UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	Chapter 11
WINDSTREAM HOLDINGS, INC., *et al.*,[1]	)	Case No. 19-22312 (RDD)
Debtors.	)	(Jointly Administered)

SUPPLEMENTAL DECLARATION OF DREW SMITH IN SUPPORT OF DEBTORS' MOTION FOR ENTRY OF AN ORDER APPROVING THE DEBTORS' KEY EMPLOYEE INCENTIVE PLAN AND MOTION FOR ENTRY OF AN ORDER APPROVING THE DEBTORS' KEY EMPLOYEE RETENTION PLAN

I, Drew Smith, hereby declare as follows under penalty of perjury that the following is true and correct to the best of my knowledge, information and belief:

1. I am the Senior Vice President - Financial Planning & Assistant Treasurer for the debtors and debtors in possession (collectively, the "Debtors") in these chapter 11 cases. I am familiar with the Debtors' proposed key employee incentive plan (the "KEIP") and key employee retention plan (the "KERP") as set forth in the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Retention Program* [Docket No. 404] and the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Incentive Program* [Docket No. 405], both filed on April 23, 2019.

2. I submit this supplemental declaration in support of the KEIP and KERP motions. Except as otherwise indicated, all facts set forth in this declaration are based upon my personal

[1] The last four digits of Debtor Windstream Holdings, Inc.'s tax identification number are 7717. Due to the large number of Debtors in these chapter 11 cases, for which joint administration has been granted, a complete list of the debtor entities and the last four digits of their federal tax identification numbers is not provided herein. A complete list of such information may be obtained on the website of the Debtors' claims and noticing agent at http://www.kcclc.net/windstream. The location of the Debtors' service address for purposes of these chapter 11 cases is: 4001 North Rodney Parham Road, Little Rock, Arkansas 72212.

knowledge, discussions with members of the Debtors' management team and the Debtors' advisors, review of relevant documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives, or represent my opinions and beliefs based upon my experience and knowledge. If I were called upon to testify, I could and would testify competently to the facts set forth herein on that basis.

KEIP Performance Targets

3. I understand that the Office of the United States Trustee has objected to the KEIP motion on the basis that the Debtors have failed to demonstrate that the KEIP performance targets are difficult to achieve. As confirmed in my initial declaration, that is not the case.

4. I understand that the U.S. Trustee has argued that the targets are not difficult to meet "as they are below both the Debtors projections for 2019 and levels reached in 2018." Certain performance metrics are lower year over year compared to 2018 in order to take into account a trend of declining performance in prior years. For example, 2018 adjusted OIBDAR declined 5.0% year over year compared to 2017 and enterprise contribution margin declined 5.7% year over year. The threshold and target metrics, though, are "stretch" goals for reasons including the following:

- ***Adjusted OIBDAR*** depends on the Debtors' achieving success across a number of important business drivers, including sales, customer additions (and minimizing customer losses), and minimizing costs. The KEIP sets a baseline expectation of performance in a landscape where OIBDAR (and other metrics) have been declining since 2017. (As noted above, the Debtors' 2018 OIBDAR declined 5.0% year over year compared to 2017.) The Debtors' OIBDAR is projected to improve from historical trends but remains at risk, especially in light of the uncertainty the Debtors face in chapter 11.

- ***Enterprise strategic revenue*** (related to enterprise products including SD-WAN and "unified communications as a service") is a key strategic metric for the Debtors' businesses because it drives overall performance trends and long-term value. Strategic revenue represents higher-margin products for the Debtors and a better and more reliable experience for their customers. Even threshold KEIP performance metrics require improvement from 2018 (on both a full-year and annualized-fourth-quarter basis).

- ***Net broadband adds*** represents another important metric to drive overall performance by expanding the Debtors' customer base and building market share. Even threshold performance (20,000 net additions) represents an improvement from 2018 performance (approximately 14,000 net additions) and 2017 (a net loss of approximately 44,000).

- ***Enterprise and wholesale contribution margin*** (*i.e.*, the enterprise and wholesale segment's revenue less costs) represents (and requires the segment President to drive) overall performance of the Debtors' enterprise and wholesale business. This performance metric declined in 2018, and, for the Debtors to change that trend, will require significant efforts to add new customers, maintain existing customers, and manage operational costs.

- Similarly, ***enterprise and wholesale service revenue*** represents a primary driver of the Debtors' enterprise and wholesale business. To successfully achieve threshold or target performance, the Debtors must maintain customer churn levels and add new customers—both challenging, especially in the enterprise and wholesale sector which is characterized by aggressive competition.

- The ***Kinetic contribution margin*** (*i.e.*, the Kinetic consumer segment's revenue less costs) is an important metric because it represents overall performance of the Debtors' Kinetic business (which the Kinetic segment President can drive). While the KEIP threshold and target performance levels reflect declines from 2018, they require improvements within Consumer Revenues of more than 2% year over year, which is the primary driver to Kinetic contribution margin performance.

- ***SMB revenue*** (*i.e.*, revenue from small- medium-business customers) is an important gauge of the Debtors' performance in an extremely competitive business. (The Debtors face typically higher competition for business customers given that, for example, businesses are more often located in city and town centers where they have access to more telecommunications providers than rurally located customers.) Even at the threshold performance level (reflecting about the same decline faced in 2018), SMB revenue will require significant efforts to achieve.

5. While 2018 showed improvement and demonstrated progress toward strategic goals, it was a reversal of recent trends that the Debtors cannot be certain will continue, especially in light of the Debtors' unexpected chapter 11 filings and resulting publicity. The KEIP performance targets are intended to be challenging but realistic estimates taking into account historic performance and all available factors, not just 2018 performance. The Debtors are optimistic that short term positive results will become a trend—but the KEIP participants will need

to work to improve performance and need a realistic goal to strive toward during these chapter 11 cases. The proposed KEIP provides such a goal.

6. Even the threshold performance levels are "stretch" goals, not easy-to-achieve or guaranteed milestones. While threshold performance metrics are easier to achieve than the target and maximum performance metrics, the relative difficulty is reflected in the sliding scale award levels, and threshold performance only generates 50% of the target award. If the threshold performance level is too high, senior management will have no realistic chance to receive a KEIP award and so will be demotivated.

7. The set of performance targets must be viewed holistically. The metrics build quarter over quarter requiring execution through 2019 to meet annual company goals. For these reasons and the reasons described above, I believe that the KEIP performance targets represent true "stretch" goals and are appropriately incentivizing under the circumstances. I, along with the Debtors' advisors, have also had conversations with key creditor constituents and I understand that they support the KEIP and performance targets.

KERP Participants

8. Since filing the KERP motion, the Debtors have conducted an analysis to determine initial KERP participants and allocation of approximately $3.8 million of the $5 million aggregate proposed KERP. The initial KERP grants would be allocated among 112 individuals. These amounts would be allocated in a manner consistent with the ranges described in the KERP motion, with an average KERP allocation of approximately $34,000 and no individual receiving an allocation greater than $250,000.

9. In determining the KERP participants, consistent with what was described in the KERP motion, the Debtors considered whether the employees are (a) a high retention risk and/or

essential to ongoing operations, (b) key sales personnel, and (c) employees with a heavier workload due to the chapter 11 cases. For each potential KERP participant, the Debtors took into account the employee's existing compensation package provided in the ordinary course of business. The Debtors provide employees with a comprehensive suite of compensation and benefits, including salaries, wages and commissions paid on regularly scheduled pay periods or sales periods, as well as short term incentive cash payments, long term incentive cash payments, certain ordinary course retention payments, and a range of health, dental, and other benefits. Long and short term incentive cash payments are typically time-based payments paid quarterly (for 2019) or over a number of years, depending on the program guidelines, as long as the individual remains employed at the time payment is made. Ordinary-course retention payments are similarly paid upon completion of an applicable period.

10. Where a key employee's total compensation was determined to be insufficient to protect against the risk of departure, the Debtors considered them for inclusion in the allocation of the new KERP, which is a program adopted outside the ordinary course of business and specifically tailored to take into account the risks and uncertainty attendant to these chapter 11 cases.

11. I do not consider any of the KERP participants an "insider" as I understand that term to be defined in the Bankruptcy Code. None of the initial proposed KERP participants were appointed by the Board of Directors or direct or control overall corporate policy, governance, or decision-making. In fact, the five KEIP participants are the only employees that have control over the Debtors' corporate policy or decision-making.

12. The Debtors believe that key employees may leave the Debtors' employment without participation in the KERP. In fact, certain employees have already left or threatened to leave since the chapter 11 filing. The telecommunications industry is very competitive, and other

employers (including the Debtors' competitors) are aggressively recruiting the Debtors' employees. Due to the emergency nature of the Debtors' chapter 11 filing, the Debtors' ordinary course prepetition compensation programs did not take into account the additional retentive elements necessary in a chapter 11 proceeding. For these reasons, I believe the KERP is appropriate and necessary under the circumstances.

13. The Debtors have not yet allocated approximately $1.2 million of the proposed KERP. The Debtors intend to keep these amounts in reserve to address potential retention risks as they arise in the future. All future grants would be consistent with the restrictions described in the KERP motion.

14. I continue to believe that the payments proposed under the KERP are necessary to ensure key employees remain with the Debtors through the pendency of the chapter 11 cases. The $5 million cost of the KERP will help retain employees necessary to preserve and operate the Debtors' businesses and maximize value, and I believe that the KERP is reasonable and will benefit all stakeholders in these chapter 11 cases.

[*Remainder of page intentionally left blank.*]

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: May 13, 2019
White Plains, New York

/s/ Drew Smith
Drew Smith
Senior Vice President of Financial Planning and Assistant Treasurer
Windstream Holdings, Inc.