

WINDSTREAM CORP
Form 11-K
June 21, 2013

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

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-32422

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

Windstream 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of the principal executive office:

Windstream Corporation

4001 Rodney Parham Road

Little Rock, Arkansas 72212

WINDSTREAM 401(k) PLAN
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Other schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not applicable or not required.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of the
Windstream 401(k) Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Windstream 401(k) Plan (the "Plan") at December 31, 2012 and 2011, and the changes in net assets available for benefits for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As disclosed in Note 6, the PAETEC Holding Corp. 401(k) Plan was merged into and made a part of the Plan during the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP
Little Rock, Arkansas
June 21, 2013

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WINDSTREAM 401(k) PLAN
 STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
 As of December 31,

	2012	2011
Cash	\$294,033	\$375,215
Investments, at fair value:		
Windstream Corporation common stock	34,958,892	40,280,707
Common collective trust funds	65,108,156	50,126,397
Money market fund	113,958,224	89,195,789
Mutual funds	479,321,532	320,858,783
Participant brokerage accounts	3,042,712	1,640,549
Total investments	696,389,516	502,102,225
Receivables:		
Employer contribution	20,582,490	13,637,508
Notes receivable from participants	19,189,265	12,906,168
Accrued dividends	973,429	808,662
Due from broker	144,328	94,619
Total receivables	40,889,512	27,446,957
NET ASSETS AVAILABLE FOR BENEFITS	\$737,573,061	\$529,924,397

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

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WINDSTREAM 401(k) PLAN
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 For the year ended December 31, 2012

ADDITIONS:

Investment income:	
Dividend income	\$22,205,659
Interest income	173,819
Net appreciation in fair value of investments	20,772,686
Total investment income	43,152,164

Interest income on notes receivable from participants	766,086
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Contributions:

Employer	20,869,586
Employee	43,885,892
Employee rollovers	2,904,600
Total contributions	67,660,078

Total additions	111,578,328
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DEDUCTIONS:

Benefit payments and withdrawals	71,221,786
Administrative expenses	137,055
Total deductions	71,358,841
Net increase	40,219,487

Transfer of assets from PAETEC Holding Corp. 401(k) Plan (See Note 6)	167,429,177
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NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year, January 1, 2012	529,924,397
End of year, December 31, 2012	\$737,573,061

The accompanying notes are an integral part of this financial statement.

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WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. PLAN DESCRIPTION:

The following brief description of the Windstream 401(k) Plan (the "Plan"), and the administration thereof, is provided for general information purposes only. Participants should refer to the Plan document or the Summary Plan Description ("SPD") for a more complete and comprehensive description of the Plan's provisions. Any discrepancies between the formal Plan document and the SPD will be resolved in favor of the formal Plan document.

General

The Plan is a defined contribution employee benefit plan which includes a cash or wage deferral arrangement that covers eligible bargaining and non-bargaining employees of Windstream Corporation ("Windstream" or the "Company"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Administration

The Plan is administered by the Windstream Benefits Committee (the "Administrator") which is comprised of the following members of management of Windstream: the Chief Financial Officer and Treasurer, Chief Operating Officer, Executive Vice President and Chief Human Resource Officer, and Vice President of Compensation and Benefits. Members are appointed by the Board of Directors of Windstream. Merrill Lynch Trust Company, FSB ("Merrill Lynch" or the "Trustee") is the trustee and custodian of Plan assets. Additionally, Merrill Lynch & Company, Inc. provides the recordkeeping for the Plan and administrative services.

Participation

Prior to July 1, 2012, eligible non-bargaining employees could participate after six months of service with the Company. Effective July 1, 2012, eligible non-bargaining employees may participate immediately. Certain eligible bargaining employees may participate in the Plan, to the extent specifically provided in their collective bargaining agreement. Prior service with certain other companies may count toward the service requirements of the Plan. Each eligible employee is also allowed to make certain rollover contributions to the Plan immediately upon employment with the Company as governed by the Internal Revenue Code of 1986, as amended (the "Code"). Individuals who are not eligible to participate include leased employees, employees covered by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining (unless the collective bargaining agreement where the employees are covered specifically provides for coverage under the Plan), persons not classified as an employee, and nonresident aliens with no U.S. income.

Plan Contributions

Each year, participants may contribute up to 50 percent of their pretax annual eligible compensation to the Plan, as defined in the Plan document. Participant contributions are subject to certain dollar limitations established by the Internal Revenue Service (the "IRS") each year. The annual deferral limits for the Plan are in accordance with the IRS limitations.

Eligible participants who will attain fifty (50) years of age prior to the end of the applicable Plan year are eligible to make catch-up contributions in accordance with, and subject to the limitations of Section 414(v) of the Code. Employee contributions are funded to the Plan by Windstream in the period that payroll deductions are made from Plan participants in accordance with the participant's deferral election.

Except as discussed in the following two paragraphs, the Company makes matching contributions to the Plan in an amount equal to 100 percent of the first 3 percent of each participant's eligible compensation contributed to the Plan, plus 50 percent of the next 2 percent of each participant's eligible compensation contributed to the Plan. The Company's matching contribution is calculated and made as soon as administratively practicable following the end of the Plan year for each participant who was actively employed on December 31, 2012 or who became retired, deceased or disabled during 2012. Prior to November 6, 2012, the Company's matching contributions were paid in cash. Effective November 6, 2012, the Company's matching contributions may be paid in cash or the Company's common stock. Contributions of the Company's common stock will be invested in the Windstream Common Stock Fund. Once the contribution is made, participants may transfer the amount contributed to other investment options within the Plan immediately.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS

1. PLAN DESCRIPTION, Continued:

The Company annually makes matching contributions in an amount equal to 50 percent of the first 6 percent of eligible compensation contributed to the Plan for participants covered by certain collective bargaining agreements with Valor Telecommunications of Texas, LP, who were actively employed on December 31, 2012. The Company may also make, at its sole discretion, an additional matching contribution. No such contribution was made for the year ended December 31, 2012.

Each pay period the Company makes matching contributions in an amount equal to 66 percent of the first 6 percent of eligible compensation contributed to the Plan for participants covered by certain collective bargaining agreements with Windstream Iowa Telecommunications, Inc. Participants are eligible for an additional Company contribution of 3 percent of the participant's eligible compensation if they are not a participant in any other Company-sponsored defined benefit plan.

Plan Expenses

As outlined in the Plan document, certain expenses related to the Plan's operations are paid from the Plan's assets and are included in administrative expenses. Investment related expenses are included in net appreciation in fair value of investments. Administrative costs paid by Windstream in 2012 are not reflected in the Plan's financial statements.

Participant Accounts and Investment Options

Each participant's account is credited with the participant's contributions and related employer matching and discretionary contributions, if any, as well as the participant's share of the Plan's earnings and any related administrative expenses. The participant contributions are invested according to a participant's investment election. If no investment election has been made, the contributions are invested in a manner deemed appropriate by the Administrator. The Plan's earnings and administrative expenses, if applicable, are allocated to participants' accounts based upon participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Plan participants may direct their contributions among the various investment options offered by the Plan, which include a participant-directed brokerage account. The Merrill Lynch Self-Direct Brokerage Account allows participants to invest in over 1,300 Merrill Lynch mutual funds. The Plan also provides its participants the option to invest in the Company's common stock at the participants' election. The Plan places no restrictions on the participants' ability to change this investment option.

Vesting, Benefits and Payments

Participants are immediately fully vested in their employee contributions and matching employer contributions to the Plan and the accumulated earnings thereon.

Participants or their beneficiaries, as applicable, are entitled to receive distribution of their Plan account when they retire, become permanently disabled, upon death or upon separation from service with the Company. The Plan provides benefits upon early retirement between ages 55 and 65.

Participants may elect upon termination of employment to defer payment of their account balance if it exceeds \$1,000. If a participant's account balance is equal to or less than \$1,000, the account will be automatically distributed. All distributions will be made in the form of a lump-sum payment, unless the distribution is in accordance with a grandfathered provision from a prior plan that merged into the Plan. A participant may elect to have a portion of their account invested in Windstream common stock to be distributed in shares of Windstream common stock. Additionally, actively employed participants may withdraw certain funds from their Plan account with the approval of the Administrator, for "hardship" reasons as defined by the IRS. Participants may also receive an in-service withdrawal of a portion of their vested account balance on or after attaining age 59 1/2. In addition, participants may withdraw voluntary after-tax and rollover contributions at any time.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS

1. PLAN DESCRIPTION, Continued:

Plan Termination

While it has not expressed any intention to do so, Windstream, the Plan Sponsor, has the right to terminate the Plan. In the event that the Plan is terminated, participants will become fully vested and shall be entitled to receive the entire amount of his/her account balance in accordance with the Plan provisions. Participants in the Plan are entitled to certain rights and protections under ERISA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Preparation

The accompanying financial statements have been prepared on the accrual basis of accounting reported in accordance with accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Administrator to make estimates and assumptions that affect the amount of assets, liabilities, income and expenses, and disclosures of certain contingent assets and liabilities reported or disclosed in the financial statements.

The estimates and assumptions used in preparing the accompanying financial statements are based upon the Administrator's evaluation of the relevant facts and circumstances as of the dates of the financial statements. Actual results may differ from these estimates and assumptions used in preparing the accompanying financial statements and such differences could be material.

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"). The amendments are of two types: (i) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The update is effective for annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Plan's financial statements.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest.