchises in some of our service areas. During 2015, we launched Kinetic, a complete video entertainment offering in our Lincoln, Nebraska and Lexington, Kentucky markets, with plans to launch in Sugar Land, Texas in the second quarter of 2016. We expect to roll out this new service to additional markets during the next few years. Residential customers can bundle voice, high-speed Internet and video services, to provide one convenient billing solution and receive bundle discounts. Small Business - ILEC services offer a wide range of advanced Internet, voice, and web conferencing products. These services are equipped to deliver high-speed Internet with competitive speeds, value added services to enhance business productivity and options to bundle services for a global business solution to meet our small business customer needs.

**Carrier** - Our carrier operations consist of providing products and services to other communications services providers, including special access services, which provide network access and transport services to end users, and fiber-to-tower connections to support backhaul services to wireless carriers. We also offer on a wholesale basis voice and data transport services to other communications providers, including the resale of our services and the sale of unbundled network elements, which allow wholesale customers to provide voice and data services to their customers

through the use of our network or in combination with their own networks.

Enterprise - Our enterprise operations consist of our business customer relationships that generate \$1,500 or more in revenue per month. Products and services offered to these customers include integrated voice and data services, which deliver voice and broadband services over a single Internet connection, multi-site networking services which provide a fast and private connection between business locations, as well as a variety of other data services, including cloud computing and collocation and managed services as an alternative to traditional information technology infrastructure.

Small Business - CLEC - These operations consist of our business customer relationships that generate less than \$1,500 in revenue per month and are located in service areas in which we are a CLEC and provide services over network facilities primarily leased from other carriers. Products and services provided to our small business - CLEC customers include integrated voice and data services, advanced data and traditional voice and long distance services, as well as value added services including online backup, managed web design and web hosting, and various e-mail services.

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Our segment operating results presented below are based on how we assess operating performance and internally report financial information. We evaluate performance of the segments based on segment income, which is computed as segment revenues and sales less segment operating expenses. Segment revenues are based upon each customer's classification to an individual segment and include all services provided to that customer. Certain operating revenues are derived from activities that are centrally-managed by us and, accordingly, these revenues are not included in the operating results of segments. These other operating revenues include revenue from federal and state universal service funds, CAF Phase II support, and funds received from federal access recovery mechanisms. We also generate other service revenues from providing switched access services, which include usage-based revenues from long-distance companies and other carriers for access to our network to complete long distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for the use of network facilities. Other operating revenues also include certain surcharges assessed to our customers, including billings for our required contributions to federal and state USF programs. Revenues attributable to the sold data center and directory publishing businesses, as well as the consumer CLEC business transferred to CS&L are not assigned to the segments and are also included in other service revenues for all periods prior to the dates of disposal.

Segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers; selling, general and administrative expenses that are directly associated with specific segment customers or activities; and certain allocated expenses which include network expenses, facilities expenses and other expenses, such as vehicle and real estate-related expenses. We do not assign depreciation and amortization expense, merger and integration costs, restructuring charges, stock-based compensation and pension costs to our segments, because these expenses are centrally managed and are not monitored by or reported to the chief operating decision maker by segment. Similarly, certain centrally-managed administrative functions, such as accounting and finance, information technology, legal and human resources, are not assigned to our segments. Interest expense and loss on early extinguishment of debt have also been excluded from segment operating results because we manage our financing activities on a total company basis and have not assigned any long-term debt obligations to the segments. Other income (expense), net and income tax (benefit) expense are not monitored as a part of our segment operations and, therefore, these items have been excluded from our segment operating results.

See Note 15 to the consolidated financial statements for a reconciliation of total segment revenues and sales to consolidated revenues and sales and segment income to consolidated net income (loss).

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## Consumer and Small Business - ILEC Segment Results of Operations

The following table reflects the Consumer and Small Business - ILEC segment results of operations as of December 31:

| (Millions)                      | 2015      | 2014      | 2013      | 2015 to 2014           |      | 2014 to 2013           |      |
|---------------------------------|-----------|-----------|-----------|------------------------|------|------------------------|------|
|                                 |           |           |           | Increase<br>(Decrease) | %    | Increase<br>(Decrease) | %    |
| Revenues and sales:             |           |           |           |                        |      |                        |      |
| Service revenues:               |           |           |           |                        |      |                        |      |
| High-speed Internet bundles (a) | \$1,032.8 | \$1,017.6 | \$1,013.6 | \$15.2                 | 1    | \$4                    | —    |
| Voice only (b)                  | 169.3     | 199.6     | 226.7     | (30.3)                 | (15) | (27.1)                 | (12) |
| Voice and miscellaneous         | 49.0      | 49.9      | 51.6      | (0.9)                  | (2)  | (1.7)                  | (3)  |
| Total consumer                  | 1,251.1   | 1,267.1   | 1,291.9   | (16.0)                 | (1)  | (24.8)                 | (2)  |
| Small business - ILEC (c)       | 351.5     | 359.8     | 358.9     | (8.3)                  | (2)  | 0.9                    | —    |
| Total service revenues          | 1,602.6   | 1,626.9   | 1,650.8   | (24.3)                 | (1)  | (23.9)                 | (1)  |
| Product sales (d)               | 2.9       | 17.5      | 16.6      | (14.6)                 | (83) | 0.9                    | 5    |
| Total revenues and sales        | 1,605.5   | 1,644.4   | 1,667.4   | (38.9)                 | (2)  | (23.0)                 | (1)  |
| Cost and expenses (e)           | 671.0     | 696.9     | 725.0     | (25.9)                 | (4)  | (28.1)                 | (4)  |
| Segment income                  | \$934.5   | \$947.5   | \$942.4   | \$(13.0)               | (1)  | \$5.1                  | 1    |

(a) Increases in high-speed Internet bundle revenues were primarily due to the continued migration of customers to higher speeds, increased sales of value added services, targeted price increases, and implementation of a modem rental program during 2015, partially offset by declines in high-speed Internet customers. Demand for faster broadband speeds and Internet-related services such as virus protection and online data backup services, are expected to favorably impact consumer high-speed Internet revenues, offsetting some of the decline in consumer voice revenues.

(b) Decreases in voice only revenues were primarily attributable to the decline in households served due to the impacts of competition, partially offset by the effects of targeted price increases.

(c) Decreases in Small Business - ILEC revenues were primarily attributable to lower usage for voice and long distance services and the decline in customers due to the impacts of competition. These declines were partially offset by incremental revenues attributable to the ARC of \$2.9 million and \$4.3 million in 2015 and 2014, respectively, primarily due to an increase in the monthly rate effective July 1st of each year as described above.

(d) The decrease in product sales during 2015 was attributable to the decline in sales of high-speed Internet modems as a result of the modem rental program implemented during the year.

(e) The decreases were primarily attributable to a reduction of interconnection expense, reflecting lower voice only revenues due to the decline in households served and a reduction in third party ancillary costs such as technical assistance and online data backup services.

For 2016, we are focused on enhancing our broadband capabilities to generate solid and sustainable cash flows. We expect to grow revenue by continuing to increase broadband speeds and capacity throughout our territories. Project Excel, which began in late 2015, accelerates our plans to upgrade and modernize our broadband network by year-end 2016. This program upgrades our entire fiber-fed infrastructure with Very high-bit-rate Digital Subscriber Line Generation 2 ("VDSL2") electronics to enable faster broadband speeds and enhances our backhaul capabilities to address future capacity demands and improve network reliability. We expect increases in real-time streaming video and traditional Internet usage to drive demand for faster broadband speeds and generate increased revenues as

customers upgrade their services.

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The following table reflects the Consumer and Small Business - ILEC segment operating metrics as of December 31:

| (Thousands)                         | 2015    | 2014    | 2013    | 2015 to 2014           |        | 2014 to 2013           |        |
|-------------------------------------|---------|---------|---------|------------------------|--------|------------------------|--------|
|                                     |         |         |         | Increase<br>(Decrease) | %      | Increase<br>(Decrease) | %      |
| <b>Consumer Operating Metrics:</b>  |         |         |         |                        |        |                        |        |
| Households served (a)               | 1,445.8 | 1,528.7 | 1,621.2 | (82.9                  | ) (5 ) | (92.5                  | ) (6 ) |
| High-speed Internet customers (b)   | 1,095.1 | 1,131.6 | 1,170.9 | (36.5                  | ) (3 ) | (39.3                  | ) (3 ) |
| Digital television customers        | 359.3   | 385.3   | 402.3   | (26                    | ) (7 ) | (17                    | ) (4 ) |
| Small Business - ILEC customers (c) | 146.8   | 160.2   | 175.0   | (13.4                  | ) (8 ) | (14.8                  | ) (8 ) |

(a) The decreases in the number of consumer households served in 2015 and 2014 were primarily attributable to the effects of competition from wireless carriers, cable companies and other providers using emerging technologies.

The decreases in consumer high-speed Internet customers in 2015 and 2014 were primarily due to the effects of competition from other service providers and increased penetration in the marketplace, as the number of households without high-speed Internet service continues to shrink. As of December 31, 2015, we provided high-speed Internet service to approximately 76 percent of our primary residential lines in service and approximately 77 percent of our total voice lines had high-speed Internet competition, primarily from cable service providers.

(c) The decreases in small business customers in 2015 and 2014 were primarily due to business closures and competition from cable companies.

We expect the number of consumer households, consumer high-speed Internet customers, and small business customers in our ILEC footprint to continue to be impacted by the effects of competition.

### Carrier Segment Results of Operations

The following table reflects the carrier segment results of operations as of December 31:

| (Millions)                       | 2015    | 2014    | 2013    | 2015 to 2014           |         | 2014 to 2013           |         |
|----------------------------------|---------|---------|---------|------------------------|---------|------------------------|---------|
|                                  |         |         |         | Increase<br>(Decrease) | %       | Increase<br>(Decrease) | %       |
| <b>Revenues:</b>                 |         |         |         |                        |         |                        |         |
| Core carrier (a)                 | \$543.4 | \$542.0 | \$545.1 | \$1.4                  | —       | \$(3.1                 | ) (1 )  |
| Wholesale (b)                    | 80.5    | 81.7    | 85.6    | (1.2                   | ) (1 )  | (3.9                   | ) (5 )  |
| Total core carrier and wholesale | 623.9   | 623.7   | 630.7   | 0.2                    | —       | (7                     | ) (1 )  |
| Wireless TDM (c)                 | 64.0    | 106.0   | 148.4   | (42.0                  | ) (40 ) | (42.4                  | ) (29 ) |
| Total revenues                   | 687.9   | 729.7   | 779.1   | (41.8                  | ) (6 )  | (49.4                  | ) (6 )  |
| Cost and expenses (d)            | 185.6   | 172.5   | 176.5   | 13.1                   | 8       | (4.0                   | ) (2 )  |
| Segment income                   | \$502.3 | \$557.2 | \$602.6 | \$(54.9                | ) (10 ) | \$(45.4                | ) (8 )  |

(a) Core carrier revenues primarily include revenues from other carriers for special access circuits and fiber connections.

(b) Wholesale revenues represent voice and data services sold to other carriers on a wholesale basis.

The decreases in these revenues were attributable to declines in special access charges for dedicated copper-based circuits as carriers migrate to fiber-based networks. We expect these revenues to be adversely impacted as wireless carriers continue to migrate traffic to fiber-based connections.

The increase during 2015 was primarily related to higher interconnection expense due to an increase in long distance usage by our wholesale customers. Comparatively, the decrease in 2014 reflected a reduction in (d) interconnection expense resulting from a decline in long distance usage partially offset by growth in interconnection costs due to increased purchases of circuits and growth in data customers.

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For 2016, we are focused on stabilizing our carrier business through investment in our network, offering advanced products and solutions, targeting carrier and wholesale customers and controlling costs through our disciplined approach to capital and expense management. We are also committed to expanding our carrier network to add new routes, connect existing routes and add new carrier access points to increase revenues.

## Enterprise Segment Results of Operations

The following table reflects the Enterprise segment results of operations as of December 31:

| (Millions)                       | 2015    | 2014    | 2013    | 2015 to 2014           |      | 2014 to 2013           |      |
|----------------------------------|---------|---------|---------|------------------------|------|------------------------|------|
|                                  |         |         |         | Increase<br>(Decrease) | %    | Increase<br>(Decrease) | %    |
| Revenues and sales:              |         |         |         |                        |      |                        |      |
| Service revenues:                |         |         |         |                        |      |                        |      |
| Voice and long distance (a)      | \$604.7 | \$625.7 | \$639.6 | \$(21.0)               | (3)  | \$(13.9)               | (2)  |
| Data and integrated services (b) | 1,238.8 | 1,142.9 | 1,035.5 | 95.9                   | 8    | 107.4                  | 10   |
| Miscellaneous                    | 103.6   | 101.4   | 110.5   | 2.2                    | 2    | (9.1)                  | (8)  |
| Total service revenues           | 1,947.1 | 1,870.0 | 1,785.6 | 77.1                   | 4    | 84.4                   | 5    |
| Product sales                    | 120.1   | 133.0   | 151.4   | (12.9)                 | (10) | (18.4)                 | (12) |
| Total revenues and sales         | 2,067.2 | 2,003.0 | 1,937.0 | 64.2                   | 3    | 66.0                   | 3    |
| Cost and expenses (c)            | 1,826.6 | 1,757.4 | 1,677.3 | 69.2                   | 4    | 80.1                   | 5    |
| Segment income                   | \$240.6 | \$245.6 | \$259.7 | \$(5.0)                | (2)  | \$(14.1)               | (5)  |

Decreases in traditional voice and long-distance service revenues were primarily attributable to lower usage, adverse effects of competition and the migration of existing customers to integrated services and bundled offerings.

(a) These declines were partially offset by incremental revenues attributable to the access recovery charge ("ARC") of \$4.1 million and \$8.1 million in 2015 and 2014, respectively, primarily due to an increase in the monthly rate effective July 1st of each year. The ARC is a monthly charge established by the FCC designed to mitigate revenue reductions from intercarrier compensation reform.

(b) Increases in data and integrated services revenues were primarily due to continued demand for advanced data services and customer migration to our integrated voice and data services.

The increases during 2015 and 2014 were primarily due to customer access costs directly related to the growth in (c) enterprise data and integrated services revenues and increases in network operations due to the expansion of our fiber transport network.

For 2016, we are focused on growing revenue and increasing profitability by leveraging our robust suite of advanced data and cloud services combined with expense reductions from system and process enhancements and additional fiber investments designed to reduce third party network access costs.

The following table reflects the Enterprise segment operating metrics as of December 31:

| (Thousands)          | 2015 | 2014 | 2013 | 2015 to 2014           |   | 2014 to 2013           |   |
|----------------------|------|------|------|------------------------|---|------------------------|---|
|                      |      |      |      | Increase<br>(Decrease) | % | Increase<br>(Decrease) | % |
| Enterprise customers | 26.3 | 26.3 | 26.0 | —                      | — | 0.3                    | 1 |

Enterprise customers represent those customer relationships that generate \$1,500 or more in revenue per month. Our enterprise customer base has remained relatively unchanged during 2015 and 2014.



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## Small Business - CLEC Segment - Results of Operations

The following table reflects the Small Business - CLEC segment results of operations as of December 31:

| (Millions)            | 2015    | 2014    | 2013    | 2015 to 2014           |      | 2014 to 2013           |      |
|-----------------------|---------|---------|---------|------------------------|------|------------------------|------|
|                       |         |         |         | Increase<br>(Decrease) | %    | Increase<br>(Decrease) | %    |
| Service revenues (a)  | \$559.0 | \$658.3 | \$765.5 | \$(99.3)               | (15) | \$(107.2)              | (14) |
| Cost and expenses (b) | 378.2   | 408.7   | 465.6   | (30.5)                 | (7)  | (56.9)                 | (12) |
| Segment income        | \$180.8 | \$249.6 | \$299.9 | \$(68.8)               | (28) | \$(50.3)               | (17) |

The decreases were primarily due to the decline in customers, discussed below. For 2016, we are focused on (a) customer retention and selling incremental services to existing customers to enhance profitable revenue opportunities.

(b) The decreases during 2015 and 2014 were primarily due to a decrease in network access costs directly related to the decline in customers.

The following table reflects the Small Business - CLEC segment operating metrics as of December 31:

| (Thousands)                     | 2015 | 2014  | 2013  | 2015 to 2014           |      | 2014 to 2013           |      |
|---------------------------------|------|-------|-------|------------------------|------|------------------------|------|
|                                 |      |       |       | Increase<br>(Decrease) | %    | Increase<br>(Decrease) | %    |
| Small Business - CLEC Customers | 91.2 | 107.5 | 123.2 | (16.3)                 | (15) | (15.7)                 | (13) |

The decreases in small business customers in 2015 and 2014 were primarily due to business closures and competition from cable companies.

## Regulatory Matters

We are subject to regulatory oversight by the FCC for particular interstate matters and state public utility commissions (“PUCs”) for certain intrastate matters. We are also subject to various federal and state statutes that direct such regulations. We actively monitor and participate in proceedings at the FCC and PUCs and engage federal and state legislatures on matters of importance to us.

From time to time federal and state legislation is introduced dealing with various matters that could affect our business. Most proposed legislation of this type never becomes law. Accordingly, it is difficult to predict what kind of legislation, if any, may be introduced and ultimately become law.

## Federal Regulation and Legislation

## Intercarrier Compensation and USF Reform

On November 18, 2011, the FCC released an order (“the Order”) that established a framework for reform of the intercarrier compensation system and the federal USF. The Order included two primary provisions:

- the elimination of terminating switched access rates and other per-minute terminating charges between service providers by 2018, through annual reductions in the rates, mitigated in some cases by two recovery mechanisms; and
- the provision of USF support for voice and broadband services.



In reforming the USF, the Order established the CAF, which included a short-term (“CAF Phase I”) and a longer-term (“CAF Phase II”) framework. CAF Phase I provides for continued legacy USF funding frozen at 2011 levels as well as the opportunity for incremental broadband funding to a number of unserved and underserved locations. In Round 2 of CAF Phase 1 incremental support, we were authorized to receive an additional \$86.7 million in support for upgrades and new deployments of broadband service. Of the total amount of \$86.7 million made available to us, we received \$60.7 million in December 2013 and the remaining \$26.0 million in the first quarter of 2014. Pursuant to commitments we made while the FCC was considering the rules for Round 2, we will match, on at least a dollar-for-dollar basis, the total amount of Round 2 funding received. The portion of capital

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expenditures funded by us are included in our capital expenditure totals for each period presented in the accompanying consolidated statements of cash flow.

On August 5, 2015, Windstream notified the FCC that it is accepting CAF Phase II support offers for 17 of its 18 states where it is an incumbent provider, totaling \$175.0 million in annual funding compared to our current annual funding of approximately \$100.0 million. Support was retroactive to the beginning of 2015 and will continue for six additional years. Windstream will be obligated to offer broadband service at 10/1 Mbps or better to approximately 400,000 eligible locations in high-cost areas in those 17 states. Windstream declined the statewide offer in just one state, New Mexico, where Windstream's projected cost to comply with FCC deployment requirements greatly exceeded the funding offer. We will still be eligible to participate in a competitive bidding process for CAF Phase II support in New Mexico, along with other interested eligible competitors; however, the rules for the competitive bidding process are still under consideration by the FCC, and have not yet been finalized. In an order released in December 2014, the FCC stated that it expected to be prepared to conduct the competitive bidding process in 2016. We will continue to receive annual USF funding in New Mexico frozen at 2011 levels until the implementation of CAF Phase II competitive bidding is complete. As a result, our actual 2015 and expected CAF Phase II and frozen USF support is as follows:

| (Millions)                      | 2015    | 2016    | 2017    | 2018 and<br>Thereafter | Total     |
|---------------------------------|---------|---------|---------|------------------------|-----------|
| CAF Phase II support            | \$174.9 | \$174.9 | \$174.9 | \$699.6                | \$1,224.3 |
| Transitional Frozen USF support | 18.0    | 12.6    | 7.7     | 2.8                    | 41.1      |
| New Mexico Frozen USF support   | 4.6     | 4.6     | 2.3     | —                      | 11.5      |
| Total                           | \$197.5 | \$192.1 | \$184.9 | \$702.4                | \$1,276.9 |

The above payouts include transitional support through mid-2018 in the six states in which the CAF Phase II support allocated to and elected by us is less than the amount we received in legacy USF high-cost support. These amounts also assume that we will deploy to 100 percent of the required locations in each state. On December 31, 2015, we elected the flexibility to deploy to at least 95 percent but less than 100 percent in five of the states in which we accepted CAF Phase II support. We will be able to decide how much, if any, of the flexibility we use. If we avail ourselves of all of the flexibility, however, we would have to return a total of approximately \$50.0 million by 2021.

We expect the incremental CAF Phase II receipts to be sufficient to cover the program's capital obligations and to provide significant opportunities for Windstream to enhance broadband services in our more rural markets. Finally, the FCC does not allow funding of CAF Phase I locations in CAF Phase II eligible areas. As a result, we will either reposition certain CAF Phase I funded locations in eligible non-CAF Phase II areas or return the funding associated with such CAF Phase I locations to the FCC. At this time we do not know how much funding, if any, we will need to return or how much savings in planned capital expenditures will be associated with the locations that will no longer be built under CAF Phase I.

As part of the Order's reform of intercarrier compensation, the FCC established two recovery mechanisms that mitigate the revenue reductions resulting from the reduction and ultimate elimination of terminating access rates. First, the FCC established the ARC, a fee which may be assessed to some of our retail customers. Second, the ARM is a form of additional federal universal service support designed to allow carriers to recover some of the revenue reductions that cannot be recovered through assessment of the ARC. Carriers are required to use ARM support to build and operate broadband networks in areas substantially unserved by an unsubsidized competitor offering fixed voice and broadband service. Our ARM support is expected to decrease incrementally from \$52.3 million in 2014 to an estimated \$12.3 million in 2017, with a portion of the decrease offset by future increases in ARC revenues. Absent a change by the FCC to its current rules, the ARM will phase out annually in one-third increments, beginning in July 2017, and will be eliminated completely as of July 2019.

Set forth below is a summary of intercarrier compensation revenue and federal USF and CAF Phase II support included in regulatory revenues within the consolidated statements of operations for the years ended December 31:

| (Millions)                                         | 2015    | 2014    | 2013    |
|----------------------------------------------------|---------|---------|---------|
| Intercarrier compensation revenue                  | \$133.5 | \$165.8 | \$210.1 |
| Federal universal service and CAF Phase II support | \$233.9 | \$152.5 | \$156.0 |

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### Broadband Stimulus

As part of the American Recovery and Reinvestment Act of 2009 (“ARRA”) approximately \$7.2 billion was allocated for the purpose of expanding broadband services to unserved and underserved areas. The Rural Utilities Service (“RUS”), part of the United States Department of Agriculture, approved eighteen of our applications for these funds for projects totaling \$241.7 million. Under this program, the RUS funded 75 percent of these approved grants, or \$181.3 million, and we funded the remainder of at least \$60.4 million. Over the duration of this program, which was completed during the third quarter of 2015, the RUS funded \$176.4 million of capital expenditures and we funded \$142.3 million of capital expenditures. We have received all outstanding funds from the RUS related to our approved applications.

### IntraMTA Switched Access Litigation

Several of our companies are defendants in approximately 25 lawsuits filed by Verizon and Sprint long distance companies alleging that our companies may not bill them switched access charges for calls between wireline and wireless devices that originate and terminate within the same Major Trading Area. The complaints seek historical relief in the form of refunds and prospective relief concerning future billings. There are approximately 50 other such lawsuits against hundreds of defendants. All of the suits have been consolidated in a single federal district court, which dismissed the claims on November 17, 2015. The plaintiffs are currently seeking permission from the district court to appeal the dismissal of their claims, which is required in this instance given certain procedural issues. The subject matter of the suits is also the topic of a pending petition for declaratory ruling before the FCC, to which the lawsuits may be referred. The outcome of the disputes is currently not predictable, given the uncertainty concerning the ultimate venue of the disputes and the amount of traffic being disputed.

### Last-Mile Access

Windstream is actively engaged in policy advocacy in various FCC proceedings that address the rates, terms and conditions for access to the “last mile” facilities we need to serve retail customers through our competitive companies. In 2015, we incurred approximately \$1.4 billion in interconnection expense and most of that was attributable to last-mile access. For the vast majority of our customers, last mile facilities, the wires (“loops”) to a customer location from a central office, are not economic for Windstream to duplicate through its own investment and are not available from providers other than the incumbent carrier. Therefore, we often lease those connections from incumbent carriers as one of two distinct product types: either unbundled network elements (“UNEs”), which by law are not available in all areas but are subject to strict regulatory standards, or special access, widely available from incumbents but subject to more flexible regulatory standards. One such FCC proceeding involves a comprehensive review of special access rules, begun in 2012 with an FCC order finding that the special access rules the FCC has had in place since 1999 were not working as intended. In addition, in October 2015, the FCC’s Wireline Competition Bureau commenced an investigation into whether the volume and term commitments and associated fees and penalties contained in specified incumbent special access pricing plans are anti-competitive, comport with applicable law or impede the forthcoming technology transition. These proceedings are on-going, and we are not able to predict when the FCC will issue its decisions or the terms of FCC’s determinations in these proceedings.

### State Regulation and Legislation

#### State Universal Service

We recognize revenue from the receipt of state universal service funding in a limited number of states in which we operate. In 2015 and 2014, we recognized \$107.8 million and \$114.2 million, respectively, in state USF revenue, which included approximately \$59.5 million and \$67.5 million from the Texas USF. These payments are intended to

provide support, apart from the federal USF receipts, for the high cost of operating in certain rural markets.

There are two high-cost programs of the Texas USF, one for large companies and another for small companies. In 2015, we received \$52.0 million from the large company program and \$7.5 million from the small company program. The purpose of the Texas USF is to assist telecommunications carriers with providing basic local telecommunications services at reasonable rates to customers in high cost rural areas and to qualifying low-income and disabled customers. By order of the Texas PUC, the Texas USF distributes support to eligible carriers serving areas identified as high cost, on a per-line basis. Texas USF support payments are based on the number of actual lines in service and therefore are subject to reductions when customers discontinue service or migrate to a competitive carrier. All service providers of telecommunications services in Texas contribute to the Texas USF through the payment of a monthly surcharge collected from their customers.

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In 2013, the Texas Legislature passed a law that requires set reductions to providers' state USF support over a period of years beginning in 2017 unless providers can demonstrate a "financial need" for continued support. On December 1, 2014, the Texas PUC adopted a financial needs test that allows providers to petition for continued support under a two-step process that takes into consideration the level of competition and the provider's expenses. On December 28, 2015, we filed a petition for our Texas affiliate's large company support; this petition will be considered by the Texas PUC in a contested proceeding. We also may file petitions next year for continuation of small company support. The ultimate impact of these reforms cannot be determined at this time.

In New Mexico, where we have historically received \$8.4 million in annual support, the Public Regulation Commission ("PRC") adopted modified USF rules in November 2014 that resulted in a reduction in annual support to \$6.9 million in 2015. We filed an appeal of those rules with the New Mexico Supreme Court in 2015 and that appeal is pending. The PRC adopted additional rule modifications in January 2016 that will result in continued, albeit more moderate, reductions.

In Nebraska, where we received \$5.3 million from the state high cost fund in 2015, the Public Service Commission ("PSC") announced reforms during the third quarter of 2015, for price-cap carriers. In 2016, our support will be frozen at its 2015 levels with 50 percent allocated to ongoing operations and 50 percent allocated to broadband projects that must be approved by the PSC in advance.

Universal service reform is also possible in several other states including Oklahoma, Pennsylvania, and South Carolina. Annually, we receive \$3.4 million annually from the Oklahoma fund, \$13.3 million from the Pennsylvania fund, and \$2.0 million from the South Carolina fund. We cannot estimate at this time the financial impact that would result from changes, if any, to these other state funds.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Capital Resources

We rely largely on operating cash flows and long-term debt to provide for our liquidity requirements. We expect cash flows from operations will be sufficient to fund our ongoing working capital requirements, planned capital expenditures, scheduled debt principal and interest payments, lease payments due under the master lease agreement with CS&L, dividend payments, and repurchases of our common stock under the stock repurchase program authorized by our board of directors on August 5, 2015. We also have access to capital markets and available borrowing capacity under our revolving credit agreement. As previously discussed, we are positioned to retire additional long-term debt through the monetization of our retained 19.6 percent ownership interest in CS&L, which we expect to complete within 18 to 24 months from the date of the spin-off, subject to market conditions. Based on CS&L's announced dividend practice to pay a quarterly dividend of \$.60 per share, we expect to earn dividend income of approximately \$17.6 million in each quarter that we continue to hold the CS&L common stock.

From time to time, we may seek transactions to optimize our capital structure, including entering into transactions to exchange debt for shares of CS&L common stock, repurchase or redeem our outstanding indebtedness (including by means of open market purchases, privately negotiated repurchases, tender offers and/or redemptions pursuant to the debt's terms), or seek to refinance our outstanding debt or may otherwise seek transactions to reduce interest expense. Our ability to consummate any such transaction will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Any of these transactions could impact our financial results. We cannot assure you if or when we will consummate any such transactions or the terms of any such transaction.

From time to time, we have evaluated and we continue to evaluate possible acquisition and disposition transactions on an on-going basis. At any time we may be engaged in discussions or negotiations with respect to possible acquisitions and/or dispositions. We cannot assure you if or when we will consummate any such transaction or the terms of any such transaction

The actual amount and timing of our future capital requirements may differ materially from our estimates depending on the demand for our services and new market developments and opportunities, and on other factors, including those described in Part I, “Item 1A. Risk Factors” in this annual report. If our plans or assumptions change or prove to be inaccurate, the foregoing sources of funds may prove to be insufficient. In addition, if we seek to acquire other businesses or to accelerate the expansion of our business, we may be required to seek material amounts of additional capital. Additional sources may include equity and debt financing. Further, if we believe we can obtain additional debt financing on advantageous terms, we may seek such financing at any time, to the extent that market conditions and other factors permit us to do so. The debt financing we may seek could be in the form of additional term loans under Windstream Services’ senior secured credit facility or additional debt securities having substantially the same terms as, or different terms from, Windstream Services’ outstanding senior notes.

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Our unrestricted cash position increased by \$3.5 million to \$31.3 million at December 31, 2015, from \$27.8 million at December 31, 2014, as compared to a decrease of \$20.4 million during 2014. Cash inflows during 2015 were primarily from operating activities, cash payments from CS&L related to the spin-off and funding for tenant capital improvements, proceeds from the sale of our data center business, and incremental borrowings under the revolving line of credit. These inflows were partially offset by cash outflows for repayments of debt, capital expenditures, dividend payments to shareholders, payments under our long-term and capital lease obligations, and repurchases of our common stock.

A summary of our historical cash flows were as follows for the years ended December 31:

| (Millions)                                       | 2015      | 2014      | 2013        |
|--------------------------------------------------|-----------|-----------|-------------|
| Cash flows provided from (used in):              |           |           |             |
| Operating activities                             | \$1,026.6 | \$1,467.3 | \$1,519.4   |
| Investing activities                             | (522.0)   | ) (769.1  | ) (707.6 )  |
| Financing activities                             | (501.1)   | ) (718.6  | ) (895.6 )  |
| Increase (decrease) in cash and cash equivalents | \$3.5     | \$(20.4   | ) \$(83.8 ) |

### Cash Flows – Operating Activities

Cash provided from operations is our primary source of funds. Cash flows from operating activities decreased by \$440.7 million in 2015, and \$52.1 million in 2014 as compared to the prior year period. The decrease in 2015 was primarily due to additional interest paid of \$351.6 million attributable to the master lease agreement with CS&L. Decreases in small business and carrier revenues, increased interconnection and transaction costs related to the REIT spin-off and sale of the data center business also contributed to the decrease in cash flows from operations in 2015. The decrease in 2014 is primarily attributable to lower earnings, as our operating results were negatively impacted by decreases in voice, long-distance, carrier revenues and costs associated with various restructuring initiatives completed during the year. The decrease was partially offset by a reduction in cash interest paid of \$41.3 million.

We utilized net operating loss carryforwards (“NOLs”) and other income tax initiatives to lower our cash income tax obligations for both 2015 and 2014. We expect cash income tax payments to be less than \$20.0 million in 2016.

In September 2015, Windstream’s board of directors adopted a shareholder rights plan designed to protect our NOLs from the effect of limitations imposed by federal and state tax rules following an ownership change. This plan was designed to deter an ownership change (as defined in IRC Section 382) from occurring, and therefore protect our ability to utilize our federal and state net operating loss carry forwards in the future. The plan is not meant to be an anti-takeover measure and our board of directors has established a procedure to consider requests to exempt the acquisition of Windstream common stock from the rights plan, if such acquisition would not limit or impair the availability of our NOLs.

### Cash Flows – Investing Activities

Cash used in investing activities primarily includes investments in our network to upgrade and expand our service offerings as well as spending on strategic initiatives. Cash used in investing activities decreased \$247.1 million in 2015 compared to 2014 primarily due to the proceeds of \$574.2 million received from the sale of a substantial portion of our data center business, partially offset by an increase in capital expenditures, further discussed below. Cash used in investing activities increased \$61.5 million in 2014 compared to 2013 primarily as a result of reductions in grant funds received for both broadband stimulus projects and CAF of \$34.8 million and \$34.7 million, respectively, and a cash outlay of \$22.6 million to purchase a fixed wireless enterprise services provider, partially offset by a decrease in capital expenditures of \$54.5 million.



Capital expenditures were \$1,055.3 million, \$786.5 million and \$841.0 million for 2015, 2014 and 2013, respectively. During 2015, the majority of our capital spend was directed toward fiber expansion and consumer broadband upgrades of our network. Network expansion funded by CAF Phase I totaled \$73.9 million in 2015. As previously discussed under “Regulatory Matters”, we committed to match on at least a dollar-for-dollar basis the total amount of support we received from the CAF Phase I of \$86.7 million for upgrades and new deployments of broadband service. Capital expenditures related to CAF Phase I projects funded by us are included in additions to property, plant and equipment in the accompanying consolidated statements of cash flows. During 2015, funding received and expenditures for broadband network expansion both declined from 2014 levels due to the completion of the RUS stimulus program. Comparatively, the decrease in capital expenditures in 2014 from 2013 was primarily due to a decline in capital spending levels related to our fiber-to-the-tower initiatives and broadband network expansion funded by stimulus grants. The declines reflected the wind down of both our fiber-to-the-tower and stimulus projects, as we had reached the vast majority of existing towers within our targeted area.

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Excluding approximately \$200.0 million in capital expenditures related to Project Excel, a capital program begun in late 2015 that accelerates our plans to upgrade our broadband network by the end of 2016 funded using a portion of the proceeds from the sale of the data center business, we expect total 2016 capital expenditures to range between \$800.0 million and \$850.0 million.

### Cash Flows – Financing Activities

Cash used in financing activities decreased by \$217.5 million in 2015 and \$177.0 million in 2014, as compared to the prior year.

Debt repayments during 2015 totaled approximately \$3,350.9 million and consisted primarily of \$1,907.8 million in repayments of borrowings under the revolving line of credit agreement, the redemption of \$400.0 million 2018 Notes and \$450.0 million PAETEC 2018 Notes, open market repurchases of \$299.5 million of aggregate principal amount of senior unsecured notes and, following the completion of the debt-for-debt exchange, the pay-off of the remaining principal balance of \$241.8 million of Tranche B4 under the senior secured credit facility. Comparatively, during 2014, Windstream Services repaid approximately \$1,395.4 million of long-term debt consisting primarily of \$1,280.0 million in repayments of borrowings under the revolving line of credit agreement.

Proceeds from new issuances of long term debt were \$2,335.0 million and \$1,315.0 million in 2015 and 2014, respectively, and consisted solely of new borrowings under the revolving line of credit.

Prior to the completion of the spin-off and reverse stock split, on April 24, 2015, we made a cash distribution of \$.0659 per share to our stockholders of record on April 10, 2015, which was equivalent to a pro-rated \$.25 per share quarterly dividend. Following the spin-off and reverse stock split, Windstream expects to pay an annual dividend of \$.60 per share, paid on a quarterly basis. During 2015, dividends paid to shareholders were \$369.2 million, which was a decrease of \$233.0 million, as compared to 2014, reflecting the decline in our quarterly dividend rate following the REIT spin-off. On February 10, 2016, we declared a cash dividend of \$.15 per share on our common stock which is payable on April 15, 2016, to shareholders of record on March 31, 2016.

Our dividend practice can be changed at any time at the discretion of our board of directors, and is subject to the restricted payment capacity under Windstream Services' debt covenants as further discussed below. Accordingly, we cannot assure you we will continue paying dividends at the post-spin adjusted rate. See "Risk Factors" in Item 1A of Part I of this Annual Report on Form 10-K for additional information concerning our dividend practice.

### Pension Contribution

We did not make a contribution to our qualified pension plan in 2015. During 2014, we contributed 1.0 million shares of our common stock to the Windstream Pension Plan to meet our quarterly 2014 funding requirements. At the time of the contribution, the common shares had an appraised value of approximately \$8.3 million, as determined by a third party valuation firm. During the third quarter of 2014, we contributed certain of our owned real property to the Windstream Pension Plan. Independent appraisals of the properties contributed were obtained and the Windstream Pension Plan recorded the contribution based on the properties' aggregate fair value of \$80.9 million. We subsequently entered into leases for the contributed properties with 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. During the fourth quarter of 2015 in conjunction with the sale of the data center business, Windstream Services repurchased at fair value one of the properties contributed to the Windstream Pension Plan for \$8.2 million in cash.

Following the repurchase, annual rent due under the lease agreements declined from approximately \$6.3 million to \$6.0 million.

The 2016 expected employer contribution for pension benefits consists of \$1.0 million to the qualified pension plan to meet our 2016 funding requirements and \$0.9 million necessary to fund the expected benefit payments of our unfunded supplemental executive retirement pension plans to avoid certain benefit restrictions. The amount and timing of future contributions to the qualified pension plan are dependent upon a myriad of factors including future investment performance, changes in future discount rates and changes in the demographics of the population participating in the plan.

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### Debt and Dividend Capacity

Windstream Holdings has no debt obligations. All of our debt, including the facility described below, has been incurred by our subsidiaries (primarily Windstream Services). Windstream Holdings is neither a guarantor of nor subject to the restrictive covenants imposed by such debt.

As of December 31, 2015, we had \$5,170.5 million in long-term debt outstanding, including current maturities (see Note 5). As of December 31, 2015, the amount available for borrowing under Windstream Services' revolving line of credit was \$926.9 million.

As a result of the debt-for-debt exchange, completion of the long-term debt tender offers, and other repayments, Windstream Services decreased its long-term debt outstanding by approximately \$3.5 billion. As of the spin-off date, Windstream retained a passive ownership interest of approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions. In conjunction with the spin-off, on April 24, 2015, Windstream Services amended its senior secured credit facility to extend the maturity of its revolving credit facility to April 24, 2020. Otherwise, the borrowing capacity under the amended revolving credit agreement was unchanged and provides for borrowings up to an aggregate principal amount of \$1,250.0 million.

As of December 31, 2015, Windstream Services had approximately \$676.1 million of restricted payment capacity as governed by its senior secured credit facility. Following the completion of the spin-off and amendment of the credit facility on April 24, 2015, Windstream Services' credit agreement was amended to (i) reset the restricted payment capacity to \$750 million and (ii) among other things, exclude the master lease payment as a future restricted payment. The restricted payment capacity may limit the amount of dividends Windstream Services may distribute to Windstream Holdings to fund future dividend payments to Windstream Holdings' shareholders. Under terms of the credit facility, payments required under the master lease are deducted from OIBDA. Windstream Services builds additional capacity through cash generated from operations while dividend distributions to Windstream Holdings, and other certain restricted investments reduce the available restricted payments capacity. Windstream Services will continue to consider free cash flow accretive initiatives.

### Debt Covenants and Amendments

The terms of the credit facility and indentures issued by Windstream Services include customary covenants that, among other things, require Windstream Services to maintain certain financial ratios and restrict its 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.

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



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Windstream Services' senior secured credit facility and its indentures include maintenance covenants derived from certain financial measures that are not calculated in accordance with accounting principles generally accepted in the United States ("non-GAAP financial measures"). These non-GAAP financial measures are presented below for the sole purpose of demonstrating our compliance with Windstream Services' debt covenants and were calculated as follows at December 31, 2015:

(Millions, except ratios)

Gross leverage ratio:

|                                                                                             |           |   |
|---------------------------------------------------------------------------------------------|-----------|---|
| Long term debt including current maturities                                                 | \$5,170.5 |   |
| Capital leases, including current maturities                                                | 61.2      |   |
| Total long term debt and capital leases                                                     | \$5,231.7 |   |
| Operating income, last twelve months                                                        | \$511.4   |   |
| Depreciation and amortization, last twelve months                                           | 1,366.5   |   |
| Other expense adjustments required by the credit facility and indentures (a)                | (480.4    | ) |
| Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") | \$1,397.5 |   |
| Leverage ratio (b)                                                                          | 3.74      |   |
| Maximum gross leverage ratio allowed                                                        | 4.50      |   |
| Interest coverage ratio:                                                                    |           |   |
| Adjusted EBITDA                                                                             | \$1,397.5 |   |
| Interest expense, last twelve months                                                        | \$813.2   |   |
| Adjustments required by the credit facility and indentures (c)                              | (425.8    | ) |
| Adjusted interest expense                                                                   | \$387.4   |   |
| Interest coverage ratio (d)                                                                 | 3.61      |   |
| Minimum interest coverage ratio allowed                                                     | 2.75      |   |

Adjustments required by the credit facility and indentures primarily consist of the inclusion of the annual cash (a) rental payment due under the master lease agreement with CS&L and the exclusion of pension and share-based compensation expense, non-recurring merger, integration and restructuring charges.

(b) The gross leverage ratio is computed by dividing total debt by adjusted EBITDA.

Adjustments required by the credit facility and indentures primarily consist of the inclusion of capitalized interest (c) and amortization of the discount on long-term debt, net of premiums, and the exclusion of the interest expense attributable to the long-term lease obligation under the master lease agreement with CS&L.

(d) The interest coverage ratio is computed by dividing adjusted EBITDA by adjusted interest expense.

### Credit Ratings

As of February 22, 2016, Moody's Investors Service, Standard & Poor's Corporation ("S&P") and Fitch Ratings had granted the following senior secured, senior unsecured and corporate credit ratings:

| Description                        | Moody's | S&P    | Fitch  |
|------------------------------------|---------|--------|--------|
| Senior secured credit rating (a)   | Ba3     | BB     | BBB-   |
| Senior unsecured credit rating (a) | B2      | B+     | BB     |
| Corporate credit rating (b)        | B1      | B+     | BB     |
| Outlook (b)                        | Stable  | Stable | Stable |

(a) Ratings assigned to Windstream Services

- (b) Corporate credit rating and outlook assigned to Windstream Services for Moody's and Fitch, while S&P assigns corporate credit rating and outlook to Windstream Holdings, Inc.

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Factors that could affect our short and long-term credit ratings would include, but are not limited to, a material decline in our operating results, increased debt levels relative to operating cash flows resulting from future acquisitions, increased capital expenditure requirements, or changes to our dividend policy. If our credit ratings were to be downgraded, we might incur higher interest costs on future borrowings, and our access to the public capital markets could be adversely affected.

Our exposure to interest risk is further discussed in the Market Risk section below. A downgrade in our current short or long-term credit ratings would not accelerate scheduled principal payments of our existing long-term debt.

Off-Balance Sheet Arrangements

We do not use securitization of trade receivables, affiliation with special purpose entities, variable interest entities or synthetic leases to finance our operations. Additionally, we have not entered into any arrangement requiring us to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

Contractual Obligations and Commitments

Set forth below is a summary of our material contractual obligations and commitments as of December 31, 2015:

| (Millions)                                           | Obligations by Period |                |                |                      | Total      |
|------------------------------------------------------|-----------------------|----------------|----------------|----------------------|------------|
|                                                      | Less than<br>1 Year   | 1 - 3<br>Years | 3 - 5<br>Years | More than<br>5 years |            |
| Long-term debt, including current maturities (a)     | \$5.9                 | \$915.9        | \$1,560.5      | \$2,746.4            | \$5,228.7  |
| Interest payments on long-term debt obligations (b)  | 353.0                 | 634.1          | 529.2          | 411.8                | 1,928.1    |
| Long-term lease obligations (c)                      | 152.7                 | 357.4          | 451.0          | 4,109.9              | 5,071.0    |
| Interest payments on long-term lease obligations (c) | 506.9                 | 964.0          | 883.3          | 2,294.9              | 4,649.1    |
| Capital leases (d)                                   | 48.2                  | 13.6           | 1.1            | 1.2                  | 64.1       |
| Operating leases (e)                                 | 113.4                 | 158.5          | 94.5           | 130.7                | 497.1      |
| Purchase obligations (f)                             | 739.8                 | 635.5          | 7.2            | 0.4                  | 1,382.9    |
| Other long-term liabilities and commitments (g) (h)  | 123.7                 | 255.9          | 26.8           | 377.2                | 783.6      |
| (i) (j)                                              |                       |                |                |                      |            |
| Total contractual obligations and commitments        | \$2,043.6             | \$3,934.9      | \$3,553.6      | \$10,072.5           | \$19,604.6 |

(a) Excludes \$4.6 million of unamortized premiums (net of discounts) and \$62.8 million of unamortized debt issuance costs included in long-term debt at December 31, 2015.

(b) Variable rates on the senior secured credit facility are calculated in relation to one-month London Interbank Offered Rate ("LIBOR") rate which was 0.35 percent at December 31, 2015.

Represents undiscounted future minimum lease payments related to the master lease agreement with CS&L and the (c) leaseback of real estate contributed to the Windstream Pension Plan, which exclude the residual value of the obligations at the end of the initial lease terms.

(d) Capital leases include non-cancellable leases, consisting principally of leases for facilities and equipment.



(e) Operating leases include non-cancellable operating leases, consisting principally of leases for network facilities, real estate, office space and office equipment.

Purchase obligations include open purchase orders not yet receipted and amounts payable under non-cancellable (f) contracts. The portion attributable to non-cancellable contracts primarily represents agreements for network capacity and software licensing.

(g) Other long-term liabilities and commitments primarily consist of deferred tax liabilities, pension and other postretirement benefit obligations, interest rate swaps, asset retirement obligations and long-term deferred revenue.

Excludes \$3.2 million of reserves for uncertain tax positions, including interest and penalties, that were included in (h) other liabilities at December 31, 2015 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur.

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Includes \$18.4 million and \$4.0 million in current portion of interest rate swaps and pension and postretirement benefit obligations, respectively that were included in other current liabilities at December 31, 2015. The current portion of pension and postretirement benefit obligations includes \$1.0 million for expected pension contributions in 2016. Although no additional pension contributions may be required in 2016, due to uncertainties inherent in the pension funding calculation, the amount and timing of any remaining contributions are unknown and therefore have been reflected as due in more than 5 years.

(j) Excludes \$15.2 million in long-term capital lease obligations, which are included in capital leases above.

See “Debt Covenants and Amendments” for information regarding our debt covenants. See Notes 2, 5, 6, 8, 13 and 14 for additional information regarding certain of the obligations and commitments listed above.

## MARKET RISK

Market risk is comprised of three elements: interest rate risk, equity risk and foreign currency risk. Following the completion of the spin-off of certain network and real estate assets, we have exposure to market risk from changes in interest rates and from changes in marketable equity security prices. Because we do not operate in foreign countries denominated in foreign currencies, we are not exposed to foreign currency risk. We have estimated our market risk using sensitivity analysis. The results of the sensitivity analysis are further discussed below. Actual results may differ from our estimates.

### Interest Rate Risk

We are exposed to market risk through changes in interest rates, primarily as it relates to the variable interest rates we are charged under Windstream Services’ senior secured credit facility. Under our current policy, Windstream Services enters into interest rate swap agreements to obtain a targeted mixture of variable and fixed interest rate debt such that the portion of debt subject to variable rates does not exceed 25 percent of our total debt outstanding. In connection with the spin-off, Windstream Services terminated seven of its ten interest rate swaps.

We have established policies and procedures for risk assessment and the approval, reporting and monitoring of interest rate swap activity. We do not enter into interest rate swap agreements, or other derivative financial instruments, for trading or speculative purposes. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure.

As of December 31, 2015, Windstream Services has entered into three pay fixed, receive variable interest rate swap agreements designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable cash flows paid on Windstream Services’ senior secured credit facility. The interest rate swaps mature on October 17, 2019. The hedging relationships are expected to be highly effective in mitigating cash flow risks resulting from changes in interest rates. For additional information regarding our interest rate swap agreements, see Note 6 to the consolidated financial statements.

As of December 31, 2015 and 2014, the unhedged portion of Windstream Services’ variable rate senior secured credit facility was \$203.2 million and \$1,476.5 million, or approximately 3.9 percent and 17.1 percent of Windstream Services’ total outstanding long-term debt excluding unamortized debt issuance costs, respectively. For variable rate debt instruments, market risk is defined as the potential change in earnings resulting from a hypothetical adverse change in interest rates. A hypothetical increase of 100.0 basis points in variable interest rates would have reduced annual pre-tax earnings by approximately \$2.0 million and \$14.8 million for the years ended December 31, 2015 and 2014, respectively. Actual results may differ from this estimate.

## Equity Risk

In connection with the REIT spin-off, we retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. This investment has been classified as an available-for-sale security recorded at fair value, which was \$549.2 million at December 31, 2015, and included an unrealized holding loss of \$286.5 million. The fair value of the CS&L common stock is based on the quoted market price of the shares on the last day of the reporting period. Our investment in CS&L common stock has exposure to price risk, which is defined as the potential loss in fair value due to a hypothetical 10 percent adverse change in the quoted market price of the shares. A hypothetical 10 percent decrease in CS&L's common stock price would have resulted in a decrease in the recorded value of our investment of approximately \$54.9 million at December 31, 2015.

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## Reconciliation of non-GAAP financial measures

From time to time, we will reference certain non-GAAP measures in our filings. Management's purpose for including these measures is to provide investors with measures of performance that management uses in evaluating the performance of the business. These non-GAAP measures should not be considered in isolation or as a substitute for measures of financial performance reported under GAAP. Following is a reconciliation of non-GAAP financial measures to the most closely related financial measure reported under GAAP referenced in this filing.

Operating income before depreciation and amortization to GAAP operating income:

| (Millions)                    | 2015      | 2014      | %    |
|-------------------------------|-----------|-----------|------|
| Operating income              | \$509.4   | \$507.1   |      |
| Depreciation and amortization | 1,366.5   | 1,386.4   |      |
| OIBDA (a)                     | \$1,875.9 | \$1,893.5 | (1 ) |

OIBDA is defined as operating income plus depreciation and amortization expense. We believe this measure (a) provides investors with insight into the core earnings capacity of providing communications and technology services to our customers.

## Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are discussed in detail in Note 2 to the consolidated financial statements. Certain of these accounting policies, as discussed below, require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We believe that the estimates, judgments and assumptions made when accounting for the items described below are reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

## Allowance for Doubtful Accounts

In evaluating the collectability of our trade receivables, we assess a number of factors, including a specific customer's ability to meet its financial obligations to us, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assumptions, we record an allowance for doubtful accounts to reduce the related receivables to the amount that we ultimately expect to collect from customers. If circumstances related to specific customers change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our trade receivables could be further reduced from the levels provided for in the consolidated financial statements. A 10 percent change in the amounts estimated to be uncollectible would result in a change in the provision for doubtful accounts of approximately \$3.3 million for the year ended December 31, 2015.

## Useful Lives of Assets

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and finite-lived intangible assets. Our regulated operations use a group composite depreciation method. Under this method, when plant is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the plant.

Rapid changes in technology or changes in market conditions could result in significant changes to the estimated useful lives of our tangible or finite-lived intangible assets that could materially affect the carrying value of these

assets and our future consolidated operating results. An extension of the average useful life of our property, plant and equipment of one year would decrease depreciation expense by approximately \$84.0 million per year, while a reduction in the average useful life of one year would increase depreciation expense by approximately \$101.3 million per year.

At December 31, 2015, our unamortized finite-lived intangible assets totaled \$1,504.7 million and primarily consisted of franchise rights of \$999.0 million and customer lists of \$487.0 million. The customer lists are amortized using the sum-of-the-years digits method over estimated useful lives ranging from 9 to 15 years. The franchise rights are amortized on a straight-line basis over their estimated useful lives of 30 years. A reduction in the average useful lives of the franchise rights and customer lists of one year would have increased the amount of amortization expense recorded in 2015 by approximately \$3.3 million.

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### Goodwill

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired. 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. This guidance requires write-downs of goodwill only in periods in which the recorded amount of goodwill exceeds its fair value. We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure that results in a change in our reporting units. Goodwill is reassigned to the reporting units using a relative fair value approach.

As further discussed in Note 2 to the consolidated financial statements, we reassessed our reporting unit structure as of November 1, 2015 in conjunction with the disposal of our data center business and the reorganization of our business operations. As of the reassessment date, we determined that we had five reporting units consisting of our four reportable operating segments and the data center operations subsequently sold on December 18, 2015. To complete the reassignment of goodwill as of November 1, 2015, we estimated the fair value of our reporting units using an income 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. We corroborated the results of the income approach by aggregating the fair values of the reporting units and comparing the total value to overall market multiples for guideline public companies operating in the same lines of business as our reporting units. We also reconciled the estimated fair value of our reporting units to our total invested capital. Goodwill was then reassigned to the reporting units using a relative fair value allocation approach.

As of November 1, 2015, the estimated fair value of each reporting unit (consumer/small business - ILEC, carrier, enterprise, small business - CLEC and data center) was substantially in excess of its carrying value, such that a hypothetical 20 percent decrease in fair value would not result in the fair value of the reporting unit declining below its carrying value. Key assumptions used in the discounted cash flow model consist of the terminal growth rate and discount rate. Changes in these key assumptions due to changes in market conditions including, but not limited to: failure to meet our forecasted future operating results, the effects of competition, adverse changes as a result of regulatory or legislative actions, higher than expected customer churn and changes in the cost of capital of other industry market participants could adversely affect the calculated fair value of our reporting units, and in turn, materially impact the carrying value of goodwill and our future consolidated operating results.

In conjunction with our change in reporting units and the reallocation of goodwill, we have also elected to change on a go forward basis the date of our annual goodwill impairment assessment from January 1st to November 1st, which we believe is preferable because it more closely aligns with the timing of our internal strategic planning process. Following the sale of the data center business, we will no longer have a separate data center reporting unit for purposes of performing our annual goodwill impairment assessment.

See Note 2 and 4 to the consolidated financial statements for additional information regarding goodwill.

### Pension Benefits

We maintain a non-contributory qualified defined benefit pension plan as well as supplemental executive retirement plans that provide unfunded, non-qualified supplemental retirement benefits to a select group of management employees. The annual costs of providing pension benefits are based on certain key actuarial assumptions, including the expected return on plan assets and discount rate. We recognize changes in the fair value of plan assets and actuarial gains and losses due to actual experience differing from the various actuarial assumptions, including changes

in our pension obligation, as pension expense or income in the fourth quarter each year, unless an earlier measurement date is required. Our projected net pension income for 2016, which is estimated to be approximately \$1.1 million, was calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on qualified pension plan assets of 7.0 percent and a discount rate of 4.55 percent. If returns vary from the expected rate of return or there is a change in the discount rate, the estimated net pension income could vary. In developing the expected long-term rate of return assumption, we considered the plan's historical rate of return, as well as input from our investment advisors. Projected returns on qualified pension plan assets were based on broad equity and bond indices and include a targeted asset allocation of 25.0 percent to equities, 55.0 percent to fixed income assets and 20.0 percent to alternative investments, with an aggregate expected long-term rate of return of approximately 7.0 percent. Lowering the expected long-term rate of return on the qualified pension plan assets by 50 basis points (from 7.0 percent to 6.5 percent) would result in a decrease in our projected pension income of approximately \$4.6 million in 2016.

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The discount rate selected is derived by identifying a theoretical settlement portfolio of high quality corporate bonds sufficient to provide for the plan's projected benefit payments. The values of the plan's projected benefit payments are matched to the cash flows of the theoretical settlement bond portfolio to arrive at a single equivalent discount rate that aligns the present value of the required cash flows with the market value of the bond portfolio. The discount rate determined on this basis was 4.55 percent at December 31, 2015. Lowering the discount rate by 25 basis points (from 4.55 percent to 4.30 percent) would result in a decrease in our projected pension income of approximately \$35.4 million in 2016.

See Notes 2 and 8 to the consolidated financial statements for additional information on our pension plans.

## Income Taxes

Our estimates of income taxes and the significant items resulting in the recognition of deferred tax assets and liabilities are disclosed in Note 13 to the consolidated financial statements and reflect our assessment of future tax consequences of transactions that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. Actual income taxes to be paid could vary from these estimates due to future changes in income tax law or the outcome of audits completed by federal and state taxing authorities. Included in the calculation of our annual income tax expense are the effects of changes, if any, to our income tax reserves for uncertain tax positions. We maintain income tax reserves for potential assessments from the IRS or other taxing authorities. The reserves are determined in accordance with authoritative guidance and are adjusted, from time to time, based upon changing facts and circumstances. Changes to the income tax reserves could materially affect our future consolidated operating results in the period of change. In addition, a valuation allowance is recorded to reduce the carrying amount of deferred tax assets unless it is more likely than not that such assets will be realized.

## Recently Issued Authoritative Guidance

The following authoritative guidance, together with our evaluation of the related impact to the consolidated financial statements, is more fully described in Note 2.

## Revenue Recognition

## Fair Value Measurement Disclosures

## Pension Plan Investment Disclosures

## Valuation of Inventory

## Measurement Period Adjustments in a Business Combination



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### Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes, and future filings on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by us and our management may include, certain forward-looking statements. We claim the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this Annual Report on Form 10-K. Forward looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward looking statements include, but are not limited to, statements about our expectation to return a portion of our cash flow to shareholders through our dividend, expectations regarding our "network first" strategy to improve financial performance and increase market share, expectations regarding revenue trends and growth, cost management, and improving margins in our business segments, growth in adjusted OBIDA, the amount that Windstream may reduce its debt by selling its equity stake in CS&L and its ability to improve its debt profile and reduce interest, expected levels of support from universal service funds or other government programs, expected rates of loss of consumer households served or inter-carrier compensation, expected increases in high-speed Internet and business data connections, including increasing availability of higher Internet speeds, expectations regarding expanding IPTV and 1 Gbps services to more locations and expanding our carrier network, our expected ability to fund operations, expected required contributions to our pension plan, the completion and benefits from network investments related to the Connect America Fund to fund the deployment of broadband services and forecasted capital expenditure amounts related to these investments, anticipated benefits of Project Excel, anticipated capital expenditures and certain debt maturities from cash flows from operations, and expected effective federal income tax rates. These and other forward-looking statements are based on estimates, projections, beliefs, and assumptions that we believe are reasonable but are not guarantees of future events and results. Actual future events and our results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in our forward looking statements include, among others:

- further adverse changes in economic conditions in the markets served by us;

- the extent, timing and overall effects of competition in the communications business;

- our election to accept state-wide offers under the FCC's Connect America Fund, Phase 2, and the impact of such election on our future receipt of federal universal service funds and capital expenditures;

- the impact of new, emerging or competing technologies;

- for certain operations where we lease facilities from other carriers, adverse effects on the availability, quality of service, price of facilities and services provided by other carriers on which our services depend;

- unfavorable rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;

- material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;

- changes to our current dividend practice which is subject to our capital allocation policy and may be changed at any time at the discretion of our board of directors;

our ability to make rent payments under the master lease to CS&L, which may be affected by results of operations, changes in our cash requirements, cash tax payment obligations, or overall financial position;

unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements, or otherwise;

the availability and cost of financing in the corporate debt markets;

the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations;

earnings on pension plan investments significantly below our expected long term rate of return for plan assets or a significant change in the discount rate or other actuarial assumptions;

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• unfavorable results of litigation or intellectual property infringement claims asserted against us;

the risks associated with non-compliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and government subsidies, or non-compliance by us, our partners, or our subcontractors with any terms of our government contracts;

• the effects of federal and state legislation, and rules and regulations governing the communications industry;

• continued loss of consumer households served and consumer high-speed Internet customers;

• the impact of equipment failure, natural disasters or terrorist acts;

• the effects of work stoppages by our employees or employees of other communications companies on whom we rely for service; and

• those additional factors under “Risk Factors” in Item 1A of this Annual Report and in subsequent filings with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect our future results included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and in our other filings with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

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## SELECTED FINANCIAL DATA

Selected consolidated financial data for Windstream Holdings is as follows for the years ended December 31:

| (Millions, except per share amounts)                                                                           | 2015       | 2014       | 2013       | 2012       | 2011       |
|----------------------------------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|
| Revenues and sales                                                                                             | \$5,765.3  | \$5,829.5  | \$5,988.1  | \$6,139.5  | \$4,279.6  |
| Operating income                                                                                               | 509.4      | 507.1      | 1,009.0    | 883.9      | 962.9      |
| Other income (expense), net                                                                                    | 57.5       | 0.1        | (12.5)     | 4.6        | (0.1)      |
| Gain on sale of data center business                                                                           | 326.1      | —          | —          | —          | —          |
| (Loss) gain on extinguishment of debt                                                                          | (36.4)     | —          | (28.5)     | 1.9        | (136.1)    |
| Interest expense                                                                                               | (813.2)    | (571.8)    | (627.7)    | (625.1)    | (558.3)    |
| Income (loss) from continuing operations before income taxes                                                   | 43.4       | (64.6)     | 340.3      | 265.3      | 268.4      |
| Income tax expense (benefit)                                                                                   | 16.0       | (25.1)     | 105.3      | 98.2       | 99.4       |
| Income (loss) from continuing operations                                                                       | 27.4       | (39.5)     | 235.0      | 167.1      | 169.0      |
| Discontinued operations, including tax expense of \$9.8, \$2.2, and \$0, for 2013, 2012 and 2011, respectively | —          | —          | 6.0        | 0.9        | 0.5        |
| Net income (loss)                                                                                              | \$27.4     | \$(39.5)   | \$241.0    | \$168.0    | \$169.5    |
| Basic and diluted earnings (loss) per share:                                                                   |            |            |            |            |            |
| From continuing operations                                                                                     | \$ .24     | \$(.45)    | \$2.35     | \$1.69     | \$1.94     |
| From discontinued operations                                                                                   | —          | —          | .06        | —          | —          |
| Net income (loss)                                                                                              | \$ .24     | \$(.45)    | \$2.41     | \$1.69     | \$1.94     |
| Dividends declared per common share                                                                            | \$2.31     | \$6.00     | \$6.00     | \$6.00     | \$6.00     |
| Balance sheet data                                                                                             |            |            |            |            |            |
| Total assets                                                                                                   | \$12,518.1 | \$12,520.3 | \$13,341.6 | \$13,641.5 | \$14,074.6 |
| Total long-term debt and capital and other lease obligations (excluding premium and discount)                  | \$10,443.0 | \$8,762.3  | \$8,683.4  | \$9,025.4  | \$9,138.6  |
| Total equity                                                                                                   | \$306.4    | \$224.8    | \$840.2    | \$1,104.8  | \$1,495.3  |

## Notes to Selected Financial Information:

The selected consolidated financial data of Windstream Services are identical to Windstream Holdings with the exception of certain expenses directly incurred 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. In 2015, 2014 and 2013, the amount of pretax expenses directly incurred by Windstream Holdings totaled approximately \$2.0 million, \$2.3 million and \$0.5 million or \$1.2 million, \$1.4 million and \$0.3 million on an after-tax basis, respectively. Earnings per common share and dividends declared per common share information for Windstream Services would not be applicable following the formation of Windstream Holdings completed on August 30, 2013.

On April 24, 2015, Windstream Holdings amended its 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 outstanding shares of common stock which became effective April 26, 2015. Share data of Windstream Holdings has been retrospectively adjusted to reflect the decrease in authorized shares and the reverse stock split.

During 2015, we early adopted new accounting guidance related to the presentation of unamortized debt issuance costs and deferred income taxes in our consolidated balance sheets. As a result, unamortized debt issuance costs

previously reported as other assets have been reclassified as a reduction to long-term debt for all prior periods presented. In addition, we have classified all deferred income tax balances as noncurrent. The effect of this change was to net previously reported current deferred income tax assets with noncurrent deferred income tax liabilities and present only one amount for noncurrent deferred income tax liabilities for all prior periods presented. See Notes 2, 5 and 13 to the consolidated financial statements for additional information regarding these changes.

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Notes to Selected Financial Information, Continued:

• Explanations for significant events affecting our historical operating trends during the years 2013 through 2015 are provided in Management's Discussion and Analysis of Results of Operations and Financial Condition.

In 2011, we changed our method of recognizing actuarial gains and losses for pension benefits to recognize actuarial gains and losses in our operating results in the year in which the gains and losses occur. The effect of this change in methodology can create volatility in actuarial gains and losses recognized based on market fluctuations which impacts pension expense (income) for the year. Pension expense (income) was \$1.2 million, \$128.3 million, \$(115.3) million, \$67.4 million and \$166.8 million in 2015, 2014, 2013, 2012, and 2011, respectively.

• On November 30, 2011, we acquired PAETEC which affected our historical operating trends during 2012.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Our management is responsible for the integrity and objectivity of all financial information included in this Financial Supplement. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include amounts that are based on the best estimates and judgments of management. All financial information in this Financial Supplement is consistent with that in the consolidated financial statements.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and have expressed herein their unqualified opinion on those financial statements.

The Audit Committee of the Board of Directors, which oversees our financial reporting process on behalf of the Board of Directors, is composed entirely of independent directors (as defined by the NASDAQ Global Select Market). The Audit Committee meets periodically with management, the independent registered public accounting firm and the internal auditors to review matters relating to our financial statements and financial reporting process, annual financial statement audit, engagement of independent registered public accounting firm, internal audit function, system of internal controls, and legal compliance and ethics programs as established by our management and the Board of Directors. The internal auditors and the independent registered public accounting firm periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Dated February 25, 2016

Anthony W. Thomas  
President and  
Chief Executive Officer

Robert E. Gunderman  
Chief Financial Officer

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is the process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based upon criteria in Internal Control - Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Dated February 25, 2016

Anthony W. Thomas  
President and  
Chief Executive Officer

Robert E. Gunderman  
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Windstream Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows present fairly, in all material respects, the financial position of Windstream Holdings, Inc. and its subsidiaries (the "Company") at December 31, 2015 and December 31, 2014 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, in 2015, the Company changed the manner in which it classifies its deferred taxes and presents its unamortized debt issuance costs on the consolidated balance sheet.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Little Rock, Arkansas  
February 25, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of Windstream Services, LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), member equity and cash flows present fairly, in all material respects, the financial position of Windstream Services, LLC and its subsidiaries (the “Company”) at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, in 2015, the Company changed the manner in which it classifies its deferred taxes and presents its unamortized debt issuance costs on the consolidated balance sheet. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Little Rock, Arkansas  
February 25, 2016

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

(Millions, except per share amounts)

|                                                                              | 2015      | 2014      | 2013      |
|------------------------------------------------------------------------------|-----------|-----------|-----------|
| Revenues and sales:                                                          |           |           |           |
| Service revenues                                                             | \$5,598.6 | \$5,647.6 | \$5,775.5 |
| Product sales                                                                | 166.7     | 181.9     | 212.6     |
| Total revenues and sales                                                     | 5,765.3   | 5,829.5   | 5,988.1   |
| Costs and expenses:                                                          |           |           |           |
| Cost of services (exclusive of depreciation and amortization included below) | 2,762.0   | 2,773.3   | 2,541.2   |
| Cost of products sold                                                        | 145.2     | 156.6     | 183.9     |
| Selling, general and administrative                                          | 866.5     | 929.8     | 874.3     |
| Depreciation and amortization                                                | 1,366.5   | 1,386.4   | 1,340.9   |
| Merger and integration costs                                                 | 95.0      | 40.4      | 30.2      |
| Restructuring charges                                                        | 20.7      | 35.9      | 8.6       |
| Total costs and expenses                                                     | 5,255.9   | 5,322.4   | 4,979.1   |
| Operating income                                                             | 509.4     | 507.1     | 1,009.0   |
| Other income (expense), net                                                  | 57.5      | 0.1       | (12.5 )   |
| Gain on sale of data center business                                         | 326.1     | —         | —         |
| Loss on early extinguishment of debt                                         | (36.4 )   | —         | (28.5 )   |
| Interest expense                                                             | (813.2 )  | (571.8 )  | (627.7 )  |
| Income (loss) from continuing operations before income taxes                 | 43.4      | (64.6 )   | 340.3     |
| Income tax expense (benefit)                                                 | 16.0      | (25.1 )   | 105.3     |
| Income (loss) from continuing operations                                     | 27.4      | (39.5 )   | 235.0     |
| Discontinued operations                                                      | —         | —         | 6.0       |
| Net income (loss)                                                            | \$27.4    | \$(39.5 ) | \$241.0   |
| Basic and diluted earnings (loss) per share:                                 |           |           |           |
| From continuing operations                                                   | \$.24     | \$(.45 )  | \$2.35    |
| From discontinued operations                                                 | —         | —         | .06       |
| Net income (loss)                                                            | \$.24     | \$(.45 )  | \$2.41    |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31,

| (Millions)                                                             | 2015     | 2014      | 2013      |   |
|------------------------------------------------------------------------|----------|-----------|-----------|---|
| Net income (loss)                                                      | \$27.4   | \$(39.5)  | ) \$241.0 |   |
| Other comprehensive (loss) income:                                     |          |           |           |   |
| Available-for-sale securities:                                         |          |           |           |   |
| Unrealized holding loss arising during the period                      | (286.5   | ) —       | —         |   |
| Unrealized holding loss on available-for-sale securities               | (286.5   | ) —       | —         |   |
| Interest rate swaps:                                                   |          |           |           |   |
| Changes in designated interest rate swaps                              | (8.8     | ) (23.2   | ) 28.2    |   |
| Amortization of unrealized losses on de-designated interest rate swaps | 11.6     | 15.8      | 35.9      |   |
| Income tax (expense) benefit                                           | (1.1     | ) 2.9     | (24.5     | ) |
| Unrealized gain (loss) on interest rate swaps                          | 1.7      | (4.5      | ) 39.6    |   |
| Postretirement and pension plans:                                      |          |           |           |   |
| Prior service credit arising during the period                         | 1.8      | 0.1       | 0.9       |   |
| Change in net actuarial gain (loss) for postretirement plan            | 0.1      | (3.6      | ) 9.9     |   |
| Plan curtailments and settlements                                      | (18.0    | ) (10.0   | ) (31.8   | ) |
| Amounts included in net periodic benefit cost:                         |          |           |           |   |
| Amortization of net actuarial loss                                     | 1.0      | 0.1       | 1.7       |   |
| Amortization of prior service credits                                  | (3.9     | ) (5.9    | ) (8.7    | ) |
| Income tax benefit                                                     | 7.3      | 7.4       | 10.5      |   |
| Change in postretirement and pension plans                             | (11.7    | ) (11.9   | ) (17.5   | ) |
| Other comprehensive (loss) income                                      | (296.5   | ) (16.4   | ) 22.1    |   |
| Comprehensive (loss) income                                            | \$(269.1 | ) \$(55.9 | ) \$263.1 |   |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of ContentsWINDSTREAM HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS

December 31,

(Millions, except par value)

| Assets                                                                                                                   | 2015       | 2014       |
|--------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Current Assets:                                                                                                          |            |            |
| Cash and cash equivalents                                                                                                | \$31.3     | \$27.8     |
| Restricted cash                                                                                                          | —          | 6.7        |
| Accounts receivable (less allowance for doubtful<br>accounts of \$33.1 and \$43.4, respectively)                         | 643.9      | 635.5      |
| Inventories                                                                                                              | 79.5       | 63.7       |
| Prepaid expenses and other                                                                                               | 120.6      | 164.6      |
| Total current assets                                                                                                     | 875.3      | 898.3      |
| Goodwill                                                                                                                 | 4,213.6    | 4,352.8    |
| Other intangibles, net                                                                                                   | 1,504.7    | 1,764.0    |
| Net property, plant and equipment                                                                                        | 5,279.8    | 5,412.3    |
| Investment in CS&L common stock                                                                                          | 549.2      | —          |
| Other assets                                                                                                             | 95.5       | 92.9       |
| Total Assets                                                                                                             | \$12,518.1 | \$12,520.3 |
| Liabilities and Shareholders' Equity                                                                                     |            |            |
| Current Liabilities:                                                                                                     |            |            |
| Current maturities of long-term debt                                                                                     | \$5.9      | \$717.5    |
| Current portion of long-term lease obligations                                                                           | 152.7      | —          |
| Accounts payable                                                                                                         | 430.1      | 403.3      |
| Advance payments and customer deposits                                                                                   | 193.9      | 214.7      |
| Accrued dividends                                                                                                        | 15.1       | 152.4      |
| Accrued taxes                                                                                                            | 84.1       | 95.2       |
| Accrued interest                                                                                                         | 78.4       | 102.5      |
| Other current liabilities                                                                                                | 306.9      | 357.4      |
| Total current liabilities                                                                                                | 1,267.1    | 2,043.0    |
| Long-term debt                                                                                                           | 5,164.6    | 7,846.5    |
| Long-term lease obligations                                                                                              | 5,000.4    | 81.0       |
| Deferred income taxes                                                                                                    | 287.4      | 1,773.2    |
| Other liabilities                                                                                                        | 492.2      | 551.8      |
| Total liabilities                                                                                                        | 12,211.7   | 12,295.5   |
| Commitments and Contingencies (See Note 14)                                                                              |            |            |
| Shareholders' Equity:                                                                                                    |            |            |
| Common stock, \$0.0001 par value, 166.7 shares authorized,<br>96.7 and 100.5 shares issued and outstanding, respectively | —          | —          |
| Additional paid-in capital                                                                                               | 602.9      | 252.2      |
| Accumulated other comprehensive (loss) income                                                                            | (284.4     | ) 12.1     |
| Accumulated deficit                                                                                                      | (12.1      | ) (39.5    |
| Total shareholders' equity                                                                                               | 306.4      | 224.8      |
| Total Liabilities and Shareholders' Equity                                                                               | \$12,518.1 | \$12,520.3 |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

| (Millions)                                                                       | 2015      | 2014        | 2013        |
|----------------------------------------------------------------------------------|-----------|-------------|-------------|
| Cash Provided from Operations:                                                   |           |             |             |
| Net income (loss)                                                                | \$27.4    | \$(39.5)    | ) \$241.0   |
| Adjustments to reconcile net income (loss) to net cash provided from operations: |           |             |             |
| Depreciation and amortization                                                    | 1,366.5   | 1,386.4     | 1,341.5     |
| Provision for doubtful accounts                                                  | 47.1      | 54.9        | 63.5        |
| Share-based compensation expense                                                 | 55.3      | 41.8        | 44.9        |
| Pension expense (income)                                                         | 1.2       | 128.3       | (115.3)     |
| Deferred income taxes                                                            | (16.3)    | ) (13.4)    | ) 134.8     |
| Unamortized net premium on retired debt                                          | (14.8)    | ) —         | (38.1)      |
| Amortization of unrealized losses on de-designated interest rate swaps           | 11.6      | 15.8        | 35.9        |
| Gains from sales of data center and software businesses                          | (326.1)   | ) —         | (14.4)      |
| Plan curtailments and other, net                                                 | (14.3)    | ) 6.8       | (15.8)      |
| Changes in operating assets and liabilities, net                                 |           |             |             |
| Accounts receivable                                                              | (69.5)    | ) (55.0)    | ) (46.4)    |
| Prepaid income taxes                                                             | —         | 1.1         | (7.0)       |
| Prepaid expenses and other                                                       | 1.4       | (6.0)       | ) (12.4)    |
| Accounts payable                                                                 | 31.1      | (13.1)      | ) (21.0)    |
| Accrued interest                                                                 | (26.4)    | ) (3.1)     | ) (10.2)    |
| Accrued taxes                                                                    | 17.9      | (9.0)       | ) (0.1)     |
| Other current liabilities                                                        | (17.7)    | ) 8.4       | (49.0)      |
| Other liabilities                                                                | (11.6)    | ) (21.5)    | ) (9.2)     |
| Other, net                                                                       | (36.2)    | ) (15.6)    | ) (3.3)     |
| Net cash provided from operations                                                | 1,026.6   | 1,467.3     | 1,519.4     |
| Cash Flows from Investing Activities:                                            |           |             |             |
| Additions to property, plant and equipment                                       | (1,055.3) | ) (786.5)   | ) (841.0)   |
| Broadband network expansion funded by stimulus grants                            | —         | (13.3)      | ) (36.1)    |
| Changes in restricted cash                                                       | 6.7       | 3.0         | 16.8        |
| Grant funds received for broadband stimulus projects                             | 23.5      | 33.2        | 68.0        |
| Grant funds received from Connect America Fund - Phase I                         | —         | 26.0        | 60.7        |
| Network expansion funded by Connect America Fund - Phase I                       | (73.9)    | ) (12.8)    | ) —         |
| Acquisition of a business                                                        | —         | (22.6)      | ) —         |
| Dispositions of data center and software businesses                              | 574.2     | —           | 30.0        |
| Other, net                                                                       | 2.8       | 3.9         | (6.0)       |
| Net cash used in investing activities                                            | (522.0)   | ) (769.1)   | ) (707.6)   |
| Cash Flows from Financing Activities:                                            |           |             |             |
| Dividends paid to shareholders                                                   | (369.2)   | ) (602.2)   | ) (593.6)   |
| Payment received from CS&L in spin-off                                           | 1,035.0   | —           | —           |
| Funding received from CS&L for tenant capital improvements                       | 43.1      | —           | —           |
| Repayments of debt and swaps                                                     | (3,350.9) | ) (1,395.4) | ) (5,161.0) |
| Proceeds of debt issuance                                                        | 2,335.0   | 1,315.0     | 4,919.6     |
| Debt issuance costs                                                              | (4.3)     | ) —         | (30.0)      |
| Stock repurchases                                                                | (46.2)    | ) —         | —           |
| Payments under long-term lease obligations                                       | (102.6)   | ) —         | —           |
| Payments under capital lease obligations                                         | (31.5)    | ) (26.8)    | ) (23.9)    |

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|                                                  |         |          |          |   |
|--------------------------------------------------|---------|----------|----------|---|
| Other, net                                       | (9.5    | ) (9.2   | ) (6.7   | ) |
| Net cash used in financing activities            | (501.1  | ) (718.6 | ) (895.6 | ) |
| Increase (decrease) in cash and cash equivalents | 3.5     | (20.4    | ) (83.8  | ) |
| Cash and Cash Equivalents:                       |         |          |          |   |
| Beginning of period                              | 27.8    | 48.2     | 132.0    |   |
| End of period                                    | \$31.3  | \$27.8   | \$48.2   |   |
| Supplemental Cash Flow Disclosures:              |         |          |          |   |
| Interest paid, net of interest capitalized       | \$828.9 | \$564.4  | \$601.5  |   |
| Income taxes paid (refunded), net                | \$1.1   | \$(8.8   | ) \$5.7  |   |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Millions, except per share amounts)                                        | Common Stock<br>and Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total     |
|-----------------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-----------|
| Balance at December 31, 2012                                                | \$1,098.4                                            | \$6.4                                                  | \$—                                              | \$1,104.8 |
| Net income                                                                  | —                                                    | —                                                      | 241.0                                            | 241.0     |
| Other comprehensive income, net of tax:                                     |                                                      |                                                        |                                                  |           |
| Change in postretirement and pension plans                                  | —                                                    | (17.5)                                                 | ) —                                              | (17.5)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 22.2                                                   | —                                                | 22.2      |
| Changes in designated interest rate swaps                                   | —                                                    | 17.4                                                   | —                                                | 17.4      |
| Comprehensive income                                                        | —                                                    | 22.1                                                   | 241.0                                            | 263.1     |
| Share-based compensation expense (See Note 9)                               | 26.8                                                 | —                                                      | —                                                | 26.8      |
| Stock options exercised                                                     | 0.8                                                  | —                                                      | —                                                | 0.8       |
| Stock issued to employee savings plan (See Note 8)                          | 20.4                                                 | —                                                      | —                                                | 20.4      |
| Stock issued to qualified pension plan (See Note 8)                         | 27.8                                                 | —                                                      | —                                                | 27.8      |
| Taxes withheld on vested restricted stock and other                         | (8.0)                                                | ) —                                                    | —                                                | (8.0)     |
| Dividends of \$6.00 per share declared to stockholders                      | (354.5)                                              | ) —                                                    | (241.0)                                          | (595.5)   |
| Balance at December 31, 2013                                                | \$811.7                                              | \$28.5                                                 | \$—                                              | \$840.2   |
| Net loss                                                                    | —                                                    | —                                                      | (39.5)                                           | (39.5)    |
| Other comprehensive loss, net of tax:                                       |                                                      |                                                        |                                                  |           |
| Change in postretirement and pension plans                                  | —                                                    | (11.9)                                                 | ) —                                              | (11.9)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 9.8                                                    | —                                                | 9.8       |
| Changes in designated interest rate swaps                                   | —                                                    | (14.3)                                                 | ) —                                              | (14.3)    |
| Comprehensive loss                                                          | —                                                    | (16.4)                                                 | ) (39.5)                                         | (55.9)    |
| Share-based compensation expense (See Note 9)                               | 22.1                                                 | —                                                      | —                                                | 22.1      |
| Stock options exercised                                                     | 1.6                                                  | —                                                      | —                                                | 1.6       |
| Stock issued for management incentive compensation<br>plans<br>(See Note 9) | 1.4                                                  | —                                                      | —                                                | 1.4       |
| Stock issued to employee savings plan (See Note 8)                          | 21.6                                                 | —                                                      | —                                                | 21.6      |
| Stock issued to qualified pension plan (See Note 8)                         | 8.3                                                  | —                                                      | —                                                | 8.3       |
| Taxes withheld on vested restricted stock and other                         | (11.6)                                               | ) —                                                    | —                                                | (11.6)    |
| Dividends of \$6.00 per share declared to stockholders                      | (602.9)                                              | ) —                                                    | —                                                | (602.9)   |
| Balance at December 31, 2014                                                | \$252.2                                              | \$12.1                                                 | \$(39.5)                                         | \$224.8   |
| Net income                                                                  | —                                                    | —                                                      | 27.4                                             | 27.4      |
| Other comprehensive (loss) income, net of tax:                              |                                                      |                                                        |                                                  |           |
| Unrealized holding loss on available-for-sale<br>securities                 | —                                                    | (286.5)                                                | ) —                                              | (286.5)   |
| Change in postretirement and pension plans                                  | —                                                    | (11.7)                                                 | ) —                                              | (11.7)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 7.1                                                    | —                                                | 7.1       |
| Changes in designated interest rate swaps                                   | —                                                    | (5.4)                                                  | ) —                                              | (5.4)     |
| Comprehensive loss (income)                                                 | —                                                    | (296.5)                                                | ) 27.4                                           | (269.1)   |
| Effect of REIT spin-off (See Note 3)                                        | 585.6                                                | —                                                      | —                                                | 585.6     |
| Share-based compensation expense (See Note 9)                               | 25.0                                                 | —                                                      | —                                                | 25.0      |

|                                                                          |         |          |           |           |
|--------------------------------------------------------------------------|---------|----------|-----------|-----------|
| Stock issued for management incentive compensation plans<br>(See Note 9) | 5.9     | —        | —         | 5.9       |
| Stock issued to employee savings plan (See Note 8)                       | 21.6    | —        | —         | 21.6      |
| Stock repurchases                                                        | (46.2   | ) —      | —         | (46.2 )   |
| Taxes withheld on vested restricted stock and other                      | (9.7    | ) —      | —         | (9.7 )    |
| Dividends of \$2.31 per share declared to stockholders                   | (231.5  | ) —      | —         | (231.5 )  |
| Balance at December 31, 2015                                             | \$602.9 | \$(284.4 | ) \$(12.1 | ) \$306.4 |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of ContentsWINDSTREAM SERVICES, LLC  
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

| (Millions)                                                                   | 2015      | 2014      | 2013      |
|------------------------------------------------------------------------------|-----------|-----------|-----------|
| Revenues and sales:                                                          |           |           |           |
| Service revenues                                                             | \$5,598.6 | \$5,647.6 | \$5,775.5 |
| Product sales                                                                | 166.7     | 181.9     | 212.6     |
| Total revenues and sales                                                     | 5,765.3   | 5,829.5   | 5,988.1   |
| Costs and expenses:                                                          |           |           |           |
| Cost of services (exclusive of depreciation and amortization included below) | 2,762.0   | 2,773.3   | 2,541.2   |
| Cost of products sold                                                        | 145.2     | 156.6     | 183.9     |
| Selling, general and administrative                                          | 864.5     | 927.5     | 873.8     |
| Depreciation and amortization                                                | 1,366.5   | 1,386.4   | 1,340.9   |
| Merger and integration costs                                                 | 95.0      | 40.4      | 30.2      |
| Restructuring charges                                                        | 20.7      | 35.9      | 8.6       |
| Total costs and expenses                                                     | 5,253.9   | 5,320.1   | 4,978.6   |
| Operating income                                                             | 511.4     | 509.4     | 1,009.5   |
| Other income (expense), net                                                  | 57.5      | 0.1       | (12.5 )   |
| Gain on sale of data center business                                         | 326.1     | —         | —         |
| Loss on early extinguishment of debt                                         | (36.4 )   | —         | (28.5 )   |
| Interest expense                                                             | (813.2 )  | (571.8 )  | (627.7 )  |
| Income (loss) from continuing operations before income taxes                 | 45.4      | (62.3 )   | 340.8     |
| Income tax expense (benefit)                                                 | 16.8      | (24.2 )   | 105.5     |
| Income (loss) from continuing operations                                     | 28.6      | (38.1 )   | 235.3     |
| Discontinued operations                                                      | —         | —         | 6.0       |
| Net income (loss)                                                            | \$28.6    | \$(38.1 ) | \$241.3   |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31,

| (Millions)                                                             | 2015     | 2014      | 2013      |   |
|------------------------------------------------------------------------|----------|-----------|-----------|---|
| Net income (loss)                                                      | \$28.6   | \$(38.1)  | ) \$241.3 |   |
| Other comprehensive (loss) income:                                     |          |           |           |   |
| Available-for-sale securities:                                         |          |           |           |   |
| Unrealized holding loss arising during the period                      | (286.5   | ) —       | —         |   |
| Unrealized holding loss on available-for-sale securities               | (286.5   | ) —       | —         |   |
| Interest rate swaps:                                                   |          |           |           |   |
| Changes in designated interest rate swaps                              | (8.8     | ) (23.2   | ) 28.2    |   |
| Amortization of unrealized losses on de-designated interest rate swaps | 11.6     | 15.8      | 35.9      |   |
| Income tax (expense) benefit                                           | (1.1     | ) 2.9     | (24.5     | ) |
| Unrealized gain (loss) on interest rate swaps                          | 1.7      | (4.5      | ) 39.6    |   |
| Postretirement and pension plans:                                      |          |           |           |   |
| Prior service credit arising during the period                         | 1.8      | 0.1       | 0.9       |   |
| Change in net actuarial gain (loss) for postretirement plan            | 0.1      | (3.6      | ) 9.9     |   |
| Plan curtailments and settlements                                      | (18.0    | ) (10.0   | ) (31.8   | ) |
| Amounts included in net periodic benefit cost:                         |          |           |           |   |
| Amortization of net actuarial loss                                     | 1.0      | 0.1       | 1.7       |   |
| Amortization of prior service credits                                  | (3.9     | ) (5.9    | ) (8.7    | ) |
| Income tax benefit                                                     | 7.3      | 7.4       | 10.5      |   |
| Change in postretirement and pension plans                             | (11.7    | ) (11.9   | ) (17.5   | ) |
| Other comprehensive (loss) income                                      | (296.5   | ) (16.4   | ) 22.1    |   |
| Comprehensive (loss) income                                            | \$(267.9 | ) \$(54.5 | ) \$263.4 |   |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of ContentsWINDSTREAM SERVICES, LLC  
CONSOLIDATED BALANCE SHEETS

December 31,

(Millions, except number of shares)

| Assets                                                                                           | 2015       | 2014       |
|--------------------------------------------------------------------------------------------------|------------|------------|
| Current Assets:                                                                                  |            |            |
| Cash and cash equivalents                                                                        | \$31.3     | \$27.8     |
| Restricted cash                                                                                  | —          | 6.7        |
| Accounts receivable (less allowance for doubtful<br>accounts of \$33.1 and \$43.4, respectively) | 643.9      | 635.5      |
| Inventories                                                                                      | 79.5       | 63.7       |
| Prepaid expenses and other                                                                       | 120.6      | 164.6      |
| Total current assets                                                                             | 875.3      | 898.3      |
| Goodwill                                                                                         | 4,213.6    | 4,352.8    |
| Other intangibles, net                                                                           | 1,504.7    | 1,764.0    |
| Net property, plant and equipment                                                                | 5,279.8    | 5,412.3    |
| Investment in CS&L common stock                                                                  | 549.2      | —          |
| Other assets                                                                                     | 95.5       | 92.9       |
| Total Assets                                                                                     | \$12,518.1 | \$12,520.3 |
| Liabilities and Member Equity                                                                    |            |            |
| Current Liabilities:                                                                             |            |            |
| Current maturities of long-term debt                                                             | \$5.9      | \$717.5    |
| Current portion of long-term lease obligations                                                   | 152.7      | —          |
| Accounts payable                                                                                 | 430.1      | 403.3      |
| Advance payments and customer deposits                                                           | 193.9      | 214.7      |
| Payable to Windstream Holdings, Inc.                                                             | 15.1       | 152.4      |
| Accrued taxes                                                                                    | 84.1       | 95.2       |
| Accrued interest                                                                                 | 78.4       | 102.5      |
| Other current liabilities                                                                        | 306.9      | 357.4      |
| Total current liabilities                                                                        | 1,267.1    | 2,043.0    |
| Long-term debt                                                                                   | 5,164.6    | 7,846.5    |
| Long-term lease obligations                                                                      | 5,000.4    | 81.0       |
| Deferred income taxes                                                                            | 287.4      | 1,773.2    |
| Other liabilities                                                                                | 492.2      | 551.8      |
| Total liabilities                                                                                | 12,211.7   | 12,295.5   |
| Commitments and Contingencies (See Note 14)                                                      |            |            |
| Member Equity:                                                                                   |            |            |
| Additional paid-in capital                                                                       | 600.3      | 250.8      |
| Accumulated other comprehensive (loss) income                                                    | (284.4     | ) 12.1     |
| Accumulated deficit                                                                              | (9.5       | ) (38.1    |
| Total member equity                                                                              | 306.4      | 224.8      |
| Total Liabilities and Member Equity                                                              | \$12,518.1 | \$12,520.3 |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(Millions)

## Cash Provided from Operations:

|                   | 2015   | 2014     | 2013      |
|-------------------|--------|----------|-----------|
| Net income (loss) | \$28.6 | \$(38.1) | ) \$241.3 |

Adjustments to reconcile net income (loss) to net cash provided from operations:

|                                                                        |           |             |             |   |
|------------------------------------------------------------------------|-----------|-------------|-------------|---|
| Depreciation and amortization                                          | 1,366.5   | 1,386.4     | 1,341.5     |   |
| Provision for doubtful accounts                                        | 47.1      | 54.9        | 63.5        |   |
| Share-based compensation expense                                       | 55.3      | 41.8        | 44.9        |   |
| Pension expense (income)                                               | 1.2       | 128.3       | (115.3)     | ) |
| Deferred income taxes                                                  | (16.3)    | ) (13.4)    | ) 134.8     |   |
| Unamortized net premium on retired debt                                | (14.8)    | ) —         | (38.1)      | ) |
| Amortization of unrealized losses on de-designated interest rate swaps | 11.6      | 15.8        | 35.9        |   |
| Gains from sales of data center and software businesses                | (326.1)   | ) —         | (14.4)      | ) |
| Plan curtailments and other, net                                       | (14.3)    | ) 6.8       | (15.8)      | ) |
| Changes in operating assets and liabilities, net                       |           |             |             |   |
| Accounts receivable                                                    | (69.5)    | ) (55.0)    | ) (46.4)    | ) |
| Prepaid income taxes                                                   | —         | 1.1         | (7.0)       | ) |
| Prepaid expenses and other                                             | 1.4       | (6.0)       | ) (12.4)    | ) |
| Accounts payable                                                       | 31.1      | (13.1)      | ) (21.0)    | ) |
| Accrued interest                                                       | (26.4)    | ) (3.1)     | ) (10.2)    | ) |
| Accrued taxes                                                          | 17.9      | (9.0)       | ) —         |   |
| Other current liabilities                                              | (17.7)    | ) 8.4       | (49.0)      | ) |
| Other liabilities                                                      | (11.6)    | ) (21.5)    | ) (9.2)     | ) |
| Other, net                                                             | (36.2)    | ) (15.6)    | ) (3.3)     | ) |
| Net cash provided from operations                                      | 1,027.8   | 1,468.7     | 1,519.8     |   |
| Cash Flows from Investing Activities:                                  |           |             |             |   |
| Additions to property, plant and equipment                             | (1,055.3) | ) (786.5)   | ) (841.0)   | ) |
| Broadband network expansion funded by stimulus grants                  | —         | (13.3)      | ) (36.1)    | ) |
| Changes in restricted cash                                             | 6.7       | 3.0         | 16.8        |   |
| Grant funds received for broadband stimulus projects                   | 23.5      | 33.2        | 68.0        |   |
| Grant funds received from Connect America Fund - Phase I               | —         | 26.0        | 60.7        |   |
| Network expansion funded by Connect America Fund - Phase I             | (73.9)    | ) (12.8)    | ) —         |   |
| Acquisition of a business                                              | —         | (22.6)      | ) —         |   |
| Dispositions of data center and software businesses                    | 574.2     | —           | 30.0        |   |
| Other, net                                                             | 2.8       | 3.9         | (6.0)       | ) |
| Net cash used in investing activities                                  | (522.0)   | ) (769.1)   | ) (707.6)   | ) |
| Cash Flows from Financing Activities:                                  |           |             |             |   |
| Dividends paid to shareholders                                         | —         | —           | (444.6)     | ) |
| Distributions to Windstream Holdings, Inc.                             | (416.6)   | ) (603.6)   | ) (149.4)   | ) |
| Payment received from CS&L in spin-off                                 | 1,035.0   | —           | —           |   |
| Funding received from CS&L for tenant capital improvements             | 43.1      | —           | —           |   |
| Repayments of debt and swaps                                           | (3,350.9) | ) (1,395.4) | ) (5,161.0) | ) |
| Proceeds of debt issuance                                              | 2,335.0   | 1,315.0     | 4,919.6     |   |
| Debt issuance costs                                                    | (4.3)     | ) —         | (30.0)      | ) |
| Payments under long-term lease obligations                             | (102.6)   | ) —         | —           |   |
| Payments under capital lease obligations                               | (31.5)    | ) (26.8)    | ) (23.9)    | ) |

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|                                                  |         |          |          |   |
|--------------------------------------------------|---------|----------|----------|---|
| Other, net                                       | (9.5    | ) (9.2   | ) (6.7   | ) |
| Net cash used in financing activities            | (502.3  | ) (720.0 | ) (896.0 | ) |
| Increase (decrease) in cash and cash equivalents | 3.5     | (20.4    | ) (83.8  | ) |
| Cash and Cash Equivalents:                       |         |          |          |   |
| Beginning of period                              | 27.8    | 48.2     | 132.0    |   |
| End of period                                    | \$31.3  | \$27.8   | \$48.2   |   |
| Supplemental Cash Flow Disclosures:              |         |          |          |   |
| Interest paid, net of interest capitalized       | \$828.9 | \$564.4  | \$601.5  |   |
| Income taxes paid (refunded), net                | \$1.1   | \$(8.8   | ) \$5.7  |   |

The accompanying notes are an integral part of these consolidated financial statements.

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## WINDSTREAM SERVICES, LLC

## CONSOLIDATED STATEMENTS OF MEMBER EQUITY

| (Millions, except per share amounts)                                        | Common Stock<br>and Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total     |
|-----------------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-----------|
| Balance at December 31, 2012                                                | \$1,098.4                                            | \$6.4                                                  | \$—                                              | \$1,104.8 |
| Net income                                                                  | —                                                    | —                                                      | 241.3                                            | 241.3     |
| Other comprehensive income, net of tax:                                     |                                                      |                                                        |                                                  |           |
| Change in postretirement and pension plans                                  | —                                                    | (17.5)                                                 | ) —                                              | (17.5)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 22.2                                                   | —                                                | 22.2      |
| Changes in designated interest rate swaps                                   | —                                                    | 17.4                                                   | —                                                | 17.4      |
| Comprehensive income                                                        | —                                                    | 22.1                                                   | 241.3                                            | 263.4     |
| Share-based compensation expense (See Note 9)                               | 26.8                                                 | —                                                      | —                                                | 26.8      |
| Stock options exercised                                                     | 0.8                                                  | —                                                      | —                                                | 0.8       |
| Stock issued to employee savings plan (See Note 8)                          | 20.4                                                 | —                                                      | —                                                | 20.4      |
| Stock issued to qualified pension plan (See Note 8)                         | 27.8                                                 | —                                                      | —                                                | 27.8      |
| Taxes withheld on vested restricted stock and other                         | (8.0)                                                | ) —                                                    | —                                                | (8.0)     |
| Distributions payable to Windstream Holdings, Inc.                          | (354.2)                                              | ) —                                                    | (241.3)                                          | ) (595.5) |
| Balance at December 31, 2013                                                | \$812.0                                              | \$28.5                                                 | \$—                                              | \$840.5   |
| Net loss                                                                    | —                                                    | —                                                      | (38.1)                                           | ) (38.1)  |
| Other comprehensive loss, net of tax:                                       |                                                      |                                                        |                                                  |           |
| Change in postretirement and pension plans                                  | —                                                    | (11.9)                                                 | ) —                                              | (11.9)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 9.8                                                    | —                                                | 9.8       |
| Changes in designated interest rate swaps                                   | —                                                    | (14.3)                                                 | ) —                                              | (14.3)    |
| Comprehensive loss                                                          | —                                                    | (16.4)                                                 | ) (38.1)                                         | ) (54.5)  |
| Share-based compensation expense (See Note 9)                               | 22.1                                                 | —                                                      | —                                                | 22.1      |
| Stock options exercised                                                     | 1.6                                                  | —                                                      | —                                                | 1.6       |
| Stock issued for management incentive compensation<br>plans<br>(See Note 9) | 1.4                                                  | —                                                      | —                                                | 1.4       |
| Stock issued to employee savings plan (See Note 8)                          | 21.6                                                 | —                                                      | —                                                | 21.6      |
| Stock issued to qualified pension plan (See Note 8)                         | 8.3                                                  | —                                                      | —                                                | 8.3       |
| Taxes withheld on vested restricted stock and other                         | (11.6)                                               | ) —                                                    | —                                                | (11.6)    |
| Distributions payable to Windstream Holdings, Inc.                          | (604.6)                                              | ) —                                                    | —                                                | (604.6)   |
| Balance at December 31, 2014                                                | \$250.8                                              | \$12.1                                                 | \$(38.1)                                         | ) \$224.8 |
| Net income                                                                  | —                                                    | —                                                      | 28.6                                             | 28.6      |
| Other comprehensive (loss) income, net of tax:                              |                                                      |                                                        |                                                  |           |
| Unrealized holding loss on available-for-sale<br>securities                 | —                                                    | (286.5)                                                | ) —                                              | (286.5)   |
| Change in postretirement and pension plans                                  | —                                                    | (11.7)                                                 | ) —                                              | (11.7)    |
| Amortization of unrealized losses on de-designated<br>interest rate swaps   | —                                                    | 7.1                                                    | —                                                | 7.1       |
| Changes in designated interest rate swaps                                   | —                                                    | (5.4)                                                  | ) —                                              | (5.4)     |
| Comprehensive loss (income)                                                 | —                                                    | (296.5)                                                | ) 28.6                                           | (267.9)   |
| Effect of REIT spin-off (See Note 3)                                        | 585.6                                                | —                                                      | —                                                | 585.6     |
| Share-based compensation expense (See Note 9)                               | 25.0                                                 | —                                                      | —                                                | 25.0      |

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|                                                                          |         |          |          |           |
|--------------------------------------------------------------------------|---------|----------|----------|-----------|
| Stock issued for management incentive compensation plans<br>(See Note 9) | 5.9     | —        | —        | 5.9       |
| Stock issued to employee savings plan (See Note 8)                       | 21.6    | —        | —        | 21.6      |
| Taxes withheld on vested restricted stock and other                      | (9.7    | ) —      | —        | (9.7 )    |
| Distributions payable to Windstream Holdings, Inc.                       | (278.9  | ) —      | —        | (278.9 )  |
| Balance at December 31, 2015                                             | \$600.3 | \$(284.4 | ) \$(9.5 | ) \$306.4 |

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis for Presentation:

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

**Organizational Structure** – Windstream Holdings, Inc. (“Windstream Holdings”) is a publicly traded holding company and the parent of Windstream Services, LLC (“Windstream Services”), formerly Windstream Corporation. Windstream Holdings common stock trades on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “WIN”. Effective February 28, 2015, Windstream Corporation was converted to a limited liability company (“LLC”). Following the conversion, Windstream Holdings owns a 100 percent interest in Windstream Services. The conversion of Windstream Services to a LLC has been accounted for as a change in reporting entity and accordingly, the historical equity presentation of Windstream Services reflects 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 3, on April 24, 2015, we completed the spin-off of certain telecommunications network assets, including our fiber and copper networks and other real estate into an independent, publicly traded real estate investment trust (“REIT”). Upon completion of the spin-off, we amended our certificate of incorporation to decrease the number of authorized shares of common stock from 1.0 billion to 166.7 million and enacted a one-for-six reverse stock split with respect to all of our outstanding shares of common stock which became effective on April 26, 2015. All share data of Windstream Holdings presented has been retrospectively adjusted to reflect the effects of the decrease in its authorized shares and the reverse stock split, as appropriate.

**Description of Business** – We are a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and carrier partners across the United States. We offer bundled services, including broadband, security solutions, voice and digital television to consumers. We also provide data, cloud solutions, unified communications and managed services to business and enterprise clients. We supply core transport solutions on a local and long-haul fiber-optic network spanning approximately 125,000 miles.

Enterprise service revenues include revenues from integrated voice and data services, advanced data, traditional voice and long-distance services provided to enterprise customers. Consumer service revenues are generated from the provisioning of high-speed Internet, voice and video services to consumers. Small business service revenues include revenues from integrated voice and data services, advanced data and traditional voice and long-distance services provided to small business customers. Carrier revenues include revenues from other carriers for special access circuits and fiber connections as well as voice and data services sold on a wholesale basis. Regulatory revenues include switched access revenues, federal and state Universal Service Fund (“USF”) revenues and amounts received from Connect America Fund - Phase II. Other service revenues include USF surcharge revenues, other miscellaneous services and consumer revenues generated in markets where we lease the connection to the customer premise. As further discussed in Note 3, substantially all of this business was transferred to the REIT.

**Basis of Presentation** – The consolidated financial statements include the accounts of Windstream Holdings, Windstream Services and the accounts of its subsidiaries. All affiliated transactions have been eliminated.

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 accounting principles generally accepted in the United States ("U.S. GAAP"). Unless otherwise indicated, the note disclosures included herein pertain to both Windstream Holdings and Windstream Services.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Background and Basis for Presentation, Continued:

## Revisions to Prior Period Financial Statements

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

The following table presents the effect of the revisions to Windstream Holdings' consolidated statements of operations for the years ended December 31:

| (Millions)                             | 2014                         |                       |            | 2013                         |                       |            |
|----------------------------------------|------------------------------|-----------------------|------------|------------------------------|-----------------------|------------|
|                                        | As<br>Previously<br>Reported | Effect of<br>Revision | As Revised | As<br>Previously<br>Reported | Effect of<br>Revision | As Revised |
| Cost of services                       | \$2,719.3                    | \$54.0                | \$2,773.3  | \$2,492.1                    | \$49.1                | \$2,541.2  |
| Selling, general and<br>administrative | \$983.8                      | \$(54.0)              | \$929.8    | \$923.4                      | \$(49.1)              | \$874.3    |

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

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

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

## 2. Summary of Significant Accounting Policies and Changes:

## Significant Accounting Policies

**Use of Estimates** – The preparation of financial statements, in accordance with 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.

Cash and Cash Equivalents – Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

Restricted Cash – Cash balances restricted for uses other than current operations have been presented as restricted cash. In connection with broadband stimulus grants, we placed cash into pledged deposit accounts representing our share of committed spend on construction contracts that were subject to review by the Rural Utilities Service (“RUS”). Changes in the restricted cash balances have been presented as cash inflows or outflows in the investing activities section of the consolidated statements of cash flows.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**Accounts Receivable** – Accounts receivable consist principally of trade receivables from customers and are generally unsecured and due within 30 days. Expected credit losses related to trade accounts receivable are recorded as an allowance for doubtful accounts in the consolidated balance sheets. In establishing the allowance for doubtful accounts, we consider a number of factors, including historical collection experience, aging of the accounts receivable balances, current economic conditions and a specific customer's ability to meet its financial obligations. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for doubtful accounts. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up our customer base. Due to varying customer billing cycle cut-off, we must estimate service revenues earned but not yet billed at the end of each reporting period. Included in accounts receivable are unbilled receivables related to communications services and product sales of \$41.5 million and \$40.2 million at December 31, 2015 and 2014, respectively.

**Inventories** – Inventories consist of finished goods and are stated at the lower of cost or market value. Cost is determined using either an average original cost or specific identification method of valuation.

**Prepaid Expenses and Other Current Assets** – Prepaid expenses and other current assets consist of prepaid services, rent, insurance, maintenance contracts and refundable deposits. Prepayments are expensed on a straight-line basis over the corresponding life of the underlying agreements.

**Broadband Stimulus Grants** – Capital expenditures related to the broadband stimulus grants were initially recorded to construction in progress. A receivable totaling 75 percent of the gross spend, representing the expected reimbursement from the RUS was recorded during the same period, offsetting the amounts recorded in construction in progress. The resulting balance sheet presentation reflects our 25 percent investment in these assets in property, plant and equipment. Once placed into service, depreciation of the asset was calculated and recorded based on our 25 percent investment in the equipment. Initial outlays to purchase stimulus-related assets have been presented as outflows in the investing activities section of the consolidated statements of cash flows. Grant funds received from the RUS have been presented as inflows in the investing activities section of the consolidated statements of cash flows. As of December 31, 2015, we had received all amounts due from the RUS related to these grants.

**Connect America Fund Support** – In conjunction with reforming USF, the Federal Communications Commission ("FCC") established the Connect America Fund ("CAF") which provides incremental broadband funding to a number of unserved and underserved locations. CAF includes both short-term ("CAF Phase I") and a longer-term ("CAF Phase II") framework. We received \$86.7 million in CAF Phase I support for upgrades and new deployments of broadband service. Pursuant to commitments we made with the FCC, we agreed to match, on at least a dollar-for-dollar basis, the total amount of CAF Phase I support we received. As construction projects which utilized CAF Phase I support were initiated, a portion of the CAF Phase I support received was reclassified from other liabilities as an offset to construction in progress to effectively reduce the capitalized cost of the constructed asset. For each construction dollar we spent, an equal amount was transferred from other liabilities to construction in progress to reflect our dollar-for-dollar matching requirement. As of December 31, 2015, we had utilized all CAF Phase I support we had received. Comparatively, as of December 31, 2014, \$53.9 million of CAF Phase I support was recorded in other current liabilities and \$20.0 million was recorded in other liabilities, in the accompanying consolidated balance sheet. CAF Phase I support received and used to construct network assets during the period has been presented within the investing activities section of the consolidated statements of cash flows.

On August 5, 2015, we notified the FCC of our acceptance of CAF Phase II support of approximately \$175.0 million per year for a six year period to fund the deployment of voice and high-speed Internet capable infrastructures for approximately 400,000 eligible locations in 17 of the 18 states in which we are the incumbent provider. The CAF Phase II support in these 17 states will substantially replace funding we received under the federal USF high-cost support program. We declined the annual statewide funding in one state, New Mexico, where our projected cost to comply with the FCC's deployment requirements greatly exceeded the funding offer. We will be eligible to participate in a competitive bidding process for the CAF Phase II support in New Mexico, along with other interested eligible competitors under an auction process administered by the FCC, which is expected to be held during 2016. We will continue to receive annual USF support in New Mexico frozen at 2011 levels until the CAF Phase II competitive bidding process is completed. Funds received under CAF Phase II are recognized as service revenues ratably over the period to which the funding pertains.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Asset Disposals – On December 18, 2015, Windstream Services completed the sale of a substantial portion of our data center business to TierPoint LLC (“TierPoint”) for \$574.2 million in cash, net of the \$0.8 million working capital settlement, and recorded a pretax gain of \$326.1 million. Excluding the effects of the gain, pretax losses for the data center business were \$(0.5) million, \$(17.6) million and \$(19.1) million in 2015, 2014, and 2013, respectively. The sale of the data center business did not represent a strategic shift in our business nor had a major effect on our consolidated results of operations, financial position or cash flows, and accordingly, does not qualify for reporting as a discontinued operation. As part of the transaction, we established an ongoing reciprocal strategic partnership with TierPoint, allowing both companies to sell their respective products and services to each other’s prospective customers through referrals.

On December 5, 2013, we completed the sale of Pinnacle Software Company (“Pinnacle”), a software company acquired in conjunction with the 2011 acquisition of PAETEC Holding Corp. (“PAETEC”) for \$30.0 million in cash. The software business has been reported as discontinued operations for the year ended December 31, 2013. See Note 17 for further discussion of discontinued operations.

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 has been 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 had 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 was based on the present value of projected cash flows and a terminal value, which represented 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 invested capital. 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.

During the fourth quarter of 2015, in connection with the disposal of our data center business and the reorganization of our business operations, we reassessed our reporting unit structure as of November 1, 2015 and determined that we had five reporting units, consisting of our four reportable operating segments and the data center operations subsequently sold and excluding corporate activities. We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure that results in a change in the composition of our reporting units. Our reporting units are not separate legal entities with discrete balance sheet information. As a result, assets and liabilities utilized in or relating to multiple reporting units have been allocated to the reporting units using consistent and reasonable allocation methodologies. Immediately prior to the change in our reporting unit structure and reassignment of goodwill, we determined that no goodwill impairment existed as of November 1, 2015. In conjunction with our change in reporting units and the reallocation of goodwill, we have also elected to change on a go forward basis the date of our annual goodwill impairment assessment from January 1st to November 1st, which we believe is preferable because it more closely aligns with the timing of our internal strategic planning process. Following the sale of the data center business, we no longer have a separate data center reporting unit for purposes of performing our annual goodwill impairment assessment.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In completing the reassignment of goodwill as of November 1, 2015, we estimated the fair value of our reporting units using an income 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. We corroborated the results of the income approach by aggregating the fair values of the reporting units and comparing the total value to overall market multiples for guideline public companies operating in the same lines of business as our reporting units. We also reconciled the estimated fair value of our reporting units to our total invested capital. Goodwill was then reassigned to the reporting units using a relative fair value allocation approach.

Other intangible assets arising from business combinations such as franchise rights, customer lists, and cable franchise rights are initially recorded at estimated fair value. We amortize customer lists using the sum-of-the-digits method over an estimated life of 9 to 15 years. All other intangible assets are amortized using a straight-line method over the estimated useful lives. (See Note 4 for additional information.)

Net Property, Plant and Equipment – Property, plant and equipment are stated at original cost, less accumulated depreciation. Property, plant and equipment consists of central office equipment, office and warehouse facilities, outside communications plant, customer premise equipment, furniture, fixtures, vehicles, machinery, other equipment and software to support the business units in the distribution of telecommunications products. The costs of additions, replacements, substantial improvements and extension of the network to the customer premise, including related labor costs, are capitalized, while the costs of maintenance and repairs are expensed as incurred. Depreciation expense amounted to \$1,146.3 million, \$1,130.3 million, and \$1,049.7 million in 2015, 2014 and 2013, respectively.

Net property, plant and equipment consisted of the following as of December 31:

| (Millions)                              | Depreciable Lives | 2015       | 2014      |
|-----------------------------------------|-------------------|------------|-----------|
| Land                                    |                   | \$43.4     | \$44.3    |
| Building and improvements               | 3-40 years        | 604.9      | 655.5     |
| Central office equipment                | 3-40 years        | 6,013.9    | 5,750.4   |
| Outside communications plant            | 7-47 years        | 7,245.3    | 6,906.6   |
| Furniture, vehicles and other equipment | 3-23 years        | 1,660.2    | 1,616.0   |
| Construction in progress                |                   | 527.6      | 365.2     |
|                                         |                   | 16,095.3   | 15,338.0  |
| Less accumulated depreciation           |                   | (10,815.5) | (9,925.7) |
| Net property, plant and equipment       |                   | \$5,279.8  | \$5,412.3 |

Of the total net property, plant and equipment at December 31, 2015 listed above, approximately \$2.4 billion was transferred to Communications Sales & Leasing, Inc. ("CS&L") in connection with the spin-off and then was leased back by Windstream Holdings (see Note 3). Under the master lease agreement with CS&L, any capital improvements, including upgrades or replacements to the leased network assets, funded by us become the property of CS&L at the time such improvements are placed in service. As further discussed in Note 5, we accounted for the spin-off transaction as a failed spin-leaseback for financial reporting purposes and, as a result the net book value of the assets initially transferred to CS&L and any subsequent capital improvements made by us continue to be reported in our consolidated balance sheet as property, plant and equipment and are depreciated over the initial lease term of 15 years.

Our regulated operations use a group composite depreciation method. Under this method, when plant is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the plant. For our non-regulated operations, when depreciable plant is retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, with the corresponding gain or loss reflected in operating results.

The RUS has retained a security interest in the assets funded by the broadband stimulus grants over their economic life, which varies by grant for periods up to 23 years. In the event of default of terms of the agreement, the RUS could exercise the rights under its retained security interest to gain control and ownership of these assets. In addition, in the event of a proposed change in control of Windstream, the acquiring party would need to receive approval from the RUS prior to consummating the proposed transaction, for which pre-approval will not be reasonably withheld.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

We capitalize interest in connection with the acquisition or construction of plant assets. Capitalized interest is included in the cost of the asset with a corresponding reduction in interest expense. Capitalized interest amounted to \$10.4 million, \$3.7 million and \$7.9 million in 2015, 2014 and 2013, respectively.

**Asset Retirement Obligations** – We recognize asset retirement obligations in accordance with authoritative guidance on accounting for asset retirement obligations and conditional asset retirement obligations, which requires recognition of a liability for the fair value of an asset retirement obligation if the amount can be reasonably estimated. Our asset retirement obligations include legal obligations to remediate the asbestos in certain buildings if we exit them, to properly dispose of our chemically-treated telephone poles at the time they are removed from service and to restore certain leased properties to their previous condition upon exit from the lease. These asset retirement obligations totaled \$53.1 million and \$53.4 million as of December 31, 2015 and 2014, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

**Impairment of Long-Lived Assets** – We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable from future, undiscounted net cash flows expected to be generated by the asset group. If the asset group is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset group and its estimated fair value based on discounted net future cash flows.

**Investment in CS&L Common Stock** – Shares of CS&L retained by Windstream Services following the spin-off of certain network and real estate assets (see Note 3) are classified as available-for-sale and recorded at fair value with unrealized gains and losses reported in accumulated other comprehensive (loss) income. No deferred income taxes are recorded with respect to the unrealized gains and losses due to the tax-free qualification of the spin-off. Information pertaining to this investment at December 31, 2015 was as follows:

| (Millions)        | Cost    | Fair Value | Carrying Value | Unrealized Loss |
|-------------------|---------|------------|----------------|-----------------|
| CS&L common stock | \$835.7 | \$549.2    | \$549.2        | \$(286.5)       |

As of December 31, 2015, Windstream Services has held the shares of CS&L common stock for less than 12 months. In assessing whether the unrealized loss was an other-than-temporary impairment, we considered that as of December 31, 2015: (i) CS&L had only been in operation for slightly more than 8 months and had not had sufficient time to execute on its strategy to expand and diversify its leasing business in any substantive way; (ii) the positive impact, prior to the recent macroeconomic environment, of CS&L's announcement on January 6, 2016 that it had executed an agreement to acquire PEG Bandwidth, LLC, which owns an extensive fiber network; (iii) the stability of CS&L's cash flows and leasing income streams under the master lease agreement due to the 15-year initial lease term and Windstream Services' improved leverage following the repayment of \$3.2 billion of long-term debt in connection with the spin-off; and (iv) Windstream Services' ability to hold the CS&L common stock for up to 15 more months, a time period that is sufficient to allow for the recovery of the unrealized losses. Based on these factors, we did not consider our investment in CS&L common stock to be other-than-temporarily impaired as of December 31, 2015.

**Derivative Instruments** – Windstream Services enters into interest rate swap agreements to mitigate the interest rate risk inherent in its variable rate senior secured credit facility. Derivative instruments are accounted for in accordance with authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on

whether the derivative has been designated as, qualifies as and is effective as a hedge. Changes in fair value of the effective portions of cash flow hedges are recorded as a component of other comprehensive (loss) income in the current period. Any ineffective portion of the hedges is recognized in earnings in the current period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition – Service revenues are primarily derived from providing access to or usage of our networks and facilities. Service revenues are recognized over the period that the corresponding services are rendered to customers. Revenues that are billed in advance include monthly recurring network access and data services, special access and monthly recurring voice, Internet and other related charges. The unearned portion of these revenues is included in advance payments and customer deposits in the accompanying consolidated balance sheets. Revenues derived from other telecommunications services, including interconnection, long distance and enhanced service revenues are recognized monthly as services are provided. Revenue from sales of indefeasible rights to use fiber optic network facilities (“IRUs”) and the related telecommunications network maintenance arrangements is generally recognized over the term of the related lease or contract. Sales of communications products including customer premise equipment and modems are recognized when products are delivered to and accepted by customers. Fees assessed to customers for service activation are deferred upon service activation and recognized as service revenue on a straight-line basis over the expected life of the customer relationship in accordance with authoritative guidance on multiple element arrangements. Certain costs associated with activating such services are deferred and recognized as an operating expense over the same period.

In determining whether to include in revenues and expenses the taxes and surcharges assessed and collected from customers and remitted to government authorities, including USF charges, sales, use, value added and excise taxes, we evaluate, among other factors, whether we are the primary obligor or principal tax payer for the fees and taxes assessed in each jurisdiction in which we operate. In those jurisdictions for which we are the primary obligor, we record the taxes and surcharges on a gross basis and include in revenues and costs of services and products. In jurisdictions in which we function as a collection agent for the government authority, we record the taxes on a net basis and exclude the amounts from our revenues and costs of services and products.

Advertising – Advertising costs are expensed as incurred. Advertising expense totaled \$52.9 million, \$59.5 million and \$42.4 million in 2015, 2014 and 2013, respectively.

Share-Based Compensation – In accordance with authoritative guidance on share-based compensation, we value all time-based awards to employees at fair value on the date of the grant, and recognize that value as compensation expense over the period that each award vests. Performance-based awards are valued at fair value at the end of each reporting period until final performance targets are set. Share-based compensation expense for performance-based awards is recognized when it is probable and estimable as measured against performance metrics. Share-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Pension Benefits – We recognize changes in the fair value of plan assets and actuarial gains and losses due to actual experience differing from actuarial assumptions, as a component of net periodic benefit expense (income) in the fourth quarter in the year in which the gains and losses occur, and if applicable in any quarter in which an interim remeasurement is required. The remaining components of net periodic benefit (income) expense, primarily service and interest costs and assumed return on plan assets, are recognized ratably on a quarterly basis.

Operating Leases – Certain of our operating lease agreements include scheduled rent escalations during the initial lease term and/or during succeeding optional renewal periods. We account for these operating leases in accordance with authoritative guidance for operating leases with non-level rent payments. Accordingly, the scheduled increases in rent expense are recognized on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in other

liabilities in the accompanying consolidated balance sheets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term, including renewal option periods that are reasonably assured.

**Income Taxes** – We account for income taxes in accordance with guidance on accounting for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax balances are adjusted to reflect tax rates based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period of the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In addition, we adopted authoritative guidance which addresses uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold that the income tax positions must achieve before being recognized in the financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. Summary of Significant Accounting Policies and Changes, 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.

**Earnings (Loss) Per Share** – We compute basic earnings (loss) per share by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding during each period. Our non-vested restricted shares containing a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares are considered participating securities, and the impact is included in the computation of earnings (loss) per share pursuant to the two-class method. Calculations of earnings (loss) per share under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

Diluted earnings (loss) per share are computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and warrants. Diluted earnings (loss) per share exclude all potentially dilutive securities if their effect is anti-dilutive.

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

All per share information presented has been retrospectively adjusted to reflect the effects of the one-for-six reverse stock split which became effective on April 26, 2015. A reconciliation of net income (loss) and number of shares used in computing basic and diluted earnings (loss) per share was as follows for the years ended December 31:

| (Millions, except per share amounts)                                            | 2015   | 2014     | 2013      |
|---------------------------------------------------------------------------------|--------|----------|-----------|
| Basic and diluted earnings (loss) per share:                                    |        |          |           |
| Numerator:                                                                      |        |          |           |
| Income (loss) from continuing operations                                        | \$27.4 | \$(39.5) | ) \$235.0 |
| Income from continuing operations allocable to participating securities         | (3.5)  | ) (5.0)  | ) (4.1)   |
| Adjusted income (loss) from continuing operations attributable to common shares | 23.9   | (44.5)   | ) 230.9   |
| Income from discontinued operations (a)                                         | —      | —        | 6.0       |
| Net income (loss) attributable to common shares                                 | \$23.9 | \$(44.5) | ) \$236.9 |

Denominator:

Basic and diluted shares outstanding

|                                                       |        |        |           |
|-------------------------------------------------------|--------|--------|-----------|
| Weighted average shares outstanding                   | 102.0  | 100.3  | 98.8      |
| Weighted average participating securities             | (3.1   | ) (0.8 | ) (0.6    |
| Weighted average basic and diluted shares outstanding | 98.9   | 99.5   | 98.2      |
| Basic and diluted earnings (loss) per share:          |        |        |           |
| From continuing operations                            | \$ .24 | (.45   | ) \$ 2.35 |
| From discontinued operations                          | —      | —      | .06       |
| Net income (loss)                                     | \$ .24 | (.45   | ) \$ 2.41 |

(a) None of the income from discontinued operations was allocable to participating securities in 2013.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Options to purchase shares of stock issuable under stock-based compensation plans that were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be anti-dilutive, totaled approximately 0.5 million for both years ended December 31, 2015 and 2014 and 0.7 million shares for the year ended December 31, 2013.

## Recently Adopted Accounting Standards

**Discontinued Operations** – In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Components of an Entity (“ASU 2014-08”). The updated standard only allows those disposals that represent a strategic shift and that have a major effect on an entity's operations and financial results to be reported as discontinued operations. The updated guidance also requires expanded disclosures in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations reporting. ASU 2014-08 was effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2014, with early adoption permitted. We adopted this standard during the fourth quarter of 2014 and applied this guidance to the disposals of our consumer competitive local exchange (“CLEC”) business and the sale of substantially all of our data center business, neither of which qualified as a discontinued operation, because the disposals did not represent a strategic shift in our business nor had a major effect on our consolidated results of operations, financial position or cash flows.

**Presentation of Debt Issuance Costs** – In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The standard outlines a simplified presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted. During the second quarter of 2015, we early adopted this guidance and have classified in our consolidated balance sheets unamortized debt issuance costs from other assets to long-term debt for all periods presented (see Note 5). The effect of this change was to reduce the previously reported amounts within the accompanying consolidated balance sheet as of December 31, 2014 for other assets and long-term debt by \$87.7 million or a decrease in other assets from \$180.6 million to \$92.9 million and long-term debt from \$7,934.2 million to \$7,846.5 million. Adoption of this guidance did not affect our consolidated results of operations, financial position or liquidity.

**Balance Sheet Classification - Deferred Taxes** – In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). The standard requires all deferred income tax assets and liabilities be classified as noncurrent within an entity's consolidated balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Entities are also permitted to apply the revised guidance on either a prospective or retrospective basis. During the fourth quarter of 2015, we early adopted this guidance on a retrospective basis and have classified deferred income taxes in our consolidated balance sheets as noncurrent for all periods presented (see Note 13). The effect of this change was to net the previously reported current deferred income tax assets of \$105.4 million with the noncurrent deferred income tax liabilities of \$1,878.6 million and present only one amount for noncurrent deferred income tax liabilities of \$1,773.2 million within the accompanying consolidated balance sheet as of December 31, 2014. Adoption of this guidance did not affect our consolidated results of operations, financial position or liquidity.

#### Recently Issued Authoritative Guidance

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On July 9, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date, or January 1, 2018, for calendar companies like Windstream. Entities are permitted to early adopt the standard, but not before the original effective date of December 15, 2016. We are in the process of determining the method of adoption and assessing the impact the new standard will have on our consolidated financial statements. We expect to adopt this standard effective January 1, 2018.

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

**Pension Plan Investment Disclosures** – In July 2015, the FASB issued ASU No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965) (“ASU 2015-12”). This standard eliminates the requirement to measure the fair value of fully benefit-responsive investment contracts and provide the related fair value disclosures. Under the new guidance, fully benefit-responsive investment contracts will be measured and disclosed only at contract value. The standard also eliminates certain disclosure requirements related to an employee benefit plan’s investments presented in the plan’s standalone financial statements. ASU 2015-12 is effective retrospectively for fiscal years beginning after December 31, 2015, with early adoption permitted. Adoption of ASU 2015-07 and 2015-12 will impact certain of the disclosures related to our qualified pension plan assets, but otherwise is not expected to have a material impact on our consolidated financial statements.

**Valuation of Inventory** – In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”). 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 are currently assessing the timing of adoption of ASU 2015-11, however, we do not expect it to have a material impact to our consolidated results of operations, financial position or cash flows.

**Measurement Period Adjustments in a Business Combination** – In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”), which eliminates the requirement to restate prior period financial statements for measurement period adjustments related to a business combination. The standard requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 also requires companies to disclose the portion of the adjustment recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, either separately in the income statement or in the notes. ASU 2015-16 is effective prospectively for annual and interim periods after December 15, 2015, with early adoption permitted. We do not expect the adoption of ASU 2015-16 to have a material impact on our consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

As of the spin-off date, excluding restricted shares held by Windstream employees and directors, Windstream retained a passive ownership interest in approximately 19.6 percent of the common stock of CS&L. Windstream intends to use all of its shares of CS&L to retire additional Windstream Services debt within 18 to 24 months from the date of the spin-off, subject to market conditions.

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

As further discussed in Note 5, following the spin-off, Windstream entered into an agreement to lease back the telecommunications network assets from CS&L.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets has been recorded as goodwill.

Changes in the carrying amount of goodwill were as follows:

(Millions)

|                                                                                 |           |
|---------------------------------------------------------------------------------|-----------|
| Balance at December 31, 2014                                                    | \$4,352.8 |
| Dispositions during the period:                                                 |           |
| Consumer CLEC business transferred to CS&L in conjunction with the spin-off (a) | (12.8 )   |
| Data center business sold to TierPoint (a)                                      | (126.4 )  |
| Balance at December 31, 2015                                                    | \$4,213.6 |

(a) Represents the portion of historical goodwill allocated to the disposed businesses.

As previously discussed in Note 2 in connection with the restructuring of our operations, we reassessed our reporting unit structure as November 1, 2015 and reassigned goodwill to our new reporting units using a relative fair value method. Goodwill assigned to our four operating segments was as follows:

(Millions)

|                                    |           |
|------------------------------------|-----------|
| Consumer and Small Business - ILEC | \$2,321.2 |
| Carrier                            | 1,176.4   |
| Enterprise                         | 598.0     |
| Small Business - CLEC              | 118.0     |
| Total goodwill                     | \$4,213.6 |

Immediately prior to the change in our reporting unit structure and reassignment of goodwill, we determined that no goodwill impairment existed as of November 1, 2015.

Intangible assets were as follows at December 31:

| (Millions)             | 2015       |                          |                    | 2014       |                          |                    |
|------------------------|------------|--------------------------|--------------------|------------|--------------------------|--------------------|
|                        | Gross Cost | Accumulated Amortization | Net Carrying Value | Gross Cost | Accumulated Amortization | Net Carrying Value |
| Franchise rights       | \$1,285.1  | \$(286.1 )               | \$999.0            | \$1,285.1  | \$(243.3 )               | \$1,041.8          |
| Customer lists (a)     | 1,791.7    | (1,304.7 )               | 487.0              | 1,914.0    | (1,203.4 )               | 710.6              |
| Cable franchise rights | 17.3       | (6.8 )                   | 10.5               | 17.3       | (5.7 )                   | 11.6               |
| Other (b)              | 9.6        | (1.4 )                   | 8.2                | —          | —                        | —                  |
| Balance                | \$3,103.7  | \$(1,599.0 )             | \$1,504.7          | \$3,216.4  | \$(1,452.4 )             | \$1,764.0          |

(a) In connection with the spin-off, we transferred customer lists with a gross cost of \$34.5 million and a net carrying value of \$13.1 million to CS&L (see Note 3). At the date of sale, customer lists associated with the data center operations had a gross cost of \$87.8 million and a net carrying value of \$35.7 million.

(b) During 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible asset amortization methodology and useful lives were as follows as of December 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            | 3 years               |

Amortization expense for intangible assets subject to amortization was \$220.2 million, \$256.1 million and \$291.2 million in 2015, 2014 and 2013, respectively. Amortization expense for intangible assets subject to amortization was estimated to be as follows for each of the years ended December 31:

| Year       | (Millions) |
|------------|------------|
| 2016       | \$185.3    |
| 2017       | 158.7      |
| 2018       | 131.9      |
| 2019       | 104.8      |
| 2020       | 86.4       |
| Thereafter | 837.6      |
| Total      | \$1,504.7  |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. 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 December 31:

| (Millions)                                                                                    | 2015      | 2014      |
|-----------------------------------------------------------------------------------------------|-----------|-----------|
| Issued by Windstream Services:                                                                |           |           |
| Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016 (a)        | \$—       | \$344.3   |
| Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017 (a)—          |           | 255.0     |
| Senior secured credit facility, Tranche B4 – variable rates, due January 23, 2020 (a)         | —         | 1,318.1   |
| Senior secured credit facility, Tranche B5 – variable rates, due August 8, 2019               | 578.2     | 584.1     |
| Senior secured credit facility, Revolving line of credit – variable rates, due April 24, 2020 | 300.0     | 625.0     |
| Debentures and notes, without collateral:                                                     |           |           |
| 2017 Notes – 7.875%, due November 1, 2017 (b)                                                 | 904.1     | 1,100.0   |
| 2018 Notes – 8.125%, due September 1, 2018                                                    | —         | 400.0     |
| 2020 Notes – 7.750%, due October 15, 2020                                                     | 700.0     | 700.0     |
| 2021 Notes – 7.750%, due October 1, 2021 (b)                                                  | 920.4     | 950.0     |
| 2022 Notes – 7.500%, due June 1, 2022 (b)                                                     | 485.9     | 500.0     |
| 2023 Notes – 7.500%, due April 1, 2023 (b)                                                    | 540.1     | 600.0     |
| 2023 Notes – 6.375%, due August 1, 2023                                                       | 700.0     | 700.0     |
| Issued by subsidiaries of the Company:                                                        |           |           |
| Windstream Holdings of the Midwest, Inc. – 6.75%, due April 1, 2028                           | 100.0     | 100.0     |
| Cinergy Communications Company – 6.58%, due January 1, 2022                                   | —         | 1.9       |
| Debentures and notes, without collateral:                                                     |           |           |
| PAETEC 2018 Notes – 9.875%, due December 1, 2018                                              | —         | 450.0     |
| Premium on long-term debt, net (c)                                                            | 4.6       | 23.3      |
| Unamortized debt issuance costs (c)                                                           | (62.8)    | (87.7)    |
|                                                                                               | 5,170.5   | 8,564.0   |
| Less current maturities                                                                       | (5.9)     | (717.5)   |
| Total long-term debt                                                                          | \$5,164.6 | \$7,846.5 |
| Weighted average interest rate                                                                | 6.8       | % 6.5     |
| Weighted maturity                                                                             | 5.3 years | 5.1 years |

(a) Debt obligation was retired in connection with completion of the debt-for-debt exchange (see Note 3).

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

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Senior Secured Credit Facility - In connection with the REIT spin-off, on April 24, 2015, Windstream Services amended its existing senior secured credit facility which includes a revolving line of credit in an aggregate principal amount of \$1,250.0 million and a 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 term loans 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 term loans shall at no time be less than 0.75 percent and 1.75 percent, respectively. 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. The senior secured credit facility is guaranteed, jointly and severally, by certain of Windstream Services' wholly owned subsidiaries.

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.

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 from December 17, 2015 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 2015, Windstream Services borrowed \$2,335.0 million under the revolving line of credit in its senior secured credit facility and through completion of the debt-for-debt exchange and repayments retired \$2,660.0 million of these borrowings in 2015. Considering letters of credit of \$23.1 million, the amount available for borrowing under the revolving line of credit was \$926.9 million at December 31, 2015.

The variable interest rate on the revolving line of credit ranged from 2.19 percent to 4.50 percent, and the weighted average rate on amounts outstanding was 2.39 percent during 2015, as compared to variable interest rates during 2014

which ranged from 2.41 percent to 4.50 percent with a weighted average rate on amounts outstanding of 2.49 percent.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Debentures and Notes Repaid in 2015

Partial Repurchase of Senior Notes - In August 2015, Windstream Services' board of directors authorized a debt repurchase program pursuant to which Windstream Services may purchase or redeem up to \$300.0 million of any of its unsecured notes through one or more open market purchase offers, tender offers, privately negotiated transactions, or other purchase transactions, with the amount of such purchases funded by either borrowings under the revolving line of credit, new term loans under the senior secured credit facility, or a combination thereof. On December 17, 2015, Windstream Services' board of directors increased the capacity of the debt repurchase program authorizing Windstream Services to repurchase up to an additional \$200.0 million of its unsecured notes. During the third and fourth quarters of 2015, Windstream Services repurchased in the open market \$299.5 million aggregate principal amount of its senior unsecured notes consisting of the following:

- \$195.9 million aggregate principal amount of 7.875 percent senior unsecured notes due November 1, 2017, (the "2017 Notes") at a repurchase price of \$209.6 million, including accrued and unpaid interest;
- \$29.6 million aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021, (the "2021 Notes"), at a repurchase price of \$25.8 million, including accrued and unpaid interest;
- \$14.1 million aggregate principal amount of 7.500 percent senior unsecured notes due June 1, 2022, (the "2022 Notes"), at a repurchase price of \$11.5 million, including accrued and unpaid interest; and
- \$59.9 million aggregate principal amount of 7.500 percent senior unsecured notes due April 1, 2023, (the "2023 Notes") at a repurchase price of \$50.2 million, including accrued and unpaid interest.

At the time of repurchase, there was \$3.9 million in unamortized net discount and debt issuance costs related to the repurchased notes. The repurchases were funded utilizing available borrowings under the amended revolving line of credit.

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

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

Windstream used a portion of the \$1.035 billion cash payment received from CS&L in conjunction with the spin-off of certain telecommunication network assets to redeem these two debt obligations (see Note 3).

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 Services may call certain debentures and notes at various premiums on early redemption. These debentures and notes consist of \$700.0 million in aggregate principal amount of 7.750 percent senior notes due October 15, 2020, the remaining aggregate principal amounts due related to the 2021, 2022, and 2023 Notes and \$700.0 million in aggregate principal amount of 6.375 percent senior notes due August 1, 2023. In addition, Windstream Services may call debt issued by Windstream Holdings of the Midwest, Inc. at various premiums upon early redemption.

#### Debt Compliance

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In addition, certain of Windstream Services' debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under Windstream Services' long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more of Windstream Services' outstanding voting stock, 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 December 31, 2015.

Maturities for long-term debt outstanding as of December 31, 2015, excluding \$4.6 million of unamortized net premium and \$62.8 million of unamortized debt issuance costs, were as follows for the years ended December 31:

| Year       | (Millions) |
|------------|------------|
| 2016       | \$5.9      |
| 2017       | 910.0      |
| 2018       | 5.9        |
| 2019       | 560.5      |
| 2020       | 1,000.0    |
| Thereafter | 2,746.4    |
| Total      | \$5,228.7  |

## Loss on Extinguishment of Debt

The net loss on extinguishment of debt was as follows for the year ended December 31:

| (Millions)                                                                            | 2015     |
|---------------------------------------------------------------------------------------|----------|
| Senior secured credit facility borrowings:                                            |          |
| Premium on early redemption                                                           | \$(6.6)  |
| Third-party fees for early redemption                                                 | (0.7)    |
| Unamortized debt issuance costs on original issuance                                  | (8.6)    |
| Loss on early extinguishment of senior secured credit facility borrowings             | (15.9)   |
| 2018 Notes:                                                                           |          |
| Premium on early redemption                                                           | (16.3)   |
| Unamortized discount on original issuance                                             | (1.4)    |
| Unamortized debt issuance costs on original issuance                                  | (4.0)    |
| Loss on early extinguishment of 2018 Notes                                            | (21.7)   |
| PAETEC 2018 Notes:                                                                    |          |
| Premium on early redemption                                                           | (22.2)   |
| Unamortized premium on original issuance                                              | 16.9     |
| Loss on early extinguishment of PAETEC 2018 Notes                                     | (5.3)    |
| Partial repurchase of 2017, 2021, 2022 and 2023 Notes:                                |          |
| Discount on early repurchase                                                          | 10.9     |
| Unamortized net discount on original issuance                                         | (0.7)    |
| Unamortized debt issuance costs on original issuance                                  | (3.2)    |
| Gain on early extinguishment of partial repurchase of 2017, 2021, 2022 and 2023 Notes | 7.0      |
| Cinergy Communications Company Notes:                                                 |          |
| Premium on early redemption                                                           | (0.5)    |
| Loss on early extinguishment of Cinergy Communication Company Notes                   | (0.5)    |
| Total loss on early extinguishment of debt                                            | \$(36.4) |





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As previously discussed in conjunction with the spin-off, Windstream completed a debt-for-debt exchange and also repaid the remaining aggregate principal amount of borrowings under Tranche B4. The debt-for-debt exchange and repayment were accounted for under the extinguishment method of accounting and, as a result, Windstream Services recognized a loss due to the extinguishment of the aforementioned debt obligations of \$15.9 million.

As previously discussed, Windstream Services retired all of the outstanding 2018 Notes and all of the PAETEC 2018 Notes in conjunction with the spin-off. The retirements were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations during the second quarter of 2015.

Under the debt repurchase program previously discussed, Windstream Services repurchased in the open market certain of its senior unsecured notes representing an aggregate principal amount of \$299.5 million. The partial repurchase was accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized a pretax gain of \$7.0 million.

The loss on extinguishment of debt was as follows for the year ended December 31:

| (Millions)                                                      | 2013      |
|-----------------------------------------------------------------|-----------|
| 2019 Notes:                                                     |           |
| Premium on early redemption                                     | \$(13.6 ) |
| Third-party fees for early redemption                           | (0.5 )    |
| Unamortized debt issuance costs on original issuance            | (0.6 )    |
| Loss on early extinguishment for 2019 Notes                     | (14.7 )   |
| Senior secured credit facility:                                 |           |
| Unamortized debt issuance costs on original issuance            | (2.5 )    |
| Loss on early extinguishment for senior secured credit facility | (2.5 )    |
| PAETEC 2017 Notes:                                              |           |
| Premium on early redemption                                     | (51.5 )   |
| Third-party fees for early redemption                           | (1.0 )    |
| Unamortized premium on original issuance                        | 41.2      |
| Loss on early extinguishment for PAETEC 2017 Notes              | (11.3 )   |
| Total loss on early extinguishment of debt                      | \$(28.5 ) |

During 2013, Windstream Services retired all \$500.0 million of the outstanding \$500.0 million aggregate principal amount of 7.000 percent senior unsecured notes due March 15, 2019 ("2019 Notes") using proceeds from the private placement of \$500.0 million in aggregate principal amount of 7.750 percent senior unsecured notes due October 1, 2021. Windstream Services also retired all \$650.0 million of 8.875 percent notes due June 30, 2017 ("PAETEC 2017 Notes"). The PAETEC 2017 Notes were repurchased using proceeds from the issuance of the \$700.0 million in aggregate principal amount of 6.375 percent senior unsecured notes due August 1, 2023. Windstream Services also amended its senior secured credit facility including issuance of Tranche B4, the proceeds of which were used to repay Tranche A2, Tranche B and Tranche B2 during 2013. The retirements and a portion of the credit facility amendment were accounted for under the extinguishment method of accounting, and as a result, Windstream Services recognized losses due to the extinguishment of the aforementioned debt obligations during 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## Long-term Lease Obligations

Leaseback of Telecommunications Network Assets - Following the spin-off transaction (see Note 3), on April 24, 2015, Windstream Holdings entered into a long-term triple-net master lease with CS&L to lease back the telecommunications network assets. Under terms of the master lease, Windstream Holdings has the exclusive right to use the telecommunications network assets for an initial term of 15 years with up to four, five-year renewal options. Windstream Holdings is required to pay all property taxes, insurance, and repair or maintenance costs associated with the leased property. The master lease provides for an annual rent of \$650.0 million paid in equal monthly installments in advance and is fixed for the first three years. Thereafter, rent will increase on an annual basis at a base rent escalator of 0.5 percent. Future lease payments due under the agreement reset to fair market rental rates upon Windstream Holdings' execution of the renewal options. During December 2015, we requested and CS&L agreed to fund \$43.1 million of capital expenditures. As a result, the annual lease payment increased at a rate of 8.125 percent of the funds received from CS&L, or from \$650.0 million to \$653.5 million. CS&L also has the right, but not the obligation, upon Windstream's request, to fund additional capital expenditures of Windstream in an aggregate amount of up to \$250.0 million for a maximum period of five years. Monthly rent paid by us to CS&L will increase in accordance with the master lease effective as of the date of the funding. If CS&L exercises this right, the lease payments under the master lease will be adjusted at a rate of 8.125 percent of the capital expenditures funded by CS&L during the first two years and at a floating rate based on CS&L's cost of capital thereafter. Additionally, if CS&L agrees to fund the entire \$250.0 million, the initial term of the master lease will be increased from 15 years to 20 years and the number of renewal terms will be reduced from four renewal terms of five years each to three renewal terms of five years each.

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

At inception of the master lease, we recorded a long-term lease obligation of approximately \$5.1 billion equal to the sum of the minimum future annual lease payments over the 15-year lease term discounted to the present value based on Windstream Services' incremental borrowing rate. Funding received from CS&L in December 2015 for capital expenditures was recorded as an increase to the long-term lease obligation. The effective interest rate on the long-term lease obligation is approximately 10.1 percent. As annual lease payments are made, a portion of the payment will decrease the long-term lease obligation with the balance of the payment charged to interest expense using the effective interest method.

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

Leaseback of Real Estate Contributed to Pension Plan - During the third quarter of 2014, we contributed certain of our owned real property to the Windstream Pension Plan and then entered into agreements to leaseback the properties for continued use by our operating subsidiaries. Independent appraisals of the properties contributed were obtained and at

the dates of contribution the properties' aggregate fair value was \$80.9 million. The lease agreements include initial lease terms of 10 years for certain properties and 20 years for the remaining properties at an aggregate annual rent of approximately \$6.3 million. The lease agreements provide for annual rent increases ranging from 2.0 percent to 3.0 percent over the initial lease term and may be renewed for up to three additional five-year terms. The properties are managed on behalf of the Windstream Pension Plan by an independent fiduciary and terms of the lease agreements were negotiated with the fiduciary on an arm's-length basis. During the fourth quarter of 2015 in conjunction with the sale of the data center business, Windstream Services repurchased at fair value one of the properties contributed to the Windstream Pension Plan for \$8.2 million in cash. As a result, we derecognized a portion of the associated long-term lease obligation of \$8.7 million and recorded a pretax gain of \$0.5 million. Following the repurchase, aggregate annual rent due under the lease agreements declined from approximately \$6.3 million to \$6.0 million.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

| (Millions)                              | December 31, 2015 |            |            | December 31, 2014 |            |         |
|-----------------------------------------|-------------------|------------|------------|-------------------|------------|---------|
|                                         | Current           | Noncurrent | Total      | Current           | Noncurrent | Total   |
| Assets Subject to Leaseback:            |                   |            |            |                   |            |         |
| Telecommunications network assets       | \$ 152.7          | \$ 4,927.7 | \$ 5,080.4 | \$ —              | \$ —       | \$ —    |
| Real estate contributed to pension plan | —                 | 72.7       | 72.7       | —                 | 81.0       | 81.0    |
| Total                                   | \$ 152.7          | \$ 5,000.4 | \$ 5,153.1 | \$ —              | \$ 81.0    | \$ 81.0 |

Undiscounted future minimum payments during the initial terms of the leases were as follows for the years ended December 31:

| (Millions) | Leaseback of Telecommunications Network Assets | Leaseback of Real Estate Contributed to Pension Plan | Total      |
|------------|------------------------------------------------|------------------------------------------------------|------------|
| Year       |                                                |                                                      |            |
| 2016       | \$ 653.6                                       | \$ 6.0                                               | \$ 659.6   |
| 2017       | 653.5                                          | 6.2                                                  | 659.7      |
| 2018       | 655.4                                          | 6.3                                                  | 661.7      |
| 2019       | 658.9                                          | 6.5                                                  | 665.4      |
| 2020       | 662.2                                          | 6.7                                                  | 668.9      |
| Thereafter | 6,328.5                                        | 76.3                                                 | 6,404.8    |
| Total      | \$ 9,612.1                                     | \$ 108.0                                             | \$ 9,720.1 |

## Capital Lease Obligations

We lease facilities and equipment 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 2015 and 2014, we acquired equipment under capital leases of \$36.4 million and \$0.5 million, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Future minimum lease payments under capital lease obligations were as follows for the years ended December 31:

| Year                                    | (Millions) |
|-----------------------------------------|------------|
| 2016                                    | \$48.2     |
| 2017                                    | 13.0       |
| 2018                                    | 0.6        |
| 2019                                    | 0.6        |
| 2020                                    | 0.5        |
| Thereafter                              | 1.2        |
| Total future payments                   | 64.1       |
| Less: Amounts representing interest     | 2.9        |
| Present value of minimum lease payments | \$61.2     |

## Interest Expense

Interest expense was as follows for the years ended December 31:

| (Millions)                                      | 2015    | 2014    | 2013    |
|-------------------------------------------------|---------|---------|---------|
| Interest expense - long-term debt               | \$442.0 | \$539.9 | \$584.7 |
| Interest expense - long-term lease obligations: |         |         |         |
| Telecommunications network assets               | 351.6   | —       | —       |
| Real estate contributed to pension plan         | 6.7     | 2.8     | —       |
| Impact of interest rate swaps                   | 20.5    | 29.0    | 48.0    |
| Interest on capital leases and other            | 2.8     | 3.8     | 2.9     |
| Less capitalized interest expense               | (10.4)  | (3.7)   | (7.9)   |
| Total interest expense                          | \$813.2 | \$571.8 | \$627.7 |

## 6. Derivative Instruments:

Prior to the spin-off of CS&L, Windstream Services had entered into four pay fixed, receive variable interest rate swap agreements to serve as cash flow hedges of the interest rate risk inherent in its senior secured credit facility. The swaps had a notional value of \$900.0 million and were scheduled to mature October 17, 2019. The fixed interest rate paid was 3.391 percent and included a component which served to settle the liability existing on Windstream Services swaps at the time of the transaction. The variable rate received reset on the seventeenth day of each month to the one-month LIBOR. In addition, Windstream Services also had entered into six pay fixed, receive variable interest rate swap agreements, designated as cash flow hedges of the previously unhedged interest rate risk inherent in its senior secured credit facility. These swaps had a fixed notional value of \$750.0 million and were scheduled to mature on June 17, 2016. The fixed rate paid ranged from 1.026 to 1.040 percent plus a fixed spread of 2.750 percent. The variable rate received reset on the seventeenth day of each month to the one-month LIBOR subject to a minimum rate of 0.750 percent. All ten of the swaps were designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable rate cash flows paid on Windstream Services' senior secured credit facility, which had varying maturity dates from December 30, 2016 to January 23, 2020. In conjunction with completing the debt-for-debt exchange previously discussed (see Note 3), Windstream Services terminated seven of the ten interest rate swaps, consisting of all six of the swaps scheduled to mature on June 17, 2016 and one of the swaps scheduled to mature on October 17, 2019. As a result, Windstream Services paid \$22.7 million to the respective counterparties and recognized a pretax loss of \$1.7 million upon termination of the seven interest rate swap agreements as a reclassification from accumulated other comprehensive (loss) income to other income (expense).



Two of the remaining three interest rate swaps were renegotiated to more closely align with the characteristics of Tranche B5 of Windstream Services' senior secured credit facility. Windstream Services de-designated the three remaining swaps and froze the accumulated losses of \$3.0 million reported in accumulated other comprehensive income related to these swaps. This frozen balance will be amortized from accumulated other comprehensive income to interest expense over the remaining life of the original swaps.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 6. Derivative Instruments, Continued:

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

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 our interest rate swap agreements:

| (Millions, except for percentages)            | 2015    | 2014      |
|-----------------------------------------------|---------|-----------|
| Designated portion, measured at fair value    |         |           |
| Other assets                                  | \$—     | \$0.4     |
| Other current liabilities                     | \$18.3  | \$28.5    |
| Other non-current liabilities                 | \$33.4  | \$48.7    |
| Accumulated other comprehensive (loss) income | \$(0.9) | ) \$4.9   |
| De-designated portion, unamortized value      |         |           |
| Accumulated other comprehensive loss          | \$(0.2) | ) \$(8.8) |
| Weighted average fixed rate paid              | 2.99    | % 3.57    |
| Variable rate received                        | 0.35    | % 0.16    |

Derivatives are assessed for effectiveness each quarter and any ineffectiveness is recognized in other income (expense), net in our consolidated statements of operations. Ineffectiveness recognized on the cash flow hedges was \$(3.7) million, \$(0.3) million and \$1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

Windstream Services expects to recognize losses of \$7.7 million, net of taxes, in interest expense in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements and the interest settlements for the three remaining interest swap agreements at December 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.

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Changes in the value of these derivative instruments were as follows for the years ended December 31:

| (Millions)                                                                             | 2015     | 2014      | 2013   |
|----------------------------------------------------------------------------------------|----------|-----------|--------|
| Changes in fair value of effective portion, net of tax (a)                             | \$(5.4 ) | \$(14.3 ) | \$17.4 |
| Amortization of unrealized losses on de-designated interest rate swaps, net of tax (a) | \$7.1    | \$9.8     | \$22.2 |

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 6. Derivative Instruments, 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 at the swap termination value of \$55.4 million including accrued interest and excluding the credit valuation adjustment to measure non-performance risk. In addition, certain of the agreements with the counterparties contain provisions where if a specified event or condition, such as a merger, occurs that materially changes Windstream Services' creditworthiness in an adverse manner, Windstream Services may be required to fully collateralize its derivative obligations. At December 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 tables present the assets and liabilities subject to an enforceable master netting arrangement as of December 31, 2015 and 2014. As of December 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 sheets as of that date.

Information pertaining to derivative assets was as follows:

| (Millions)          | Gross Amount of Recognized Assets | Net Amount of Assets presented in the Consolidated Balance Sheets | Gross Amounts Not Offset 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:

| (Millions)          | Gross Amount of Recognized Liabilities | Net Amount of Liabilities presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets |                          |            |
|---------------------|----------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------|------------|
|                     |                                        |                                                                        | Financial Instruments                                       | Cash Collateral Received | Net Amount |
| December 31, 2015:  |                                        |                                                                        |                                                             |                          |            |
| Interest rate swaps | \$51.7                                 | \$51.7                                                                 | \$—                                                         | \$—                      | \$51.7     |
| December 31, 2014:  |                                        |                                                                        |                                                             |                          |            |
| Interest rate swaps | \$77.2                                 | \$77.2                                                                 | \$(0.3 )                                                    | \$—                      | \$76.9     |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. 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 year ended December 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 receivable, investment in CS&L common stock, accounts payable, long-term debt and interest rate swaps. The carrying amount of cash, restricted cash, accounts receivable, and accounts payable was estimated by management to approximate fair value due to the relatively short period of time to maturity for those instruments. Cash equivalents, investment in CS&L common stock, long-term debt and interest rate swaps are measured at fair value on a recurring basis. Cash equivalents were not significant as of December 31, 2015 or 2014.

The fair values of cash equivalents, investment in CS&L common stock, interest rate swaps and long-term debt were determined using the following inputs at December 31:

| (Millions)                                                  | 2015      | 2014      |
|-------------------------------------------------------------|-----------|-----------|
| Recorded at Fair Value in the Financial Statements:         |           |           |
| Investment in CS&L common stock - Level 1                   | \$549.2   | \$—       |
| Derivatives:                                                |           |           |
| Interest rate swap assets - Level 2                         | \$—       | \$0.4     |
| Interest rate swap liabilities - Level 2                    | \$51.7    | \$77.2    |
| Not Recorded at Fair Value in the Financial Statements: (a) |           |           |
| Long-term debt, including current maturities - Level 2      | \$4,452.7 | \$8,777.5 |

Recognized at carrying value of \$5,233.3 million and \$8,651.7 million in long-term debt, including current (a) maturities, and excluding unamortized debt issuance costs, in the accompanying consolidated balance sheets as of December 31, 2015 and 2014, respectively.

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

The fair values of interest rate swaps are determined based on the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swaps and also incorporate credit valuation adjustments to appropriately reflect both Windstream Services' own non-performance risk and non-performance risk of the respective counterparties. As of December 31, 2015 and 2014, the fair values of the interest rate swaps were reduced by \$2.9 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 other transfers within the fair value hierarchy during the year ended December 31, 2015.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. Employee Benefit Plans and Postretirement Benefits:

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

The components of pension benefit (income) expense (including provision for executive retirement agreements) and postretirement benefits income were as follows for the years ended December 31:

| (Millions)                            | Pension Benefits |         |           | Postretirement Benefits |          |          |
|---------------------------------------|------------------|---------|-----------|-------------------------|----------|----------|
|                                       | 2015             | 2014    | 2013      | 2015                    | 2014     | 2013     |
| Benefits earned during the year       | \$9.5            | \$8.2   | \$10.5    | \$—                     | \$—      | \$—      |
| Interest cost on benefit obligation   | 53.2             | 58.9    | 52.5      | 1.3                     | 1.3      | 1.4      |
| Net actuarial loss (gain)             | 8.7              | 128.6   | (110.4)   | —                       | —        | —        |
| Amortization of net actuarial loss    | —                | —       | —         | 1.0                     | 0.1      | 1.7      |
| Amortization of prior service credit  | (0.1)            | (0.1)   | (0.1)     | (3.8)                   | (5.8)    | (8.6)    |
| Plan curtailments and settlements     | —                | —       | —         | (18.0)                  | (11.5)   | (32.2)   |
| Expected return on plan assets        | (70.1)           | (67.3)  | (67.8)    | —                       | —        | —        |
| Net periodic benefit expense (income) | \$1.2            | \$128.3 | \$(115.3) | \$(19.5)                | \$(15.9) | \$(37.7) |

During 2015, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective on June 8, 2015, October 1, 2015, and November 1, 2015. As a result, we remeasured the plan and recognized curtailment gains totaling \$18.0 million, of which \$14.3 million was recognized in cost of services expenses and \$3.7 million was recognized in selling, general and administrative expenses, with the offsetting effects recorded as a reduction in accumulated other comprehensive income of \$18.0 million.

During 2014, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective on April 1, 2014, April 3, 2014, May 1, 2014, and May 31, 2014. We also eliminated the subsidies for certain active and current retirees effective January 1, 2015. As a result, we remeasured the plan and recognized curtailment and settlement gains totaling \$11.5 million, of which \$7.1 million was recognized in cost of services expenses and \$4.4 million was recognized in selling, general and administrative expenses, with the offsetting effects recorded as a reduction in accumulated other comprehensive income of \$10.0 million and other liabilities of \$1.5 million.

During 2013, we made changes to our postretirement medical plan, eliminating medical and prescription drug subsidies primarily for certain active participants effective August 1, 2013, October 1, 2013 or January 1, 2014. As a result, we remeasured the plan and recognized curtailment gains totaling \$32.2 million, of which \$24.1 million was recognized in cost of services expenses and \$8.1 million was recognized in selling, general and administrative expenses, with offsetting effects recorded as reductions in accumulated other comprehensive income of \$31.8 million and other liabilities of \$0.4 million.

We recognize actuarial gains and losses for pension benefits as a component of net periodic benefit expense (income) in the year in which the gains and losses occur. In determining our annual postretirement benefits cost, we amortize unrecognized actuarial gains and losses exceeding 10.0 percent of the projected benefit obligation over the lesser of 10 years or the average remaining service life of active employees. We do not amortize unrecognized actuarial gains and



losses below the 10.0 percent corridor.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A summary of plan assets, projected benefit obligation and funded status of the plans (including executive retirement agreements) were as follows at December 31:

| (Millions)                                                                                       | Pension Benefits |            | Postretirement Benefits |           |
|--------------------------------------------------------------------------------------------------|------------------|------------|-------------------------|-----------|
|                                                                                                  | 2015             | 2014       | 2015                    | 2014      |
| Fair value of plan assets at beginning of year                                                   | \$1,042.0        | \$959.7    | \$0.3                   | \$0.3     |
| Actual return on plan assets                                                                     | (1.6             | ) 144.6    | —                       | —         |
| Employer contributions                                                                           | 0.9              | 89.9       | 2.5                     | 3.8       |
| Participant contributions                                                                        | —                | —          | 4.3                     | 0.4       |
| Benefits paid (a)                                                                                | (74.7            | ) (65.6    | ) (6.7                  | ) (4.2    |
| Settlements (b)                                                                                  | —                | (86.6      | ) —                     | —         |
| Fair value of plan assets at end of year                                                         | \$966.6          | \$1,042.0  | \$0.4                   | \$0.3     |
| Projected benefit obligation at beginning of year                                                | \$1,331.8        | \$1,210.6  | \$30.6                  | \$31.4    |
| Interest cost on projected benefit obligations                                                   | 53.2             | 58.9       | 1.3                     | 1.3       |
| Service costs                                                                                    | 9.5              | 8.2        | —                       | —         |
| Participant contributions                                                                        | —                | —          | 4.3                     | 0.4       |
| Plan amendments                                                                                  | (1.4             | ) —        | (0.4                    | ) (0.2    |
| Actuarial (gain) loss                                                                            | (62.9            | ) 206.3    | (0.1                    | ) 3.4     |
| Benefits paid (a)                                                                                | (74.7            | ) (65.6    | ) (6.7                  | ) (4.2    |
| Settlements (b)                                                                                  | —                | (86.6      | ) —                     | (1.5      |
| Projected benefit obligation at end of year                                                      | \$1,255.5        | \$1,331.8  | \$29.0                  | \$30.6    |
| Plan assets less than projected benefit obligation recognized in the consolidated balance sheet: |                  |            |                         |           |
| Current liabilities                                                                              | \$(1.9           | ) \$(0.8   | ) \$(2.1                | ) \$(2.3  |
| Noncurrent liabilities                                                                           | (287.0           | ) (289.0   | ) (26.5                 | ) (28.0   |
| Funded status recognized in the consolidated balance sheets                                      | \$(288.9         | ) \$(289.8 | ) \$(28.6               | ) \$(30.3 |
| Amounts recognized in accumulated other comprehensive income:                                    |                  |            |                         |           |
| Net actuarial loss                                                                               | \$—              | \$—        | \$(4.7                  | ) \$(5.8  |
| Prior service credits                                                                            | 1.8              | 0.5        | 7.8                     | 29.2      |
| Net amount recognized in accumulated other comprehensive income                                  | \$1.8            | \$0.5      | \$3.1                   | \$23.4    |

(a) During 2015 and 2014, pension benefits paid from Windstream's assets totaled \$0.9 million and \$0.8 million, respectively. All postretirement benefits in both years were paid from Windstream's assets.

(b) In an effort to reduce our long-term pension obligations and administrative expenses of the Windstream Pension Plan, during the fourth quarter of 2014, we offered to certain eligible participants of the plan the option to receive a single lump sum payment in full settlement of all future pension benefits earned by the participant from prior service to Windstream. Individuals eligible for the voluntary lump sum payment option were former employees and certain of their beneficiaries with termination dates on or prior to June 7, 2014 who had not yet commenced their pension benefit payments. The calculated amount of the single lump sum payment was the actuarial

equivalent of the participant's vested accrued pension benefit as of December 2014. All lump-sum payments were made from existing plan assets.

Estimated amounts to be amortized from accumulated other comprehensive income into net periodic benefit (income) expense in 2016, including executive retirement agreements, are as follows:

| (Millions)            | Pension<br>Benefits | Postretirement<br>Benefits |
|-----------------------|---------------------|----------------------------|
| Net actuarial loss    | \$—                 | \$0.5                      |
| Prior service credits | \$(0.3              | ) \$(1.7 )                 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The accumulated benefit obligation of our pension plan and executive retirement agreements, was \$1,236.9 million, \$1,309.7 million and \$1,193.0 million at December 31, 2015, 2014 and 2013, respectively.

Assumptions – Actuarial assumptions used to calculate pension and postretirement benefits (income) expense were as follows for the years ended December 31:

| (Millions)                     | Pension Benefits |        |        | Postretirement Benefits (a) |        |        |   |
|--------------------------------|------------------|--------|--------|-----------------------------|--------|--------|---|
|                                | 2015             | 2014   | 2013   | 2015                        | 2014   | 2013   |   |
| Discount rate                  | 4.14             | % 5.01 | % 3.85 | % 4.21                      | % 4.76 | % 3.87 | % |
| Expected return on plan assets | 7.00             | % 7.00 | % 7.00 | % 7.00                      | % 7.00 | % 7.00 | % |
| Rate of compensation increase  | 2.00             | % 2.00 | % 2.00 | % —                         | % —    | % —    | % |

(a) As a result of the various remeasurements of our postretirement benefit obligations previously discussed, key assumptions including the discount rate were updated as of each remeasurement date.

Actuarial assumptions used to calculate the projected benefit obligations were as follows at December 31:

|                                | Pension Benefits |        | Postretirement Benefits |        |   |
|--------------------------------|------------------|--------|-------------------------|--------|---|
|                                | 2015             | 2014   | 2015                    | 2014   |   |
| Discount rate                  | 4.55             | % 4.14 | % 4.67                  | % 4.21 | % |
| Expected return on plan assets | 7.00             | % 7.00 | % 7.00                  | % 7.00 | % |
| Rate of compensation increase  | 2.00             | % 2.00 | % —                     | % —    | % |

In developing the expected long-term rate of return assumption, we considered the plan's historical rate of return, as well as input from our investment advisors. Projected returns on qualified pension plan assets were based on broad equity and bond indices and include a targeted asset allocation of 25.0 percent to equities, 55.0 percent to fixed income securities, and 20.0 percent to alternative investments, with an aggregate expected long-term rate of return of approximately 7.0 percent.

Information regarding the healthcare cost trend rate was as follows for the years ended December 31:

|                                                  | 2015 | 2014   |   |
|--------------------------------------------------|------|--------|---|
| Healthcare cost trend rate assumed for next year | 7.00 | % 7.50 | % |
| Rate that the cost trend ultimately declines to  | 5.00 | % 5.00 | % |
| Year that the rate reaches the terminal rate     | 2024 | 2020   |   |

For the year ended December 31, 2015, a one percent increase in the assumed healthcare cost trend rate would increase the postretirement benefit cost by approximately \$0.1 million, while a one percent decrease in the rate would reduce the postretirement benefit cost by approximately \$0.1 million. As of December 31, 2015, a one percent increase in the assumed healthcare cost trend rate would increase the postretirement benefit obligation by approximately \$2.8 million, while a one percent decrease in the rate would reduce the postretirement benefit obligation by approximately \$2.3 million.

Plan Assets – Our pension plan assets are allocated to asset categories based on the specific strategy employed by the asset's investment manager. The asset allocation for our pension plan by asset category was as follows for the years ended December 31:

| Asset Category | Target Allocation | Percentage of Plan Assets |      |
|----------------|-------------------|---------------------------|------|
|                | 2016              | 2015                      | 2014 |

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|                                                               |       |   |       |       |   |       |   |
|---------------------------------------------------------------|-------|---|-------|-------|---|-------|---|
| Equity securities                                             | 18.6% | - | 30.6% | 23.3  | % | 26.9  | % |
| Fixed income securities                                       | 41.7% | - | 68.7% | 53.4  | % | 53.9  | % |
| Alternative investments                                       | 13.7% | - | 23.7% | 21.8  | % | 18.2  | % |
| Money market and other short-term interest bearing securities | 0.0%  | - | 4.0%  | 1.5   | % | 1.0   | % |
|                                                               |       |   |       | 100.0 | % | 100.0 | % |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

We utilize a third party to assist in evaluating the allocation of the total assets in the pension trust, taking into consideration the pension liabilities and funded status of the pension plan. Assets are managed utilizing a liability driven investment approach, meaning that assets are managed within a risk management framework which addresses the need to generate incremental returns in the context of an appropriate level of risk, based on plan liability profiles and changes in funded status. The return objectives are to satisfy funding obligations when and as prescribed by law and to keep pace with the growth of the pension plan liabilities. Given the long time horizon for paying out benefits and our strong financial condition, the pension plan can accept an average level of risk relative to other similar plans. The liquidity needs of the pension plan are manageable given that lump sum payments are not available to most participants.

Equity securities include stocks of both large and small capitalization domestic and international companies. Equity securities are expected to provide both diversification and long-term real asset growth. Domestic equities may include modest holdings of non-U.S. equities, purchased by domestic equity managers as long as they are traded in the U.S. and denominated in U.S. dollars and both active and passive (index) investment strategies. International equities provide a broad exposure to return opportunities and investment characteristics associated with the world equity markets outside the U.S. The pension plan's equity holdings are diversified by investment style, market capitalization, market or region, and economic sector.

Fixed income securities include securities issued by the U.S. Government and other governmental agencies, asset-backed securities and debt securities issued by domestic and international entities, and derivative instruments comprised of swaps, futures, forwards and options. These securities are expected to provide diversification benefits, and are expected to reduce asset volatility and pension funding volatility, and a stable source of income.

Alternative investments may include hedge funds and hedge funds of funds, commodities, both private and public real estate and private equity investments. In addition to attractive diversification benefits, the alternative investments are expected to provide both income and capital appreciation.

Investments in money market and other short-term interest bearing securities are maintained to provide liquidity for benefit payments with protection of principal being the primary objective.

The pension plan is permitted to make investments in our common stock. On March 7, 2014, we contributed 1.0 million shares of our common stock to the Windstream Pension Plan to meet our quarterly 2014 funding requirements. At the time of this contribution, the shares had an appraised value, as determined by a third party valuation firm, of approximately \$8.3 million. Similarly, in 2013, we contributed approximately \$27.8 million of our common stock to the Windstream Pension Plan to meet our remaining 2013 funding obligations and a portion of our expected 2014 funding obligation.

As previously discussed in Note 5, we contributed certain of our own real property to our qualified pension plan during the third quarter of 2014. Independent appraisals of the properties contributed were obtained and the Windstream Pension Plan recorded the contribution based on the properties' aggregate fair value of \$80.9 million at the dates of contribution. We subsequently entered into leases for the contributed properties with 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 5-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. During the fourth quarter of 2015 in conjunction with the sale of the data center business, Windstream Services repurchased at fair value one of the properties contributed to the Windstream Pension Plan for \$8.2 million in cash. Following the repurchase, annual rent due under the lease agreements declined from approximately \$6.3 million to \$6.0 million.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The fair values of our pension plan assets were determined using the following inputs as of December 31, 2015:

|                                                 |               | Quoted Price in<br>Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |
|-------------------------------------------------|---------------|--------------------------------------------------------------|----------------------------------------------|---------------------------------------|
| (Millions)                                      | Fair<br>Value | Level 1                                                      | Level 2                                      | Level 3                               |
| Money market fund (a)                           | \$70.1        | \$—                                                          | \$70.1                                       | \$—                                   |
| Guaranteed annuity contract (b)                 | 1.1           | —                                                            | —                                            | 1.1                                   |
| Common collective trust funds (c)               | 255.4         | —                                                            | 255.4                                        | —                                     |
| Government and agency securities (d)            | 281.5         | —                                                            | 281.5                                        | —                                     |
| Corporate bonds and asset backed securities (d) | 30.9          | —                                                            | 30.9                                         | —                                     |
| Common and preferred stocks - domestic (d)      | 40.0          | 39.9                                                         | —                                            | 0.1                                   |
| Common and preferred stocks - international (d) | 23.1          | 23.1                                                         | —                                            | —                                     |
| Derivative financial instruments (e)            | 19.0          | —                                                            | 19.0                                         | —                                     |
| Hedge fund of funds (f)                         | 62.0          | —                                                            | —                                            | 62.0                                  |
| Mutual fund (d)                                 | 61.0          | 61.0                                                         | —                                            | —                                     |
| Real estate and private equity funds (g)        | 145.6         | —                                                            | —                                            | 145.6                                 |
| Other (h)                                       | 0.8           | 0.8                                                          | —                                            | —                                     |
| Total investments                               | \$990.5       | \$124.8                                                      | \$656.9                                      | \$208.8                               |
| Dividends and interest receivable               | 5.2           |                                                              |                                              |                                       |
| Pending trades and other liabilities            | (29.1         | )                                                            |                                              |                                       |
| Total plan assets                               | \$966.6       |                                                              |                                              |                                       |

The fair values of our pension plan assets were determined using the following inputs as of December 31, 2014:

|                                                 |               | Quoted Price in<br>Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |
|-------------------------------------------------|---------------|--------------------------------------------------------------|----------------------------------------------|---------------------------------------|
| (Millions)                                      | Fair<br>Value | Level 1                                                      | Level 2                                      | Level 3                               |
| Money market fund (a)                           | \$42.4        | \$—                                                          | \$42.4                                       | \$—                                   |
| Guaranteed annuity contract (b)                 | 1.4           | —                                                            | —                                            | 1.4                                   |
| Common collective trust funds (c)               | 330.8         | —                                                            | 330.8                                        | —                                     |
| Government and agency securities (d)            | 285.6         | —                                                            | 285.6                                        | —                                     |
| Corporate bonds and asset backed securities (d) | 34.4          | —                                                            | 34.4                                         | —                                     |
| Common and preferred stocks - domestic (d)      | 54.8          | 54.7                                                         | —                                            | 0.1                                   |
| Common and preferred stocks - international (d) | 25.3          | 25.3                                                         | —                                            | —                                     |
| Derivative financial instruments (e)            | 16.9          | —                                                            | 16.9                                         | —                                     |
| Hedge fund of funds (f)                         | 61.9          | —                                                            | —                                            | 61.9                                  |
| Mutual fund (d)                                 | 66.7          | 66.7                                                         | —                                            | —                                     |



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|                                          |           |         |         |         |
|------------------------------------------|-----------|---------|---------|---------|
| Real estate and private equity funds (g) | 138.2     | —       | —       | 138.2   |
| Other (h)                                | 0.6       | 0.6     | —       | —       |
| Total investments                        | \$1,059.0 | \$147.3 | \$710.1 | \$201.6 |
| Dividends and interest receivable        | 3.7       |         |         |         |
| Pending trades and other liabilities     | (20.7     | )       |         |         |
| Total plan assets                        | \$1,042.0 |         |         |         |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Benefit Plans and Postretirement Benefits, Continued:

The money market fund is based on the fair value of the underlying assets held as determined by the fund manager (a) on the last business day of the year. The underlying assets are mostly comprised of certificates of deposit, time deposits and commercial paper valued at amortized cost.

The guaranteed annuity contract is based on the value of the underlying contracts adjusted to market value which recognizes that either long-term assets would have to be sold before contract maturity or new contributions by (b) other contract holders would have to be exchanged for funds being transferred, precluding these contributions from being invested at their current state of return.

Units in common collective trust funds are valued by reference to the funds' underlying assets and are based on the net asset value as reported by the fund manager on the last business day of the Plan year. The underlying assets are (c) mostly comprised of publicly traded equity securities and fixed income securities. These securities are valued at the official closing price of, or the last reported sale prices as of the close of business or, in the absence of any sales, at the latest available bid price.

Government and agency securities, corporate bonds and asset backed securities, common and preferred stocks, and registered investment companies traded in active markets on securities exchanges are valued at their quoted market (d) prices on the last day of the Plan year. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotes or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using best estimates, including unobservable inputs.

Derivative financial instruments consist primarily of swaps and are valued at fair value based on models that reflect (e) the contractual terms of the instruments. Inputs include primarily observable market information, such as swap curves, benchmark yields, rating updates and interdealer broker quotes at the end of the Plan year.

Hedge fund of funds hold a portfolio of other investment funds instead of directly investing in specific securities, (f) commodities or other financial instruments. The funds are valued based on the net asset value of the fund determined by the fund manager on the last business day of the Plan year. The net asset value is derived from the fair value of each underlying fund comprising the hedge fund of funds.

The real estate fund is valued based on the net asset value of the fund on the last business day of the Plan year. The net asset value is derived from the fair value of the underlying net assets of the fund. Private equity funds consist of (g) investments in limited partnerships and are valued based on the Plan's capital account balance at year end as reported in the audited financial statements of the partnership. This category also includes the contributed real estate properties we are leasing back from the plan. The fair value of these properties is based on independent appraisals.

(h) Other investments consists of investments in foreign currency, which are valued at their quoted market price on the last day of the Plan year.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following is a reconciliation of the beginning and ending balances of pension plan assets that are measured at fair value using significant unobservable input:

| (Millions)                                        | Domestic equities | Hedge fund of funds | Real estate and private equity funds | Guaranteed annuity contract | Total   |
|---------------------------------------------------|-------------------|---------------------|--------------------------------------|-----------------------------|---------|
| Balance at December 31, 2013                      | \$0.1             | \$60.2              | \$52.8                               | \$1.9                       | \$115.0 |
| Gains related to plan assets sold during the year | —                 | —                   | 0.9                                  | —                           | 0.9     |
| Gains on plan assets still held at year-end       | —                 | 1.7                 | 5.7                                  | 0.1                         | 7.5     |
| Purchases and sales, net                          | —                 | —                   | 78.8                                 | (0.6)                       | 78.2    |
| Transfers in and/or out of level 3                | —                 | —                   | —                                    | —                           | —       |
| Balance at December 31, 2014                      | 0.1               | 61.9                | 138.2                                | 1.4                         | 201.6   |
| Gains related to plan assets sold during the year | —                 | —                   | 1.0                                  | —                           | 1.0     |
| Gains on plan assets still held at year-end       | —                 | 0.1                 | 10.7                                 | 0.1                         | 10.9    |
| Purchases and sales, net                          | —                 | —                   | (4.3)                                | (0.4)                       | (4.7)   |
| Transfers in and/or out of level 3                | —                 | —                   | —                                    | —                           | —       |
| Balance at December 31, 2015                      | \$0.1             | \$62.0              | \$145.6                              | \$1.1                       | \$208.8 |

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period. There were no transfers in or out of levels 1, 2, or 3 for the years ended December 31, 2015 and 2014.

There have been no significant changes in the methodology used to value investments from prior year. The valuation methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the valuation methods are consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Estimated Future Employer Contributions and Benefit Payments – Estimated future employer contributions, benefit payments, including executive retirement agreements, are as follows as of December 31, 2015:

| (Millions)                              | Pension Benefits | Postretirement Benefits |
|-----------------------------------------|------------------|-------------------------|
| Expected employer contributions in 2016 | \$1.9            | \$2.1                   |
| Expected benefit payments:              |                  |                         |
| 2016                                    | \$79.8           | \$2.1                   |
| 2017                                    | 82.3             | 2.0                     |
| 2018                                    | 81.2             | 1.8                     |
| 2019                                    | 82.1             | 1.7                     |
| 2020                                    | 83.8             | 1.5                     |
| 2021-2025                               | 417.8            | 6.8                     |

The 2016 expected employer contribution for pension benefits consists of \$1.0 million to the qualified pension plan to meet our 2016 funding requirements and \$0.9 million necessary to fund the expected benefit payments of our unfunded supplemental executive retirement pension plans to avoid certain benefit restrictions. We intend to fund these contributions using cash.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**Employee Savings Plan** – We also sponsor an employee savings plan under section 401(k) of the Internal Revenue Code, which covers substantially all salaried employees and certain bargaining unit employees. Windstream matches on an annual basis up to a maximum of 4.0 percent of employee pre-tax contributions to the plan for employees contributing up to 5.0 percent of their eligible pre-tax compensation. We recorded expense of \$19.3 million, \$18.3 million and \$18.1 million in 2015, 2014 and 2013, respectively, related to our matching contribution under the employee savings plan, which was included in cost of services and selling, general and administrative in our consolidated statements of operations. Expense related to our 2015 matching contribution expected to be made in Windstream stock is included in share-based compensation expense in the accompanying consolidated statements of cash flow. During both 2015 and 2014, we contributed 2.7 million shares of our common stock to the plan for the 2014 and 2013 annual matching contribution. At the time of these contributions, the shares had a value of approximately \$21.6 million as determined by the plan trustee. During 2013, we contributed \$20.4 million of our common stock to the plan for the 2012 annual matching contribution.

## 9. Share-Based Compensation Plans:

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

Effective May 6, 2015, the Amended and Restated 2006 Equity Incentive Plan (the “Incentive Plan”) was further amended to equitably adjust the number of shares of common stock under the plan in order to (i) reduce the shares available to address the effect of the one-for-six reverse stock split; and (ii) increase the shares available to address the effect of the REIT spin-off on the market value of Windstream Holdings common stock and to preserve the equity value of the Incentive Plan. As a result of the amendment, we may issue a maximum of 24.3 million equity stock awards in the form of restricted stock, restricted stock units, stock appreciation rights or stock options. As of December 31, 2015, the Incentive Plan had remaining capacity of 9.1 million awards. As of December 31, 2015, we had additional remaining capacity of 0.4 million awards under a similar equity incentive plan acquired in the PAETEC acquisition.

**Restricted Stock and Restricted Stock Units** - During 2015, 2014 and 2013, our Board of Directors approves grants of restricted stock and restricted stock units to officers, executives, non-employee directors and certain management employees. These grants include the standard annual grants to these employee and director groups as a key component of their annual incentive compensation plan and one-time grants may include time-based and performance-based awards. Time-based awards generally vest over a service period of two or three years. Each recipient of the performance-based restricted stock units may vest in a number of shares from zero to 150.0 percent of their award based on attainment of certain operating targets, some of which are indexed to the performance of Standard & Poor’s 500 Stock Index, over a three-year period.

The vesting periods and grant date fair value for restricted stock and restricted stock units issued was as follows for the years ended December 31:

| (Number of shares in thousands, dollars in millions)         | 2015    | 2014  | 2013  |
|--------------------------------------------------------------|---------|-------|-------|
| Vest ratably over a three-year service period                | 2,739.2 | 488.2 | 375.7 |
| Vest ratably over a two-year service period                  | —       | 3.1   | 11.4  |
| Vest variably over a three-year service period               | 62.6    | 41.2  | 31.0  |
| Vest contingently over a three-year performance period       | 283.4   | 196.1 | 131.1 |
| Vest one year from date of grant, service based - granted to | 73.7    | 20.2  | 13.6  |

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|                                                    |         |        |        |
|----------------------------------------------------|---------|--------|--------|
| non-employee directors                             |         |        |        |
| Vest two years from date of grant, service based   | 6.9     | —      | —      |
| Vest three years from date of grant, service based | 381.1   | 31.6   | —      |
| Total granted                                      | 3,546.9 | 780.4  | 562.8  |
| Grant date fair value                              | \$37.1  | \$39.3 | \$32.6 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Plans, Continued:

For performance based restricted stock units granted in 2015 the operating targets for the first vesting period were approved by the Board of Directors in May 2015. For the performance based restricted stock granted in 2014, the operating targets for the first two vesting periods were approved by the Board of Directors in March 2014 and February 2015. For performance based restricted stock granted in 2013, the operating targets for the first, second and third vesting periods were approved by the Board of Directors in February 2013, March 2014 and February 2015, respectively. For 2015 and 2013 measurement periods, each of the operating targets were met by the end of their respective measurement periods. The operating targets for the 2014 measurement period were not met and these awards were forfeited.

Restricted stock and restricted stock unit activity for the year ended December 31, 2015 was as follows:

|                                 | (Thousands)<br>Underlying<br>Number of<br>Shares | Weighted<br>Average Fair<br>Value Per Share |
|---------------------------------|--------------------------------------------------|---------------------------------------------|
| Non-vested at December 31, 2014 | 978.0                                            | \$53.68                                     |
| Granted                         | 3,546.9                                          | \$10.46                                     |
| Vested                          | (529.7)                                          | ) \$45.07                                   |
| Forfeited                       | (442.1)                                          | ) \$25.76                                   |
| Non-vested at December 31, 2015 | 3,553.1                                          | \$15.29                                     |

At December 31, 2015, unrecognized compensation expense totaled \$32.0 million and is expected to be recognized over the weighted average vesting period of 1.9 years. Unrecognized compensation expense is included in additional paid-in capital in the accompanying consolidated balance sheets and statements of shareholders' and member equity. The total fair value of shares vested during 2015, 2014 and 2013 was \$23.9 million, \$28.5 million and \$24.2 million, respectively. Share-based compensation expense recognized for restricted stock and restricted stock units was \$25.0 million, \$22.0 million and \$26.7 million for 2015, 2014 and 2013, respectively.

**Stock Options** - At December 31, 2015, we had approximately 0.5 million of vested stock option awards outstanding, all of which had been issued in conjunction with past acquisitions as replacement awards to former employees of the acquired companies. Substantially all of these options have exercise prices that are significantly higher than the current market price of our common stock and therefore are not likely to be exercised during the next twelve months. No other stock options have been granted by us during the three year period ended December 31, 2015. At December 31, 2015 and 2014, there was no unrecognized share-based compensation expense related to stock options granted. In both 2014 and 2013, compensation expense related to stock options granted was \$0.1 million.

In addition to including amounts related to restricted stock, restricted units and stock options, share-based compensation expense presented in the accompanying consolidated statements of cash flow also includes amounts related to certain management incentive compensation plans and the matching contribution to the employee savings plan for which payments to eligible participants are expected to be made in Windstream stock. Except for 2015 and the second and third quarters of 2014, payments made under the applicable management incentive plans had been in the form of cash. A summary of share-based compensation expense was as follows for the years ended December 31:

| (Millions)                                           | 2015   | 2014   | 2013   |
|------------------------------------------------------|--------|--------|--------|
| Restricted stock, restricted units and stock options | \$25.0 | \$22.1 | \$26.8 |
| Employee savings plan (See Note 8)                   | 19.3   | 18.3   | 18.1   |
| Management incentive compensation plans              | 11.0   | 1.4    | —      |



|                                  |        |        |        |
|----------------------------------|--------|--------|--------|
| Share-based compensation expense | \$55.3 | \$41.8 | \$44.9 |
|----------------------------------|--------|--------|--------|

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 10. Merger, Integration and Restructuring Charges:

We incur costs to complete a merger or acquisition and integrate its operations into our business, which are presented as merger and integration expense in our consolidated results of operations. These costs include transaction costs, such as accounting, legal and broker fees; severance and related costs; IT and network conversion; rebranding; and consulting fees. We also incurred investment banking fees, legal, accounting and other consulting fees related to the REIT spin-off and the sale of a portion of our data center business. During the fourth quarter of 2015, we began a network optimization project designed to consolidate traffic onto network facilities operated by us and reduce the usage of other carriers' networks, including service areas acquired in the PAETEC acquisition. In undertaking this initiative, which we expect to complete during 2016, we incurred costs to migrate traffic to lower cost circuits and to terminate existing contracts prior to their expiration. The PAETEC acquisition and costs related to the spin-off and sale of our data center business account for the merger and integration costs incurred for the periods presented.

Restructuring charges are primarily incurred as a result of evaluations of our operating structure. Among other things, these evaluations explore opportunities to provide greater flexibility in managing and financing existing and future strategic operations, for task automation and the balancing of our workforce based on the current needs of our customers. Severance, lease exit costs and other related charges are included in restructuring charges.

During 2015, we incurred restructuring charges of \$15.6 million related to the completion of several small workforce reductions. Additionally, we incurred charges of \$3.1 million related to the special shareholder meeting held on February 20, 2015 to approve the one-for-six reverse stock split and the conversion of Windstream Corporation to Windstream Services.

During 2014, we completed two workforce reductions to increase operational efficiency by eliminating a total of approximately 750 positions, including 295 resulting from voluntary separation initiatives. We also completed several smaller workforce reductions throughout the year. In connection with these workforce reductions, we incurred pre-tax restructuring charges of \$24.1 million during 2014, primarily consisting of severance and other employee benefit costs. As a result of certain changes in our executive management team, we also incurred severance-related costs of \$6.3 million in 2014.

The following is a summary of the merger, integration and restructuring charges recorded for the years ended December 31:

| (Millions)                                          | 2015    | 2014   | 2013   |
|-----------------------------------------------------|---------|--------|--------|
| Merger and integration costs                        |         |        |        |
| Information technology conversion costs             | \$7.5   | \$20.8 | \$17.3 |
| Costs related to REIT spin-off (See Note 3)         | 65.1    | 15.5   | —      |
| Costs related to sale of data center business       | 10.3    | —      | —      |
| Network optimization and conversion costs           | 5.9     | —      | —      |
| Consulting and other costs                          | 6.2     | 4.1    | 12.9   |
| Total merger and integration costs                  | 95.0    | 40.4   | 30.2   |
| Restructuring charges                               | 20.7    | 35.9   | 8.6    |
| Total merger, integration and restructuring charges | \$115.7 | \$76.3 | \$38.8 |

After giving consideration to tax benefits on deductible items, the effect of merger, integration and restructuring charges decreased net income \$71.2 million, \$46.6 million and \$24.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The following is a summary of the activity related to the liabilities associated with our merger, integration and restructuring charges at December 31:

| (Millions)                                    | 2015    | 2014   |
|-----------------------------------------------|---------|--------|
| Balance, beginning of period                  | \$11.2  | \$14.0 |
| Merger, integration and restructuring charges | 115.7   | 76.3   |
| Cash outlays during the period                | (121.8) | (79.1) |
| Balance, end of period                        | \$5.1   | \$11.2 |

As of December 31, 2015, unpaid merger, integration and restructuring liabilities consisted of \$2.6 million associated with the restructuring initiatives and \$2.5 million related to merger and integration activities. Payments of these liabilities will be funded through operating cash flows. During 2015, cash outlays were \$99.4 million related to merger and integration activities and \$22.4 million for restructuring initiatives.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. Accumulated Other Comprehensive (Loss) Income:

Accumulated other comprehensive (loss) income balances, net of tax, were as follows for the years ended December 31:

| (Millions)                                               | 2015      | 2014     | 2013    |
|----------------------------------------------------------|-----------|----------|---------|
| Pension and postretirement plans                         | \$2.8     | \$14.5   | \$26.4  |
| Unrealized holding loss on available-for-sale securities | (286.5    | ) —      | —       |
| Unrealized holding (losses) gains on interest rate swaps |           |          |         |
| Designated portion                                       | (0.6      | ) 3.1    | 17.4    |
| De-designated portion                                    | (0.1      | ) (5.5   | ) (15.3 |
| Accumulated other comprehensive (loss) income            | \$ (284.4 | ) \$12.1 | \$28.5  |

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

| (Millions)                                                                  | Unrealized Holding Loss on Available-for-Sale Securities | Net Losses on Interest Rate Swaps | Pension and Postretirement Plans | Total      |
|-----------------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------|----------------------------------|------------|
| Balance at December 31, 2014                                                | \$—                                                      | \$(2.4                            | ) \$14.5                         | \$12.1     |
| Other comprehensive (loss) income before reclassifications                  | (286.5                                                   | ) (5.4                            | ) 1.2                            | (290.7 )   |
| Amounts reclassified from other accumulated comprehensive income (loss) (a) | —                                                        | 7.1                               | (12.9                            | ) (5.8 )   |
| Balance at December 31, 2015                                                | \$(286.5                                                 | ) \$(0.7                          | ) \$2.8                          | \$(284.4 ) |

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

Reclassifications out of accumulated other comprehensive (loss) income were as follows for the years ended December 31:

| Details about Accumulated Other Comprehensive (Loss) Income Components | (Millions)<br>Amount Reclassified from Accumulated Other Comprehensive (Loss) Income |         |         | Affected Line Item in the Consolidated Statements of Operations |
|------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------|---------|-----------------------------------------------------------------|
|                                                                        | 2015                                                                                 | 2014    | 2013    |                                                                 |
| Losses on interest rate swaps:                                         |                                                                                      |         |         |                                                                 |
| Amortization of unrealized losses on de-designated interest rate swaps | \$11.6                                                                               | \$15.8  | \$35.9  | Interest expense                                                |
|                                                                        | 11.6                                                                                 | 15.8    | 35.9    | Income (loss) from continuing operations before income taxes    |
|                                                                        | (4.5                                                                                 | ) (6.0  | ) (13.7 | ) Income tax expense (benefit)                                  |
|                                                                        | 7.1                                                                                  | 9.8     | 22.2    | Net income (loss)                                               |
| Pension and postretirement plans:                                      |                                                                                      |         |         |                                                                 |
| Plan curtailment                                                       | (18.0                                                                                | ) (10.0 | ) (31.8 | ) (a)                                                           |
| Amortization of net actuarial loss                                     | 1.0                                                                                  | 0.1     | 1.7     | (a)                                                             |
|                                                                        | (3.9                                                                                 | ) (5.9  | ) (8.7  | ) (a)                                                           |

Amortization of prior service  
credits

|                                                          |        |   |       |   |        |   |                                                                    |
|----------------------------------------------------------|--------|---|-------|---|--------|---|--------------------------------------------------------------------|
|                                                          | (20.9  | ) | (15.8 | ) | (38.8  | ) | Income (loss) from continuing<br>operations before income<br>taxes |
|                                                          | 8.0    |   | 6.1   |   | 14.7   |   | Income tax expense (benefit)                                       |
|                                                          | (12.9  | ) | (9.7  | ) | (24.1  | ) | Net income (loss)                                                  |
| Total reclassifications for the<br>period,<br>net of tax | \$(5.8 | ) | \$0.1 |   | \$(1.9 | ) | Net income (loss)                                                  |

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. Other Income (Expense), Net:

Set forth below is a summary of other income (expense), net for the years ended December 31:

| (Millions)                             | 2015   | 2014   | 2013      |
|----------------------------------------|--------|--------|-----------|
| Interest income                        | \$1.3  | \$1.0  | \$1.0     |
| Dividend income on CS&L common stock   | 48.4   | —      | —         |
| Gain (loss) on disposal (a)            | 10.7   | —      | (6.4 )    |
| Other income (expense), net            | 0.8    | (0.6 ) | (8.7 )    |
| Ineffectiveness of interest rate swaps | (3.7 ) | (0.3 ) | 1.6 )     |
| Other income (expense), net            | \$57.5 | \$0.1  | \$(12.5 ) |

The gain recognized during 2015 represents the gain from the sale of our remaining non-strategic directory (a)publishing business completed on April 1, 2015. The loss realized in 2013 was primarily due to the disposal of various non-operating real estate assets.

## 13. Income Taxes:

Income tax expense (benefit) was as follows for the years ended December 31:

| (Millions)                   | 2015    | 2014      | 2013      |
|------------------------------|---------|-----------|-----------|
| Current:                     |         |           |           |
| Federal                      | \$9.1   | \$0.8     | \$(27.0 ) |
| State                        | 23.2    | (12.5 )   | (2.5 )    |
|                              | 32.3    | (11.7 )   | (29.5 )   |
| Deferred:                    |         |           |           |
| Federal                      | 15.0    | (18.3 )   | 104.0     |
| State                        | (31.3 ) | 4.9 )     | 30.8      |
|                              | (16.3 ) | (13.4 )   | 134.8     |
| Income tax expense (benefit) | \$16.0  | \$(25.1 ) | \$105.3   |

Deferred income tax expense (benefit) for all three years primarily resulted from temporary differences between depreciation and amortization expense for income tax purposes and depreciation and amortization expense recorded in the accompanying consolidated financial statements. Goodwill is not amortized for financial statement purposes in accordance with authoritative guidance on goodwill and other intangible assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Income Taxes, Continued:

Differences between the federal income tax statutory rates and effective income tax rates, which include both federal and state income taxes, were as follows for the years ended December 31:

|                                                                 | 2015  | 2014    | 2013   |   |
|-----------------------------------------------------------------|-------|---------|--------|---|
| Statutory federal income tax rate                               | 35.0  | % 35.0  | % 35.0 | % |
| Increase (decrease)                                             |       |         |        |   |
| State income taxes, net of federal benefit                      | 4.0   | 4.7     | 3.3    |   |
| Adjust deferred taxes for state net operating loss carryforward | 16.0  | —       | (0.1)  | ) |
| Transaction costs                                               | 18.7  | (8.0    | —      | ) |
| Tax refunds                                                     | —     | 7.3     | —      |   |
| Valuation allowance                                             | (48.4 | ) (15.4 | ) (0.3 | ) |
| Income tax reserves                                             | 12.2  | (0.4    | ) (5.4 | ) |
| Research and development credit                                 | (8.4  | ) 12.1  | (2.2   | ) |
| Adjustment of deferred taxes for legal entity restructuring     | 6.8   | —       | —      |   |
| Disallowed loss                                                 | —     | (2.9    | —      | ) |
| Tax credits                                                     | (1.0  | ) 2.2   | —      |   |
| Other items, net                                                | 2.0   | 4.3     | 0.6    |   |
| Effective income tax rate                                       | 36.9  | % 38.9  | % 30.9 | % |

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

The significant components of the net deferred income tax liability (asset) were as follows at December 31:

| (Millions)                                      | 2015       | 2014       |   |
|-------------------------------------------------|------------|------------|---|
| Property, plant and equipment                   | \$ 1,472.8 | \$ 1,146.7 |   |
| Goodwill and other intangible assets            | 1,295.8    | 1,312.8    |   |
| Operating loss and credit carryforward          | (462.5     | ) (604.0   | ) |
| Postretirement and other employee benefits      | (120.1     | ) (121.8   | ) |
| Unrealized holding loss and interest rate swaps | (5.2       | ) (5.3     | ) |
| Deferred compensation                           | (4.9       | ) (5.7     | ) |
| Bad debt                                        | (25.1      | ) (32.1    | ) |
| Long-term lease obligations                     | (1,993.7   | ) (30.8    | ) |
| Deferred debt costs                             | (2.0       | ) (12.9    | ) |
| Restricted stock                                | (9.7       | ) (8.5     | ) |
| Other, net                                      | (5.9       | ) 39.9     |   |
|                                                 | 139.5      | 1,678.3    |   |
| Valuation allowance                             | 147.9      | 94.9       |   |
| Deferred income taxes, net                      | \$ 287.4   | \$ 1,773.2 |   |
| Deferred tax assets                             | \$(2,670.6 | ) \$(898.0 | ) |
| Deferred tax liabilities                        | 2,958.0    | 2,671.2    |   |
| Deferred income taxes, net                      | \$ 287.4   | \$ 1,773.2 |   |

At December 31, 2015 and 2014, we had federal net operating loss carryforwards of approximately \$907.0 million and \$1,304.2 million, respectively, which expire in varying amounts from 2022 through 2031. The loss carryforwards at December 31, 2015 were primarily losses acquired in conjunction with our prior acquisitions including PAETEC. The 2015 decrease is primarily associated with the amount utilized for the year.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Income Taxes, Continued:

At December 31, 2015 and 2014, we had state net operating loss carryforwards of approximately \$1,802.4 million and \$1,990.6 million, respectively, which expire annually in varying amounts from 2016 through 2035. The loss carryforwards at December 31, 2015 were primarily losses acquired in conjunction with our prior acquisitions including PAETEC. The 2015 decrease is primarily associated with the amount lost due to legal entity restructuring during the year. Federal and state tax rules limit the deductibility of loss carryforwards in years following an ownership change. As a result of these limitations or the expected lack of sufficient future taxable income, we believe that it is more likely than not that the benefit from certain federal and state loss carryforwards will not be realized prior to their expiration. In September 2015, Windstream's board of directors adopted a shareholder rights plan designed to protect our net operating loss carryforwards from the effect of limitations imposed by federal and state tax rules following an ownership change. This plan was designed to deter an ownership change (as defined in IRC Section 382) from occurring, and therefore protect our ability to utilize our federal and state net operating loss carry forwards in the future. The plan is not meant to be an anti-takeover measure and our board of directors has established a procedure to consider requests to exempt the acquisition of Windstream common stock from the rights plan, if such acquisition would not limit or impair the availability of our net operating loss carryforwards.

We establish valuation allowances when necessary to reduce deferred tax assets to amounts expected to be realized. Therefore, as of December 31, 2015 and 2014, we recorded valuation allowances of \$140.9 million and \$94.9 million, respectively, related to federal and state loss carryforwards which are expected to expire before they are utilized. The amount of federal tax credit carryforward at December 31, 2015 and 2014, was approximately \$46.1 million and \$34.6 million, respectively, which expire in varying amounts from 2031 through 2035. The amount of state tax credit carryforward at December 31, 2015 and 2014, was approximately \$24.4 million and \$24.1 million, respectively, which expire in varying amounts from 2016 through 2027. Due to legal entity restructuring during the year and the expected lack of sufficient future taxable income, we believe that it is more likely than not that the benefit from some of the state tax credit carryforwards will not be realized prior to their expiration. Therefore, as of December 31, 2015, we recorded a valuation allowance of approximately \$7.0 million, net of federal benefit, to reduce deferred tax assets to amounts expected to be realized.

We account for uncertainty in taxes in accordance with authoritative guidance. A reconciliation of the unrecognized tax benefits is as follows:

| (Millions)                                                                | 2015   | 2014   | 2013    |
|---------------------------------------------------------------------------|--------|--------|---------|
| Beginning balance                                                         | \$5.6  | \$4.6  | \$18.3  |
| Additions based on tax positions related to current year                  | 5.0    | 2.3    | 2.7     |
| Additions based on tax positions of prior years                           | —      | —      | 0.7     |
| Reductions for tax positions of prior years                               | (0.5   | ) (0.1 | ) (0.2  |
| Reduction as a result of a lapse of the applicable statute of limitations | —      | (0.2   | ) (16.9 |
| Settlements                                                               | —      | (1.0   | ) —     |
| Ending balance                                                            | \$10.1 | \$5.6  | \$4.6   |

We do not expect or anticipate a significant increase or decrease over the next twelve months in the unrecognized tax benefits reported above. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate are \$9.9 million, \$5.0 million and \$3.4 million (net of indirect benefits) for the years ended December 31, 2015, 2014 and 2013, respectively.

Included in the balance at December 31, 2014 and 2013, are \$0.6 million of gross tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. No such amounts existed at December 31, 2015. Because of the impact of the deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. These unrecognized tax benefits are included in other long-term liabilities in the accompanying consolidated balance sheets for the years ended December 31, 2015 and 2014.

We file income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, we are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2012. However, due to acquired net operating losses, tax authorities have the ability to adjust those net operating losses related to closed years. We have identified Arkansas, California, Florida, Georgia, Illinois, Iowa, Kentucky, Nebraska, New York, North Carolina, Pennsylvania, Texas and Virginia as “major” state taxing jurisdictions.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Income Taxes, Continued:

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the years ended December 31, 2015, 2014 and 2013, we recognized approximately \$0.1 million each year in interest and penalties. Furthermore, we had approximately \$0.1 million of interest and penalties accrued at each of December 31, 2015, 2014 and 2013.

## 14. Commitments and Contingencies:

## Lease Commitments

Minimum rental commitments for all non-cancellable operating leases, consisting principally of leases for network facilities, real estate, office space and office equipment were as follows as of December 31, 2015:

| Year       | (Millions) |
|------------|------------|
| 2016       | \$ 113.4   |
| 2017       | 85.2       |
| 2018       | 73.3       |
| 2019       | 56.2       |
| 2020       | 38.3       |
| Thereafter | 130.7      |
| Total      | \$497.1    |

Rental expense totaled \$128.0 million, \$134.5 million and \$120.2 million in 2015, 2014 and 2013, respectively.

## Litigation

On February 9, 2015, a putative stockholder filed a Shareholder Class Action Complaint in the Delaware Court of Chancery, captioned *Doppelt v. Windstream Holdings, Inc., et al.*, C.A. No. 10629-VCN, against the Company and its Board of Directors. This complaint was accompanied by a motion for a preliminary injunction seeking to enjoin the spin-off. The Court, ruling from the bench on February 19, 2015 - the day before a special meeting of stockholders was scheduled to vote on a reverse stock split and amended governing documents (the "Proposals") - denied plaintiff's motion for a preliminary injunction, reasoning that much of the information sought by plaintiff had been disclosed in public filings available on the United States Securities and Exchange Commission's website, the Windstream Board was in no way conflicted, and while approval of the Proposals would facilitate the spin-off, approval was not necessary to effect the spin-off. On March 16, 2015, plaintiff, joined by a second putative Windstream stockholder, filed an Amended Shareholder Class Action Complaint alleging breaches of fiduciary duty by the Company and its Board concerning Windstream's disclosures and seeking to rescind the spin-off and unspecified monetary damages. On February 5, 2016, the Court granted in part and denied in part defendants' motion to dismiss the amended complaint. The Court dismissed Windstream, and plaintiffs' demand to rescind the spin-off, but otherwise denied the motion.

In addition, numerous copyright holders represented by RightsCorp have asserted that our customers have utilized our services to allegedly illegally download and share alleged copyrighted material via peer-to-peer or "filesharing" programs. These holders maintain that Windstream is responsible for alleged infringement because after notification, Windstream did not shut off service to customers alleged to be repeat infringers, and, further, that Windstream may not claim safe harbor pursuant to the Digital Millennium Copyright Act of 1998.

We believe that we have valid defenses to both the lawsuit and the alleged infringement claim, and we plan to vigorously defend the pursuit of both matters. While the ultimate resolution of the matters is not currently predictable, if there are adverse rulings against Windstream in either of these two matters, either ruling could constitute a material adverse outcome on the future consolidated results of our income, cash flows, or financial condition.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. Commitments and Contingencies, Continued:

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.

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

### 15. Segment Information:

Effective November 1, 2015, we implemented a new business unit organizational structure focused on our core customer relationships to strengthen our ability to achieve our operational, strategic and financial goals. Prior to this reorganization, we operated as one reportable segment. Following this reorganization, we now operate and report the following four customer-based segments:

**Consumer and Small Business - ILEC** - We manage as one business our residential and small business customers who reside in markets in which we are the incumbent local exchange carrier ("ILEC") due to the similarities with respect to service offerings, marketing strategies and customer service delivery. Products and services offered to these customers include traditional local and long-distance voice services and high-speed Internet services, which are delivered primarily over network facilities operated by us. We offer consumer video services primarily through a relationship with Dish Network LLC and we also own and operate cable television franchises in some of our service areas. During 2015, we launched Kinetic, a complete video entertainment offering in our Lincoln, Nebraska and Lexington, Kentucky markets, with plans to launch in Sugar Land, Texas in the second quarter of 2016. We expect to roll out this new service to additional markets during the next few years.

Residential customers can bundle voice, high-speed Internet and video services, to provide one convenient billing solution and receive bundle discounts. Small Business - ILEC services offer a wide range of advanced Internet, voice, and web conferencing products. These services are equipped to deliver high-speed Internet with competitive speeds, value added services to enhance business productivity and options to bundle services for a global business solution to meet our small business customer needs.

**Carrier** - Our carrier operations consist of providing products and services to other communications services providers, including special access services, which provide network access and transport services to end users, and fiber-to-tower connections to support backhaul services to wireless carriers. We also offer on a wholesale basis voice and data transport services to other communications providers, including the resale of our services and the sale of unbundled network elements, which allow wholesale customers to provide voice and data services to their customers through the use of our network or in combination with their own networks.

**Enterprise** - Our enterprise operations consist of our business customer relationships that generate \$1,500 or more in revenue per month. Products and services offered to these customers include integrated voice and data services, which deliver voice and broadband services over a single Internet connection, multi-site networking services which provide a fast and private connection between business locations, as well as a variety of other data services, including cloud computing and collocation and managed services as an alternative to traditional information technology infrastructure.

Small Business - CLEC - These operations consist of our business customer relationships that generate less than \$1,500 in revenue per month and are located in services areas in which we are a competitive local exchange carrier (“CLEC”) and provide services over network facilities primarily leased from other carriers. Products and services provided to these customers include integrated voice and data services, advanced data and traditional voice and long-distance services, as well as value added services including online backup, managed web design and web hosting, and various e-mail services.

The accounting policies used in measuring segment operating results are the same as those described in Note 2. We evaluate performance of the segments based on segment income, which is computed as segment revenues and sales less segment operating expenses. As further discussed below, certain operating revenues and expenses are not assigned to our segments.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. Segment Information, Continued:

Segment revenues are based upon each customer's classification to an individual segment and include all services provided to that customer. Certain operating revenues are derived from activities that are centrally-managed by us and, accordingly, these revenues are not included in any of our four segments presented below. These other operating revenues include revenue from federal and state universal service funds, CAF Phase II support, and funds received from federal access recovery mechanisms. We also generate other service revenues from providing switched access services, which include usage-based revenues from long-distance companies and other carriers for access to our network to complete long distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for the use of network facilities. Other operating revenues also include certain surcharges assessed to our customers, including billings for our required contributions to federal and state USF programs. Revenues attributable to the sold data center and directory publishing businesses, as well as the consumer CLEC business transferred to CS&L are not assigned to the segments and are also included in other service revenues for all periods prior to the dates of disposal.

Segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers; selling, general and administrative expenses that are directly associated with specific segment customers or activities; and certain allocated expenses which include network expenses, facilities expenses and other expenses, such as vehicle and real estate-related expenses. We do not assign depreciation and amortization expense, merger and integration costs, restructuring charges, stock-based compensation and pension costs to our segments, because these expenses are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, certain centrally-managed administrative functions, such as accounting and finance, information technology, legal and human resources, are not assigned to our segments. Interest expense and loss on early extinguishment of debt have also been excluded from segment operating results because we manage our financing activities on a total company basis and have not assigned any long-term debt obligations to the segments. Other income (expense), net and income tax (benefit) expense are not monitored as a part of our segment operations and, therefore, these items also have been excluded from our segment operating results.

Asset information by segment is not monitored or reported to the CODM and therefore has not been presented. All of our customers are located in the United States and we do not have any single customer that provides more than 10 percent of our total consolidated revenues and sales.

The following table summarizes our segment results for the years ended December 31:

| (Millions)                          | 2015       | 2014       | 2013       |
|-------------------------------------|------------|------------|------------|
| Consumer and Small Business - ILEC: |            |            |            |
| Revenues and sales                  | \$ 1,605.5 | \$ 1,644.4 | \$ 1,667.4 |
| Costs and expenses                  | 671.0      | 696.9      | 725.0      |
| Segment income                      | 934.5      | 947.5      | 942.4      |
| Carrier:                            |            |            |            |
| Revenues                            | 687.9      | 729.7      | 779.1      |
| Costs and expenses                  | 185.6      | 172.5      | 176.5      |
| Segment income                      | 502.3      | 557.2      | 602.6      |
| Enterprise:                         |            |            |            |
| Revenues and sales                  | 2,067.2    | 2,003.0    | 1,937.0    |
| Costs and expenses                  | 1,826.6    | 1,757.4    | 1,677.3    |
| Segment income                      | 240.6      | 245.6      | 259.7      |
| Small Business - CLEC:              |            |            |            |

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|                                  |           |           |           |
|----------------------------------|-----------|-----------|-----------|
| Revenues                         | 559.0     | 658.3     | 765.5     |
| Costs and expenses               | 378.2     | 408.7     | 465.6     |
| Segment income                   | 180.8     | 249.6     | 299.9     |
| Total segment revenues and sales | 4,919.6   | 5,035.4   | 5,149.0   |
| Total segment costs and expenses | 3,061.4   | 3,035.5   | 3,044.4   |
| Total segment income             | \$1,858.2 | \$1,999.9 | \$2,104.6 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. Segment Information, Continued:

The following table reconciles total segment revenue and sales to total consolidated revenue and sales for the years ended December 31:

| (Millions)                                        | 2015      | 2014      | 2013      |
|---------------------------------------------------|-----------|-----------|-----------|
| Total segment revenues and sales                  | \$4,919.6 | \$5,035.4 | \$5,149.0 |
| Regulatory and other operating revenues and sales | 714.5     | 639.6     | 695.3     |
| Revenue and sales related to disposed businesses  | 131.2     | 154.5     | 143.8     |
| Total consolidated revenues and sales             | \$5,765.3 | \$5,829.5 | \$5,988.1 |

The following table reconciles segment income to consolidated net income (loss) for the years ended December 31:

| (Millions)                                        | 2015      | 2014      | 2013      |
|---------------------------------------------------|-----------|-----------|-----------|
| Total segment income                              | \$1,858.2 | \$1,999.9 | \$2,104.6 |
| Revenues and sales related to disposed businesses | 131.2     | 154.5     | 143.8     |
| Regulatory and other operating revenues and sales | 714.5     | 639.6     | 695.3     |
| Depreciation and amortization                     | 1,366.5   | 1,386.4   | 1,340.9   |
| Other unassigned operating expenses               | 739.7     | 798.9     | 502.2     |
| Operating expenses related to disposed businesses | 88.3      | 101.6     | 91.6      |
| Other income (expense), net                       | 57.5      | 0.1       | (12.5 )   |
| Gain on sale of data center business              | 326.1     | —         | —         |
| Loss on early extinguishment of debt              | (36.4 )   | —         | (28.5 )   |
| Interest expense                                  | (813.2 )  | (571.8 )  | (627.7 )  |
| Income tax expense (benefit)                      | 16.0      | (25.1 )   | 105.3     |
| Discontinued operations                           | —         | —         | 6.0       |
| Net income (loss)                                 | \$27.4    | \$(39.5 ) | \$241.0   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information:

Debentures and notes, without collateral, issued by Windstream Services, LLC

In connection with the issuance of the 7.875 percent senior notes due November 1, 2017, the 7.750 percent senior notes due October 15, 2020, the 7.750 percent senior notes due October 1, 2021, the 7.500 percent senior notes due June 1, 2022, the 7.500 percent senior notes due April 1, 2023 and the 6.375 percent senior notes due August 1, 2023 (“the guaranteed notes”), certain of Windstream Services’ wholly-owned subsidiaries (the “Guarantors”), provide guarantees of those debentures. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several. All personal property assets and related operations of the Guarantors are pledged as collateral on the senior secured credit facility of Windstream Services. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Windstream Services. The remaining subsidiaries of Windstream Services (the “Non-Guarantors”) are not guarantors of the guaranteed notes. Windstream Holdings is not a guarantor of any Windstream Services debt instruments.

Following the redemption of the PAETEC 2018 notes (see Note 5), the guaranteed notes were amended to include certain subsidiaries of PAETEC as guarantors. Previously, all subsidiaries of PAETEC were Non-Guarantors. As a result, prior period information has been revised to reflect the change in the guarantor reporting structure.

The following information presents condensed consolidating and combined statements of comprehensive (loss) income for the years ended December 31, 2015, 2014 and 2013, condensed consolidating balance sheets as of December 31, 2015 and 2014, and condensed consolidating and combined statements of cash flows for the years ended December 31, 2015, 2014 and 2013 of Windstream Services, the Guarantors and the Non-Guarantors. Investments consist of investments in net assets of subsidiaries held by Windstream Services and other subsidiaries, and have been presented using the equity method of accounting.

| (Millions)                                       | Condensed Consolidating Statement of Comprehensive (Loss) Income<br>For the Year Ended December 31, 2015 |            |                    |              |              |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                  | Windstream<br>Services                                                                                   | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Revenues and sales:                              |                                                                                                          |            |                    |              |              |
| Service revenues                                 | \$—                                                                                                      | \$1,153.6  | \$4,470.6          | \$(25.6)     | \$5,598.6    |
| Product sales                                    | —                                                                                                        | 145.3      | 21.4               | —            | 166.7        |
| Total revenues and sales                         | —                                                                                                        | 1,298.9    | 4,492.0            | (25.6)       | 5,765.3      |
| Costs and expenses:                              |                                                                                                          |            |                    |              |              |
| Cost of services                                 | —                                                                                                        | 490.7      | 2,293.5            | (22.2)       | 2,762.0      |
| Cost of products sold                            | —                                                                                                        | 125.0      | 20.2               | —            | 145.2        |
| Selling, general and administrative              | —                                                                                                        | 184.0      | 683.9              | (3.4)        | 864.5        |
| Depreciation and amortization                    | 18.3                                                                                                     | 333.4      | 1,014.8            | —            | 1,366.5      |
| Merger and integration costs                     | —                                                                                                        | —          | 95.0               | —            | 95.0         |
| Restructuring charges                            | —                                                                                                        | 9.4        | 11.3               | —            | 20.7         |
| Total costs and expenses                         | 18.3                                                                                                     | 1,142.5    | 4,118.7            | (25.6)       | 5,253.9      |
| Operating (loss) income                          | (18.3)                                                                                                   | ) 156.4    | 373.3              | —            | 511.4        |
| Earnings (losses) from consolidated subsidiaries | 239.6                                                                                                    | (149.9)    | ) (7.8)            | ) (81.9)     | ) —          |
| Other income, net                                | 45.7                                                                                                     | 0.8        | 11.0               | —            | 57.5         |
| Gain on sale of data center business             | —                                                                                                        | —          | 326.1              | —            | 326.1        |
| Loss on early extinguishment of debt             | (30.7)                                                                                                   | ) (5.3)    | ) (0.4)            | ) —          | (36.4)       |

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|                                        |          |            |           |         |            |   |
|----------------------------------------|----------|------------|-----------|---------|------------|---|
| Intercompany interest income (expense) | 115.9    | (46.5      | ) (69.4   | ) —     | —          |   |
| Interest expense                       | (440.1   | ) (122.0   | ) (251.1  | ) —     | (813.2     | ) |
| (Loss) income before income taxes      | (87.9    | ) (166.5   | ) 381.7   | (81.9   | ) 45.4     |   |
| Income tax (benefit) expense           | (116.5   | ) (16.9    | ) 150.2   | —       | 16.8       |   |
| Net income (loss)                      | \$28.6   | \$(149.6   | ) \$231.5 | \$(81.9 | ) \$28.6   |   |
| Comprehensive (loss) income            | \$(267.9 | ) \$(149.6 | ) \$231.5 | \$(81.9 | ) \$(267.9 | ) |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                       | Condensed Consolidating Statement of Comprehensive (Loss) Income<br>For the Year Ended December 31, 2014 |            |                    |              |              |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                  | Windstream<br>Services                                                                                   | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Revenues and sales:                              |                                                                                                          |            |                    |              |              |
| Service revenues                                 | \$—                                                                                                      | \$1,176.0  | \$4,496.6          | \$(25.0)     | ) \$5,647.6  |
| Product sales                                    | —                                                                                                        | 154.7      | 27.2               | —            | 181.9        |
| Total revenues and sales                         | —                                                                                                        | 1,330.7    | 4,523.8            | (25.0)       | ) 5,829.5    |
| Costs and expenses:                              |                                                                                                          |            |                    |              |              |
| Cost of services                                 | —                                                                                                        | 517.0      | 2,277.0            | (20.7)       | ) 2,773.3    |
| Cost of products sold                            | —                                                                                                        | 131.2      | 25.4               | —            | 156.6        |
| Selling, general and administrative              | —                                                                                                        | 165.7      | 766.1              | (4.3)        | ) 927.5      |
| Depreciation and amortization                    | 21.9                                                                                                     | 337.5      | 1,027.0            | —            | 1,386.4      |
| Merger and integration costs                     | —                                                                                                        | —          | 40.4               | —            | 40.4         |
| Restructuring charges                            | —                                                                                                        | 8.1        | 27.8               | —            | 35.9         |
| Total costs and expenses                         | 21.9                                                                                                     | 1,159.5    | 4,163.7            | (25.0)       | ) 5,320.1    |
| Operating (loss) income                          | (21.9)                                                                                                   | ) 171.2    | 360.1              | —            | 509.4        |
| Earnings (losses) from consolidated subsidiaries | 217.3                                                                                                    | (210.3)    | ) 4.0              | (11.0)       | ) —          |
| Other (expenses) income, net                     | (0.2)                                                                                                    | ) 162.9    | (162.6)            | ) —          | 0.1          |
| Intercompany interest income (expense)           | 127.2                                                                                                    | (53.7)     | ) (73.5)           | ) —          | —            |
| Interest expense                                 | (523.9)                                                                                                  | ) (44.8)   | ) (3.1)            | ) —          | (571.8)      |
| (Loss) income before income taxes                | (201.5)                                                                                                  | ) 25.3     | 124.9              | (11.0)       | ) (62.3)     |
| Income tax (benefit) expense                     | (163.4)                                                                                                  | ) 99.8     | 39.4               | —            | (24.2)       |
| Net (loss) income                                | \$(38.1)                                                                                                 | ) \$(74.5) | ) \$85.5           | \$(11.0)     | ) \$(38.1)   |
| Comprehensive (loss) income                      | \$(54.5)                                                                                                 | ) \$(74.5) | ) \$85.5           | \$(11.0)     | ) \$(54.5)   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                            | Condensed Consolidating Statement of Comprehensive Income (Loss)<br>For the Year Ended December 31, 2013 |            |                    |              |              |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                       | Windstream<br>Services                                                                                   | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Revenues and sales:                                   |                                                                                                          |            |                    |              |              |
| Service revenues                                      | \$—                                                                                                      | \$1,222.9  | \$4,583.0          | \$(30.4)     | ) \$5,775.5  |
| Product sales                                         | —                                                                                                        | 182.6      | 30.0               | —            | 212.6        |
| Total revenues and sales                              | —                                                                                                        | 1,405.5    | 4,613.0            | (30.4)       | ) 5,988.1    |
| Costs and expenses:                                   |                                                                                                          |            |                    |              |              |
| Cost of services                                      | —                                                                                                        | 476.2      | 2,090.6            | (25.6)       | ) 2,541.2    |
| Cost of products sold                                 | —                                                                                                        | 143.5      | 40.4               | —            | 183.9        |
| Selling, general and administrative                   | —                                                                                                        | 141.9      | 736.7              | (4.8)        | ) 873.8      |
| Depreciation and amortization                         | 25.0                                                                                                     | 325.4      | 990.5              | —            | 1,340.9      |
| Merger and integration costs                          | —                                                                                                        | —          | 30.2               | —            | 30.2         |
| Restructuring charges                                 | —                                                                                                        | 2.1        | 6.5                | —            | 8.6          |
| Total costs and expenses                              | 25.0                                                                                                     | 1,089.1    | 3,894.9            | (30.4)       | ) 4,978.6    |
| Operating (loss) income                               | (25.0)                                                                                                   | ) 316.4    | 718.1              | —            | 1,009.5      |
| Earnings (losses) from consolidated subsidiaries      | 526.1                                                                                                    | (62.0)     | ) 121.6            | (585.7)      | ) —          |
| Other income (expense), net                           | 2.1                                                                                                      | 168.3      | (182.9)            | ) —          | (12.5)       |
| Loss on early extinguishment of debt                  | (17.2)                                                                                                   | ) (11.3)   | ) —                | —            | (28.5)       |
| Intercompany interest income (expense)                | 134.5                                                                                                    | (61.1)     | ) (73.4)           | ) —          | —            |
| Interest (expense) income                             | (584.6)                                                                                                  | ) (46.7)   | ) 3.6              | —            | (627.7)      |
| Income from continuing operations before income taxes | 35.9                                                                                                     | 303.6      | 587.0              | (585.7)      | ) 340.8      |
| Income tax (benefit) expense                          | (205.4)                                                                                                  | ) 150.2    | 160.7              | —            | 105.5        |
| Income from continuing operations                     | 241.3                                                                                                    | 153.4      | 426.3              | (585.7)      | ) 235.3      |
| Discontinued operations                               | —                                                                                                        | —          | 6.0                | —            | 6.0          |
| Net income                                            | \$241.3                                                                                                  | \$153.4    | \$432.3            | \$(585.7)    | ) \$241.3    |
| Comprehensive income                                  | \$263.4                                                                                                  | \$153.4    | \$432.3            | \$(585.7)    | ) \$263.4    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                                              | Condensed Consolidating Balance Sheet<br>As of December 31, 2015 |            |                    |              |              |
|-------------------------------------------------------------------------|------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                                         | Windstream<br>Services                                           | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Assets                                                                  |                                                                  |            |                    |              |              |
| Current Assets:                                                         |                                                                  |            |                    |              |              |
| Cash and cash equivalents                                               | \$—                                                              | \$1.1      | \$33.5             | \$(3.3)      | \$31.3       |
| Accounts receivable (less allowance for<br>doubtful accounts of \$33.1) | —                                                                | 218.6      | 425.3              | —            | 643.9        |
| Notes receivable - affiliate                                            | —                                                                | 4.8        | —                  | (4.8)        | —            |
| Affiliates receivable, net                                              | —                                                                | 619.1      | 2,435.4            | (3,054.5)    | —            |
| Inventories                                                             | —                                                                | 69.1       | 10.4               | —            | 79.5         |
| Prepaid expenses and other                                              | 321.8                                                            | 32.4       | 64.6               | (298.2)      | 120.6        |
| Total current assets                                                    | 321.8                                                            | 945.1      | 2,969.2            | (3,360.8)    | 875.3        |
| Investments in consolidated subsidiaries                                | 6,332.3                                                          | 320.4      | 242.7              | (6,895.4)    | —            |
| Notes receivable - affiliate                                            | —                                                                | 314.1      | —                  | (314.1)      | —            |
| Goodwill                                                                | 1,636.7                                                          | 1,343.0    | 1,233.9            | —            | 4,213.6      |
| Other intangibles, net                                                  | 554.3                                                            | 282.8      | 667.6              | —            | 1,504.7      |
| Net property, plant and equipment                                       | 8.4                                                              | 1,241.3    | 4,030.1            | —            | 5,279.8      |
| Investment in CS&L common stock                                         | 549.2                                                            | —          | —                  | —            | 549.2        |
| Deferred income taxes                                                   | —                                                                | 301.2      | 215.3              | (516.5)      | —            |
| Other assets                                                            | 14.2                                                             | 56.3       | 25.0               | —            | 95.5         |
| Total Assets                                                            | \$9,416.9                                                        | \$4,804.2  | \$9,383.8          | \$(11,086.8) | \$12,518.1   |
| Liabilities and Equity                                                  |                                                                  |            |                    |              |              |
| Current Liabilities:                                                    |                                                                  |            |                    |              |              |
| Current maturities of long-term debt                                    | \$5.9                                                            | \$—        | \$—                | \$—          | \$5.9        |
| Current portion of long-term lease obligations                          | —                                                                | 44.4       | 108.3              | —            | 152.7        |
| Accounts payable                                                        | —                                                                | 92.9       | 337.2              | —            | 430.1        |
| Affiliates payable, net                                                 | 3,069.6                                                          | —          | —                  | (3,054.5)    | 15.1         |
| Notes payable - affiliate                                               | —                                                                | —          | 4.8                | (4.8)        | —            |
| Advance payments and customer deposits                                  | —                                                                | 26.3       | 167.6              | —            | 193.9        |
| Accrued taxes                                                           | 0.3                                                              | 11.9       | 370.1              | (298.2)      | 84.1         |
| Accrued interest                                                        | 75.3                                                             | 1.9        | 1.2                | —            | 78.4         |
| Other current liabilities                                               | 42.6                                                             | 47.5       | 216.8              | —            | 306.9        |
| Total current liabilities                                               | 3,193.7                                                          | 224.9      | 1,206.0            | (3,357.5)    | 1,267.1      |
| Long-term debt                                                          | 5,065.1                                                          | 99.5       | —                  | —            | 5,164.6      |
| Long-term lease obligations                                             | —                                                                | 1,455.2    | 3,545.2            | —            | 5,000.4      |
| Notes payable - affiliate                                               | —                                                                | —          | 314.1              | (314.1)      | —            |
| Deferred income taxes                                                   | 803.9                                                            | —          | —                  | (516.5)      | 287.4        |
| Other liabilities                                                       | 47.8                                                             | 25.1       | 419.3              | —            | 492.2        |
| Total liabilities                                                       | 9,110.5                                                          | 1,804.7    | 5,484.6            | (4,188.1)    | 12,211.7     |
| Commitments and Contingencies (See<br>Note 14)                          |                                                                  |            |                    |              |              |
| Equity:                                                                 |                                                                  |            |                    |              |              |
| Common stock                                                            | —                                                                | 39.4       | 81.9               | (121.3)      | —            |

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|                                               |           |           |           |               |            |
|-----------------------------------------------|-----------|-----------|-----------|---------------|------------|
| Additional paid-in capital                    | 600.3     | 3,128.2   | 848.0     | (3,976.2 )    | 600.3      |
| Accumulated other comprehensive (loss) income | (284.4 )  | —         | 2.8       | (2.8 )        | (284.4 )   |
| (Accumulated deficit) retained earnings       | (9.5 )    | (168.1 )  | 2,966.5   | (2,798.4 )    | (9.5 )     |
| Total equity                                  | 306.4     | 2,999.5   | 3,899.2   | (6,898.7 )    | 306.4      |
| Total Liabilities and Equity                  | \$9,416.9 | \$4,804.2 | \$9,383.8 | \$(11,086.8 ) | \$12,518.1 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                                              | Condensed Consolidating Balance Sheet<br>As of December 31, 2014 |            |                    |              |              |
|-------------------------------------------------------------------------|------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                                         | Windstream<br>Services                                           | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Assets                                                                  |                                                                  |            |                    |              |              |
| Current Assets:                                                         |                                                                  |            |                    |              |              |
| Cash and cash equivalents                                               | \$—                                                              | \$3.8      | \$50.0             | \$(26.0)     | \$27.8       |
| Restricted cash                                                         | 6.7                                                              | —          | —                  | —            | 6.7          |
| Accounts receivable (less allowance for<br>doubtful accounts of \$43.4) | —                                                                | 266.5      | 369.0              | —            | 635.5        |
| Notes receivable - affiliate                                            | —                                                                | 4.8        | —                  | (4.8)        | —            |
| Affiliates receivable, net                                              | —                                                                | 969.0      | 2,155.6            | (3,124.6)    | —            |
| Inventories                                                             | —                                                                | 56.2       | 7.5                | —            | 63.7         |
| Prepaid expenses and other                                              | 35.5                                                             | 32.4       | 96.7               | —            | 164.6        |
| Total current assets                                                    | 42.2                                                             | 1,332.7    | 2,678.8            | (3,155.4)    | 898.3        |
| Investments in consolidated subsidiaries                                | 10,001.3                                                         | 747.9      | 232.4              | (10,981.6)   | —            |
| Notes receivable - affiliate                                            | —                                                                | 317.7      | —                  | (317.7)      | —            |
| Goodwill                                                                | 1,649.5                                                          | 1,469.4    | 1,233.9            | —            | 4,352.8      |
| Other intangibles, net                                                  | 590.7                                                            | 355.2      | 818.1              | —            | 1,764.0      |
| Net property, plant and equipment                                       | 9.8                                                              | 1,329.5    | 4,073.0            | —            | 5,412.3      |
| Other assets                                                            | 16.7                                                             | 37.2       | 39.0               | —            | 92.9         |
| Total Assets                                                            | \$12,310.2                                                       | \$5,589.6  | \$9,075.2          | \$(14,454.7) | \$12,520.3   |
| Liabilities and Equity                                                  |                                                                  |            |                    |              |              |
| Current Liabilities:                                                    |                                                                  |            |                    |              |              |
| Current maturities of long-term debt                                    | \$717.4                                                          | \$—        | \$0.1              | \$—          | \$717.5      |
| Accounts payable                                                        | 2.1                                                              | 113.0      | 288.2              | —            | 403.3        |
| Affiliates payable, net                                                 | 3,277.0                                                          | —          | —                  | (3,124.6)    | 152.4        |
| Notes payable - affiliate                                               | —                                                                | —          | 4.8                | (4.8)        | —            |
| Advance payments and customer deposits                                  | —                                                                | 36.5       | 178.2              | —            | 214.7        |
| Accrued taxes                                                           | 0.2                                                              | 25.0       | 70.0               | —            | 95.2         |
| Accrued interest                                                        | 94.3                                                             | 5.8        | 2.4                | —            | 102.5        |
| Other current liabilities                                               | 60.8                                                             | 26.5       | 270.1              | —            | 357.4        |
| Total current liabilities                                               | 4,151.8                                                          | 206.8      | 813.8              | (3,129.4)    | 2,043.0      |
| Long-term debt                                                          | 7,275.9                                                          | 568.9      | 1.7                | —            | 7,846.5      |
| Long-term lease obligations                                             | —                                                                | 24.0       | 57.0               | —            | 81.0         |
| Notes payable - affiliate                                               | —                                                                | —          | 317.7              | (317.7)      | —            |
| Deferred income taxes                                                   | 591.2                                                            | 193.1      | 988.9              | —            | 1,773.2      |
| Other liabilities                                                       | 66.5                                                             | 28.2       | 457.1              | —            | 551.8        |
| Total liabilities                                                       | 12,085.4                                                         | 1,021.0    | 2,636.2            | (3,447.1)    | 12,295.5     |
| Commitments and Contingencies (See<br>Note 14)                          |                                                                  |            |                    |              |              |
| Equity:                                                                 |                                                                  |            |                    |              |              |
| Common stock                                                            | —                                                                | 39.4       | 81.9               | (121.3)      | —            |
| Additional paid-in capital                                              | 250.8                                                            | 4,370.0    | 3,426.9            | (7,796.9)    | 250.8        |
| Accumulated other comprehensive income                                  | 12.1                                                             | —          | 14.5               | (14.5)       | 12.1         |



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|                                         |            |           |           |             |              |   |
|-----------------------------------------|------------|-----------|-----------|-------------|--------------|---|
| (Accumulated deficit) retained earnings | (38.1      | ) 159.2   | 2,915.7   | (3,074.9    | ) (38.1      | ) |
| Total equity                            | 224.8      | 4,568.6   | 6,439.0   | (11,007.6   | ) 224.8      |   |
| Total Liabilities and Equity            | \$12,310.2 | \$5,589.6 | \$9,075.2 | \$(14,454.7 | ) \$12,520.3 |   |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                                 | Condensed Consolidating Statement of Cash Flows<br>For the Year Ended December 31, 2015 |            |                    |              |              |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                            | Windstream<br>Services                                                                  | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Cash Provided from Operations:                             |                                                                                         |            |                    |              |              |
| Net cash (used in) provided from operations                | \$(337.4                                                                                | ) \$256.1  | \$1,109.1          | \$—          | \$1,027.8    |
| Cash Flows from Investing Activities:                      |                                                                                         |            |                    |              |              |
| Additions to property, plant and equipment                 | (1.0                                                                                    | ) (180.4   | ) (873.9           | ) —          | (1,055.3 )   |
| Changes in restricted cash                                 | 6.7                                                                                     | —          | —                  | —            | 6.7          |
| Grant funds received for broadband stimulus projects       | 23.5                                                                                    | —          | —                  | —            | 23.5         |
| Network expansion funded by Connect America                | —                                                                                       | (18.6      | ) (55.3            | ) —          | (73.9 )      |
| Fund - Phase 1                                             |                                                                                         |            |                    |              |              |
| Disposition of data center business                        | —                                                                                       | —          | 574.2              | —            | 574.2        |
| Other, net                                                 | (9.6                                                                                    | ) 0.1      | 12.3               | —            | 2.8          |
| Net cash provided from (used in) investing activities      | 19.6                                                                                    | (198.9     | ) (342.7           | ) —          | (522.0 )     |
| Cash Flows from Financing Activities:                      |                                                                                         |            |                    |              |              |
| Distributions to Windstream Holdings, Inc.                 | (416.6                                                                                  | ) —        | —                  | —            | (416.6 )     |
| Payment received from CS&L in spin-off                     | 1,035.0                                                                                 | —          | —                  | —            | 1,035.0      |
| Funding received from CS&L for tenant capital improvements | —                                                                                       | 19.6       | 23.5               | —            | 43.1         |
| Repayments of debt and swaps                               | (2,898.9                                                                                | ) (450.0   | ) (2.0             | ) —          | (3,350.9 )   |
| Proceeds of debt issuance                                  | 2,335.0                                                                                 | —          | —                  | —            | 2,335.0      |
| Debt issuance costs                                        | (4.3                                                                                    | ) —        | —                  | —            | (4.3 )       |
| Intercompany transactions, net                             | 277.1                                                                                   | 406.7      | (706.5             | ) 22.7       | —            |
| Payments under long-term lease obligations                 | —                                                                                       | (35.6      | ) (67.0            | ) —          | (102.6 )     |
| Payments under capital lease obligations                   | —                                                                                       | (4.2       | ) (27.3            | ) —          | (31.5 )      |
| Other, net                                                 | (9.5                                                                                    | ) 3.6      | (3.6               | ) —          | (9.5 )       |
| Net cash provided from (used in) financing activities      | 317.8                                                                                   | (59.9      | ) (782.9           | ) 22.7       | (502.3 )     |
| Decrease in cash and cash equivalents                      | —                                                                                       | (2.7       | ) (16.5            | ) 22.7       | 3.5          |
| Cash and Cash Equivalents:                                 |                                                                                         |            |                    |              |              |
| Beginning of period                                        | —                                                                                       | 3.8        | 50.0               | (26.0        | ) 27.8       |
| End of period                                              | \$—                                                                                     | \$1.1      | \$33.5             | \$(3.3       | ) \$31.3     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

| (Millions)                                                 | Condensed Consolidating Statement of Cash Flows<br>For the Year Ended December 31, 2014 |            |                    |              |              |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
|                                                            | Windstream<br>Services                                                                  | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Cash Provided from Operations:                             |                                                                                         |            |                    |              |              |
| Net cash (used in) provided from operations                | \$(129.2 )                                                                              | \$448.1    | \$1,149.8          | \$—          | \$1,468.7    |
| Cash Flows from Investing Activities:                      |                                                                                         |            |                    |              |              |
| Additions to property, plant and equipment                 | (1.8 )                                                                                  | (116.6 )   | (668.1 )           | —            | (786.5 )     |
| Broadband network expansion funded by stimulus grants      | —                                                                                       | (0.3 )     | (13.0 )            | —            | (13.3 )      |
| Changes in restricted cash                                 | 3.0                                                                                     | —          | —                  | —            | 3.0          |
| Grant funds received for broadband stimulus projects       | 33.2                                                                                    | —          | —                  | —            | 33.2         |
| Grant funds received from Connect America Fund - Phase 1   | —                                                                                       | 9.4        | 16.6               | —            | 26.0         |
| Network expansion funded by Connect America Fund - Phase 1 | —                                                                                       | (1.3 )     | (11.5 )            | —            | (12.8 )      |
| Acquisition of a business                                  | (22.6 )                                                                                 | —          | —                  | —            | (22.6 )      |
| Other, net                                                 | —                                                                                       | —          | 3.9                | —            | 3.9          |
| Net cash provided from (used in) investing activities      | 11.8                                                                                    | (108.8 )   | (672.1 )           | —            | (769.1 )     |
| Cash Flows from Financing Activities:                      |                                                                                         |            |                    |              |              |
| Distributions to Windstream Holdings, Inc.                 | (603.6 )                                                                                | —          | —                  | —            | (603.6 )     |
| Repayments of debt and swaps                               | (1,394.4 )                                                                              | —          | (1.0 )             | —            | (1,395.4 )   |
| Proceeds of debt issuance                                  | 1,315.0                                                                                 | —          | —                  | —            | 1,315.0      |
| Intercompany transactions, net                             | 795.9                                                                                   | (341.6 )   | (428.3 )           | (26.0 )      | —            |
| Payments under capital lease obligations                   | —                                                                                       | (0.6 )     | (26.2 )            | —            | (26.8 )      |
| Other, net                                                 | (9.2 )                                                                                  | 3.6        | (3.6 )             | —            | (9.2 )       |
| Net cash provided from (used in) financing activities      | 103.7                                                                                   | (338.6 )   | (459.1 )           | (26.0 )      | (720.0 )     |
| (Decrease) increase in cash and cash equivalents           | (13.7 )                                                                                 | 0.7        | 18.6               | (26.0 )      | (20.4 )      |
| Cash and Cash Equivalents:                                 |                                                                                         |            |                    |              |              |
| Beginning of period                                        | 13.7                                                                                    | 3.1        | 31.4               | —            | 48.2         |
| End of period                                              | \$—                                                                                     | \$3.8      | \$50.0             | \$(26.0 )    | \$27.8       |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. Supplemental Guarantor Information, Continued:

|                                                          | Condensed Consolidating Statement of Cash Flows<br>For the Year Ended December 31, 2013 |            |                    |              |              |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------|------------|--------------------|--------------|--------------|
| (Millions)                                               | Windstream<br>Services                                                                  | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
| Cash Provided from Operations:                           |                                                                                         |            |                    |              |              |
| Net cash (used in) provided from operations              | \$(186.2                                                                                | ) \$509.9  | \$1,196.1          | \$—          | \$1,519.8    |
| Cash Flows from Investing Activities:                    |                                                                                         |            |                    |              |              |
| Additions to property, plant and equipment               | (2.0                                                                                    | ) (157.5   | ) (681.5           | ) —          | (841.0       |
| Broadband network expansion funded by stimulus grants    | —                                                                                       | (4.9       | ) (31.2            | ) —          | (36.1        |
| Changes in restricted cash                               | 15.3                                                                                    | —          | 1.5                | —            | 16.8         |
| Grant funds received for broadband stimulus projects     | 68.0                                                                                    | —          | —                  | —            | 68.0         |
| Grant funds received from Connect America Fund - Phase 1 | —                                                                                       | 21.9       | 38.8               | —            | 60.7         |
| Disposition of software business                         | —                                                                                       | —          | 30.0               | —            | 30.0         |
| Other, net                                               | —                                                                                       | —          | (6.0               | ) —          | (6.0         |
| Net cash provided from (used in) investing activities    | 81.3                                                                                    | (140.5     | ) (648.4           | ) —          | (707.6       |
| Cash Flows from Financing Activities:                    |                                                                                         |            |                    |              |              |
| Dividends paid to shareholders                           | (444.6                                                                                  | ) —        | —                  | —            | (444.6       |
| Distributions to Windstream Holdings, Inc.               | (149.4                                                                                  | ) —        | —                  | —            | (149.4       |
| Repayments of debt and swaps                             | (4,500.9                                                                                | ) (650.0   | ) (10.1            | ) —          | (5,161.0     |
| Proceeds of debt issuance                                | 4,919.6                                                                                 | —          | —                  | —            | 4,919.6      |
| Debt issuance costs                                      | (30.0                                                                                   | ) —        | —                  | —            | (30.0        |
| Intercompany transactions, net                           | 273.1                                                                                   | 276.3      | (549.4             | )            | —            |
| Payments under capital lease obligations                 | —                                                                                       | (1.3       | ) (22.6            | ) —          | (23.9        |
| Other, net                                               | (6.7                                                                                    | ) 3.6      | (3.6               | ) —          | (6.7         |
| Net cash provided from (used in) financing activities    | 61.1                                                                                    | (371.4     | ) (585.7           | ) —          | (896.0       |
| Decrease in cash and cash equivalents                    | (43.8                                                                                   | ) (2.0     | ) (38.0            | ) —          | (83.8        |
| Cash and Cash Equivalents:                               |                                                                                         |            |                    |              |              |
| Beginning of period                                      | 57.5                                                                                    | 5.1        | 69.4               | —            | 132.0        |
| End of period                                            | \$13.7                                                                                  | \$3.1      | \$31.4             | \$—          | \$48.2       |

## 17. Discontinued Operations:

On December 5, 2013, we completed the sale of Pinnacle, a software business acquired as part of the PAETEC acquisition, for \$30.0 million in cash. Pinnacle provided comprehensive solutions for supporting the full lifecycle of information technology and telecommunications services.

The following table summarizes the results of the software business which has been separately presented as discontinued operations in the accompanying consolidated statements of operations for the year ended December 31, 2013:

|                    |        |
|--------------------|--------|
| (Millions)         |        |
| Revenues and sales | \$16.9 |

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|                                                |       |
|------------------------------------------------|-------|
| Operating income from discontinued operations  | 1.4   |
| Gain on sale of discontinued operations        | 14.4  |
| Income before tax from discontinued operations | 15.8  |
| Income tax expense                             | 9.8   |
| Net income from discontinued operations        | \$6.0 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 18. Quarterly Financial Information – (Unaudited):

| (Millions, except per share amounts)             | For the Year Ended December 31, 2015 |           |           |           |           |
|--------------------------------------------------|--------------------------------------|-----------|-----------|-----------|-----------|
|                                                  | Total                                | 4th       | 3rd       | 2nd       | 1st       |
| Revenues and sales                               | \$5,765.3                            | \$1,427.0 | \$1,498.6 | \$1,421.1 | \$1,418.6 |
| Operating income                                 | \$509.4                              | \$131.7   | \$178.5   | \$79.3    | \$119.9   |
| Net income (loss)                                | \$27.4                               | \$140.5   | \$(7.2)   | \$(111.2) | \$5.3     |
| Basic and diluted earnings (loss) per share: (a) |                                      |           |           |           |           |
| Net income (loss)                                | \$.24                                | \$1.41    | \$(.08)   | \$(1.13)  | \$.05     |

  

| (Millions, except per share amounts)             | For the Year Ended December 31, 2014 |           |           |           |           |
|--------------------------------------------------|--------------------------------------|-----------|-----------|-----------|-----------|
|                                                  | Total                                | 4th       | 3rd       | 2nd       | 1st       |
| Revenues and sales                               | \$5,829.5                            | \$1,443.1 | \$1,455.5 | \$1,466.0 | \$1,464.9 |
| Operating income                                 | \$507.1                              | \$20.5    | \$151.6   | \$167.2   | \$167.8   |
| Net (loss) income                                | \$(39.5)                             | \$(77.5)  | \$8.0     | \$14.0    | \$16.0    |
| Basic and diluted (loss) earnings per share: (a) |                                      |           |           |           |           |
| Net (loss) income                                | \$(.45)                              | \$(.80)   | \$.07     | \$.13     | \$.15     |

Quarterly earnings (loss) per share amounts may not add to full-year earnings per share amounts due to the (a) difference in weighted-average common shares for the quarters compared to the weighted-average common shares for the year.

Significant events affecting our historical operating trends in the quarterly periods were as follows:

As discussed in Note 2, we recognized a pretax gain of \$326.1 million from the sale of our data center business in the fourth quarter of 2015. This gain increased net income by \$199.7 million.

- Revenues and sales and operating income for the third quarter of 2015 were favorably impacted by \$72.8 million of incremental CAF Phase II support received in August that was retroactive to January 1, 2015.

Operating income for the second quarter of 2015 was adversely impacted by \$54.5 million of transaction costs related to the REIT spin-off, including investment banker, legal and accounting fees. (See Note 10).

Net income (loss) for the second, third and fourth quarters of 2015 was adversely impacted by additional interest expense of \$96.0 million, \$128.2 million and \$127.4 million, respectively, attributable to the long-term lease obligation under the master lease agreement with CS&L. This additional interest expense decreased net income \$78.0 million in the fourth quarter of 2015 and increased the net loss \$58.8 million and \$78.5 million in the second and third quarters of 2015, respectively. (See Note 5).

As discussed in Note 8, we recognize actuarial gains and losses for pension benefits as a component of net periodic benefit expense (income) in the fourth quarter of each year, unless an earlier measurement date is required. Results of operations for the fourth quarter of 2015 and 2014 include pretax actuarial losses related to pension benefits of \$8.7 million and \$128.6 million or an after-tax charge of \$5.3 million and \$79.3 million, respectively.

## 19. Subsequent Events:

During January and February 2016, Windstream Services repurchased in the open market \$154.2 million aggregate principal amount of its senior unsecured notes, consisting of \$93.5 million of its 2017 Notes, \$33.1 million of its 2021

Notes, \$17.0 million of its 2022 Notes, and \$10.6 million of its 2023 Notes. The repurchases were made pursuant to the debt repurchase program approved by Windstream Services' board of directors in 2015.

During January and February 2016, Windstream Holdings repurchased in the open market \$28.8 million of its common shares, thereby completing its \$75.0 million stock repurchase program that had been authorized by our board of directors in August 2015.

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