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)

DECLARATION OF ZACHARY P. GEORGESON IN SUPPORT OF DEBTORS' MOTION FOR ENTRY OF AN ORDER APPROVING DEBTORS' KEY EMPLOYEE INCENTIVE PLAN AND DEBTORS' MOTION FOR ENTRY OF AN ORDER APPROVING THE DEBTORS' KEY EMPLOYEE RETENTION PLAN

I, Zachary P. Georgeson, hereby declare under penalty of perjury:

1. I am a Senior Consulting Director at Willis Towers Watson US LLC ("Willis Towers Watson"). In March 2019, Windstream Holdings, Inc. (one of the debtors and debtors in possession (collectively, the "Debtors") in these chapter 11 cases, engaged Willis Towers Watson to provide compensation consulting services. I am familiar with the pre- and postpetition structure of the Debtors' compensation programs, including the Debtors' proposed key employee incentive plan (the "KEIP") and key employee retention plan (the "KERP") as they are set forth in the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Retention Program* and the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Incentive Program*, both filed contemporaneously herewith.

[1] The last four digits of Debtor Windstream Holdings, Inc.'s tax identification number are 7717. Due to the large number of debtor entities 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.kccllc.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.

2. I submit this declaration on behalf of Willis Towers Watson in support of the motions. Except as otherwise indicated, I have personal knowledge of all facts in this declaration, based on my review of the Debtors' business and compensation practices, my research into compensation practices for companies in the telecommunications industry, my research into the designs of retention and incentive-based plans approved in recent chapter 11 proceedings and my significant experience in developing such programs, and information supplied to me by members of the Debtors' management team and the Debtors' other advisors. For the reasons described below, it is my opinion that the KEIP and KERP are reasonable and generally consistent with market practice, and my experience with similarly situated companies that have sought relief under chapter 11. If called upon to testify, I could and would testify competently to the facts and opinions set forth in this declaration.

<u>Background and Qualifications</u>

3. I received my Bachelor's degree in Finance from Indiana University Bloomington in 2002. After working at Deloitte Consulting LLP and Capital H Group, I joined Willis Towers Watson in 2008, and have since been employed by Willis Towers Watson.

4. Willis Towers Watson is an international professional services firm that offers a wide variety of services to public and private clients, including expert analysis of executive and management compensation. Willis Towers Watson designs and delivers solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Willis Towers Watson focuses on four key business segments: corporate risk and brokering, human capital and benefits, exchange solutions, and investment, risk, and reinsurance.

5. My responsibilities at Willis Towers Watson have primarily involved providing consulting services to mid- and large-sized companies, specifically with regard to executive compensation. I routinely work with public and private companies in various industries regarding compensation philosophy, pay competitiveness, incentive plan design, and other compensation-related analyses. I have worked with numerous *Fortune 1000* companies, and have participated in the development and design of over 100 management and employee incentive plans for companies in and outside of bankruptcy.

6. I am highly experienced in executive, management, and employee compensation with over 16 years of experience in the field. During this time, I have worked closely with a range of companies undergoing financial restructurings in developing a variety of prepetition and postpetition compensation arrangements, including compensation plans and programs for senior executive and non-executive employees. Specifically, I have led or co-led the review and design of key employee incentive plans, key employee retention plans, and other similar plans in a number of chapter 11 cases, including Aegean Marine, American Airlines, American Tire Distributers, Appvion, Aspect Software, Bonanza Creek, Breitburn Energy, Caesars Entertainment Operating Company, Chaparral Energy, Conexant, Cumulus Media, Dex Media, Energy Future Holdings, EXCO Resources Inc., Fairway Market, FullBeauty, GenOn Energy, Gymboree, Horsehead Holding Corp., iHeartMedia, Jones Energy, Keystone Automotive, Longview Power, MolyCorp, Muzak, Neff, Parker Drilling, Petroflow, Platinum Energy Solutions, RadioShack, Reader's Digest Association, Republic Airways, Sabine Oil & Gas, Samson Resources, Southeastern Grocers, Takata, Tops Markets, Visteon, Westmoreland Coal Company, and Xerium Technologies.

Willis Towers Watson's Involvement with the Debtors

7. Since Willis Towers Watson was retained by the Debtors in March 2019, I have familiarized myself with the Debtors' operations and business and restructuring challenges. At the start of our engagement, Willis Towers Watson discussed with the Debtors and their advisors the Debtors' operational history, financial performance, restructuring process, and various issues regarding the Debtors' workforce and employee programs. Willis Towers Watson reviewed the structure of the Debtors' existing base salary and primary incentive programs, paying specific attention to the various incentive plans' performance metrics, participating employees, payout frequency, and target payout levels.

8. The Debtors performed significant due diligence in developing their new employee programs, and my team and I collaborated closely with the Debtors' management and other outside advisors in reviewing and advising on the KEIP and KERP. Specifically, my team and I provided input and advice on the design, structure, total cost, and award opportunities of the employee programs for reasonableness. My analysis of the reasonableness of the employee programs was presented to the Debtors' senior management, including the Debtors' President and Chief Executive Officer and the Compensation Committee of the Debtors' Board of Directors. The primary goal in the course of these interactions with the Debtors and senior management was to provide an independent assessment of the Debtors' employee programs that drew directly upon relevant market data as well as my experience in designing comparable programs for similarly-situated companies.

KEIP and KERP Overview

9. The KEIP provides five members of the Debtors' senior management team with the opportunity to earn one semi-annual cash payment and two quarterly cash payments only if the

Debtors achieve certain incentive-based performance goals linked to specific performance targets over the course of 2019. The aggregate maximum potential award under the KEIP for the performance periods is approximately $20.1 million distributed among the five members of senior management, assuming all performance measures meet or exceed the maximum performance goals.

10. The KERP grants fixed cash amounts in two installments to select non-insiders who are essential to the Debtors' ongoing operations and may pose significant retention risks. The aggregate maximum award under the KERP is $5 million that may be allocated by the President and Chief Executive Officer to certain key non-insider employees.

Overview of the KEIP

11. The participants in the KEIP include five of the senior-most officers of the Debtors, including: (a) Tony Thomas, President and Chief Executive Officer; (b) Robert Gunderman, Chief Financial Officer and Treasurer; (c) Layne Levine, President-Enterprise & Wholesale; (d) Jeff Small, President-Kinetic; and (e) Kristi Moody, Executive Vice President, General Counsel & Corporate Secretary. It is my understanding that these officers are generally responsible for the overall strategy and direction of the Debtors' enterprise as a whole and have played, and will continue to play, a central role in the Debtors' chapter 11 cases and in the overall success of the reorganization effort.

12. The KEIP contains the following primary design features:

(a) Eligible Participants: The KEIP is limited to the aforementioned five senior executives who I understand are critical to the Debtors' day to day operations, revenue generating capacity, and the success of the Debtors' reorganization;

(b) KEIP Awards: Each KEIP award will be a cash amount provided in three payments (to the extent earned based on performance) upon the conclusion of each of the performance periods set forth below. Potential payments are based on achievement of specified performance metrics for each such period and subject to continued employment of the participant through each such time (except as provided below).

(c) Performance Periods: Period extending from the first fiscal quarter to the second fiscal quarter (*i.e.*, the first half of 2019), followed by individual periods representing the third fiscal quarter of 2019 and the fourth fiscal quarter of 2019. Achievement of performance for each period will be considered independently of performance for other periods.

(d) Catch-up Feature: In addition to the measurement of achievement of performance for each performance period, performance will be measured on a cumulative basis at the end of 2019 and a "catch-up" payment will be made to the extent the Debtors achieve or exceed the cumulative performance targets for the full year of 2019. The amount of the catch-up payment will be equal to the excess of (i) the KEIP payment payable for the full year of 2019 based on the achievement of the applicable cumulative performance targets for the full year of 2019, over (ii) the sum of the aggregate amount of KEIP payments previously paid to the participant.

(e) KEIP Payments: Payments will be made as soon as practical after the end of each performance period, but in any event by (i) August 31, 2019, for the first half of 2019; (ii) November 30, 2019, for the third quarter of 2019; and (iii) February 29, 2020, for the fourth quarter of 2019.

(f) KEIP Payout Ranges: The KEIP will provide for potential payments representing a range from 50 percent of target payment for threshold performance, up to 200 percent of target payment for maximum performance. Linear interpolation of the KEIP payment will be applied for achievement of performance metrics between the values shown below.

Performance Level	**Below Threshold**	**Threshold**	**Target**	**Maximum**
Payout % of Target Award	0%	50 %	100%	200%

(g) Performance Metrics: KEIP payouts will be based on three performance metrics, with metrics varying by function/business unit. For the President and Chief Executive Officer, Chief Financial Officer and Treasurer, and General Counsel, performance metrics consist of adjusted OIBDAR weighted at 60%, Enterprise strategic revenues weighted at 20%, and net broadband adds weighted at 20%. For the President-Enterprise & Wholesale, performance metrics consist of enterprise & wholesale contribution margin weighted at 60%, Enterprise strategic revenues weighted at 20%, and enterprise & wholesale revenue weighted at 20%. For the President-Kinetic, performance metrics consist of kinetic contribution margin weighted at 60%, SMB service revenue weighted at 20%, and net broadband adds weighted at 20%.

(h) Termination of Employment: If a participant's employment is terminated by the Debtors without "cause", by the participant for good reason, or upon death or disability, the participant will be entitled to a pro-rata portion of the KEIP payment that would otherwise have been earned for such performance period based on the percentage of the performance period the participant was engaged by the Company. If a participant's employment is terminated for any other reason (voluntary termination, termination by the Debtors for cause), any remaining unpaid portion of the KEIP payment will be forfeited.

(i) Clawback: If a participant's employment is terminated by the Company for cause or by the participant without good reason before December 31, 2019, the participant will be required to repay the after-tax value of any bonus amount in excess of the target bonus amount. "Excess Bonuses" means the sum of the bonus paid to the participant for each performance period in excess of the participant's target bonus for that performance period. By way of example, if a participant's target bonus for each performance period was $100 and the participant was paid $150 for Period 1, $90 for Period 2 and $125 for Period 3, the participants' Excess Bonuses would be $75 ($50 for Period 1, $0 for Period 2 and $25 for Period 3). Interim payments that have been paid would not be subject to a "clawback" to the extent any cumulative targets were not achieved.

13. If approved, the KEIP would provide aggregate (for all participants) threshold, target, and maximum opportunities of approximately $5.0 million, $10.0 million, and $20.1 million, respectively, to be earned for performance through the end of December 2019. The individual award opportunities available to each KEIP Participant are summarized as follows:

Individual KEIP Values				
Participant's Title	**Below Threshold Award Opportunity**	**Threshold Award Opportunity**	**Target Award Opportunity**	**Maximum Award Opportunity**
President and Chief Executive Officer	$0	$2,565,000	$5,130,000	$10,260,000
Chief Financial Officer and Treasurer	$0	$950,000	$1,900,000	$3,800,000
President-Enterprise & Wholesale	$0	$570,000	$1,140,000	$2,280,000
President-Kinetic	$0	$540,000	$1,080,000	$2,160,000
Executive Vice President, General Counsel & Corporate Secretary	$0	$390,625	$781,250	$1,562,500
Total Award Values	**$0**	**$5,015,625**	**$10,031,250**	**$20,062,500**

Analysis of Total Direct Compensation for KEIP Participants

14. In assessing the reasonableness of the KEIP, I worked with my team to analyze competitive target total direct compensation—an industry-standard benchmark that includes the sum of base salary, target annual bonus awards and long-term incentive grant values—for all KEIP participants.

15. A critical initial step in this analysis was to define the relevant market for talent. As my primary reference point for the competitiveness of compensation of all KEIP participants, my team and I referenced companies in the Debtors' executive compensation peer group. The peer group consists of a set of nine peer companies operating in the telecommunications industry that the Debtors use for executive compensation benchmarking purposes, including: CenturyLink, Inc.; Cincinatti Bell, Inc.; DISH Network Corporation; Frontier Communications Corporation; NetApp, Inc.; Sirius XM Holdings Inc.; Telephone and Data Systems, Inc.; United States Cellular Corporation; and Zayo Group Holdings, Inc. The companies in the 2019 peer group were selected in light of a number of factors, including scope and complexity of operations, industry relevance, and business model similarity. I reviewed the peer group and found it to be reasonable.

16. To analyze the reasonableness of the Debtors' target total direct compensation, my team and I matched the five KEIP participants to proxy disclosed executives at the peer companies with comparable roles and responsibilities. My team and I developed competitive target total direct compensation benchmarks based on the most recently filed proxy disclosures from each peer company. Subsequently, my team and I compared the Debtors' annualized target and maximum total direct compensation (reflecting the sum of base salary and the target or maximum KEIP opportunities, respectively) for KEIP participants to target total direct compensation pay levels at the peer companies.

17. If the Debtors do not receive approval from the Court to implement the KEIP, total direct compensation for the KEIP participants will only reflect current base salaries, and thus total direct compensation would fall 78 percent below the 25th percentile of market. This outcome could significantly undermine the Debtors' ability to motivate their senior management to achieve desired business objectives. The KEIP is, in part, designed to reasonably address this shortfall.

18. Assuming the KEIP is approved, aggregate target total direct compensation opportunities for all KEIP participants would still fall approximately 22 percent below the 50th percentile of the competitive market. The aggregate maximum total direct compensation opportunities for the KEIP participants, reflecting the sum of current base salaries and maximum KEIP performance award opportunities, would fall 40 percent above the 50th percentile when compared to market target total direct compensation. To be clear, this outcome reflects a scenario where the Debtors achieve the maximum level of financial and operational performance under the program. The outcomes of my compensation analysis are summarized in the table below:

Total Direct Compensation (TDC) for KEIP Participants			
TDC Outcome	**Relation to 25th Percentile of Market TDC**	**Relation to 50th Percentile of Market TDC**	**Relation to 75th Percentile of Market TDC**
Base Salaries Only (No KEIP Payments)	78% below	83% below	86% below
Base Salaries Plus Threshold Payment	39% below	53% below	60% below
Base Salaries Plus Target Payout	1% above	22% below	34% below
Base Salaries Plus Maximum Payout	80% above	40% above	17% above

19. To measure the reasonableness of the total cost of the KEIP, my team and I analyzed incentive plans approved in the following 19 chapter 11 cases involving companies in various industries that filed petitions from 2014 through 2018 with revenues that exceeded approximately $1.0 billion: Alpha Natural Resources, Inc., Avaya Inc., Claire's Inc., Energy Future Holdings

Corp., FirstEnergy Solutions Corp., GenOn Energy, hhgregg, Inc., iHeartMedia, Inc., Linn Energy, Marsh Supermarkets, NII Holdings, Inc., Patriot Coal, Peabody Energy Corporation, Quiksilver Inc., RadioShack (RS Legacy Corporation), Sears Holdings Corporation, SunEdison, Toys "R" Us Inc., and Westinghouse Electric Company.

20. My team and I calculated the cost of the KEIP on an absolute total dollar basis, and compared this cost to the cost of court-approved incentive plans of the chapter 11 peers. As shown in the table below, assuming the KEIP is approved and if all of the performance goals are achieved, the Debtors' target cost would be positioned between the 50th and 75th percentiles when compared to the chapter 11 peers, while the maximum cost, assuming maximum levels of performance, would be positioned above the 75th percentile.

KEIP Absolute Cost ($M)				
Plan Cost	**Windstream**	**25th Percentile Market Practice**	**50th Percentile Market Practice**	**75th Percentile Market Practice**
Target Plan Cost	**$10.031**	$3.503	$8.430	$13.863
Maximum Plan Cost	**$20.063**	$6.354	$8.430	$18.714

21. My team and I also calculated the total KEIP cost as a percentage of the Debtors' 2018 revenue, and compared this ratio to the ratio of court approved incentive plans of the chapter 11 peers. As shown in the table below, assuming the KEIP is approved and all of the performance goals are achieved at either the target or maximum level, the Debtors' target and maximum cost ratios would be positioned between the 25th and 50th percentiles when compared to the chapter 11 peers.

KEIP Cost as a Percentage of Revenue				
Plan Cost	**Windstream**	**25th Percentile Market Practice**	**50th Percentile Market Practice**	**75th Percentile Market Practice**
Target Plan Cost	**0.18%**	0.12%	0.26%	0.34%
Maximum Plan Cost	**0.35%**	0.20%	0.39%	0.53%

22. Based on the results of these benchmarking analyses, and my experience in other incentive compensation arrangements implemented in chapter 11 cases, I believe the KEIP and the

threshold, target, and maximum 2019 total direct compensation levels are reasonable in light of competitive market practice for companies, like the Debtors, that operate in the telecommunications industry. Critically, the absence of an incentive opportunity for the KEIP participants significantly undermines the current competitiveness of the Debtors' compensation structure (as it would be comprised of just base salary), which in turn could negatively impact the Debtors' ability to motivate current management to achieve desired business objectives, as well as the Debtors' ability to attract other skilled senior executives.

Analysis of the KEIP Structure

23. The overall design and structure of the KEIP is consistent with market practice and reasonable in light of the Debtors' particular facts and circumstances. When reviewing the Debtors' various compensation plans, I recommended linking incentives to financial and operational metrics that would maximize value for the Debtors and their stakeholders. To that end, the KEIP places emphasis on achieving OIBDAR, revenue, contribution margin, and subscriber broadband addition goals.

24. To assess the reasonableness of the design of the KEIP, my team and I analyzed the incentive plans of the two aforementioned groups of companies that are similarly situated to the Debtors. First, I analyzed annual incentive plans offered by the peer companies, in keeping with the Debtors' and the Compensation Committee's historical use of peer group analysis. Second, I reviewed recently approved post-petition cash incentive plans of the chapter 11 peers. In conducting this analysis, I also relied upon my significant consulting experience in the analysis and design of post-petition incentive plans generally at dozens of other companies.

25. The general structure of the KEIP comports with the findings of my review of incentive plans of the peer companies and the chapter 11 peers that disclosed the details of such incentive plans. I would note the following key design features:

- Key employee incentive awards typically are paid in cash during a restructuring;
- Participants usually are limited to senior management with a median number of participants for the chapter 11 peers being nine;
- 100 percent of the telecommunications peer companies and 84 percent of the chapter 11 peers use some form of non-financial metric in the plan;
- 100 percent of the peer companies and 74 percent of the chapter 11 peers use some form of financial metric in the plan;
- EBITDA/Operating Income and Revenue are the most prevalent financial metrics among the industry peer companies at 88 percent and 75 percent, respectively. EBITDA/Operating Income is the most prevalent financial metric amongst chapter 11 peer companies at 37 percent;
- Individual performance and Customer Service/Engagement are the most prevalent non-financial metrics among the peer companies at 88 percent and 38 percent. Prevalent non-financial metrics among chapter 11 peers include milestone/sale and emergence objectives at 47% and 32%;
- The concept of threshold and maximum payout levels (as a percentage of target) are reasonable and common design features among both the chapter 11 peers and the industry peers. The median range of payouts for threshold to maximum for the chapter 11 peers was 50% to 175% of target and the median range of payouts for threshold to maximum for the peer companies was 25% to 200% of target
- 89 percent of the chapter 11 peers used non-annual performance metrics, with 47 percent adopting a quarterly model.

26. For these reasons, and based on my experience with incentive-based compensation programs employed by companies in chapter 11, I believe the design, structure, cost and individual opportunities available under the Debtors' KEIP is reasonable and consistent with market practice.

Overview of the KERP

27. The KERP consists of a pool of retention dollars to be used by the President and Chief Executive Officer to provide retention awards to select, critical non-insider employees. The participants in the KERP will be determined by the President and Chief Executive Officer at a later date.

28. The KERP contains the following primary design features:

(a) Eligible Participants: The KERP awards will be provided to select non-insiders that may be high retention risk and/or essential to the ongoing operations.

(b) KERP Awards: KERP awards represent fixed cash amounts payable in two installments based on continued employment of the participant through the applicable payment dates (except as provided below).

(c) KERP Structure: As noted in the KERP motion, the KERP consists of seven tiers based primarily on employee level.

(d) Maximum Amount of KERP: The total amount of the KERP is $5 million.

(e) Payment Dates: 50% of each participant's KERP payment will be paid six months following the effective date of the award agreement, with the remaining 50% paid twelve months following the effective date.

(f) Allocation Strategy: The Debtors expect to immediately allocate approximately $3,500,000 to 4,000,000 and reserve the remainder of the $5,000,000 for reactive needs that develop. In no circumstance will an individual receive an award over the amount of $250,000. In determining which employees will receive KERP grants, the Debtors' management team will consider (1) high retention risk and/or essential to ongoing operations, (2) key sales personnel, and (3) employees with a heavier workload due to the bankruptcy cases.

(g) Termination of Employment: If a participant's employment is terminated by the Debtors without "cause" or due to death or disability, any then unpaid portion of the KERP payment will be accelerated and paid. If a KERP Participant's employment is terminated voluntarily or by the Debtors for cause, any remaining unpaid portion of the KERP payment will be forfeited.

Analysis of the KERP

29. In assessing the reasonableness of the KERP, I worked with my team to analyze the retention plans authorized and approved in the chapter 11 cases of the following 16 companies that filed petitions from 2014 through 2018 and had approximate pre-petition annual revenues greater than $1.5 billion: Alpha Natural Resources, Inc., Caesars Entertainment Operating Company, Inc., Cenveo, Inc., Claire's Inc., hhgregg, Inc., Linn Energy, LLC, Marsh Supermarkets, NII Holdings, Inc., Peabody Energy Corporation, RadioShack (RS Legacy Corporation), Sears Holdings Corporation, SunEdison, Takata Corporation, The Great Atlantic & Pacific Tea Company, Tops Holding Corporation, and Westinghouse Electric Company LLC. In conducting this analysis, I also relied upon my significant consulting experience in the analysis and design of postpetition retention plans generally at dozens of other companies.

30. The general structure of the KERP comports with the findings of my review of retention plans of the Debtors' chapter 11 peers and my experience. I would note the following observations:

- The inclusion of a maximum individual award limit is a fairly common KERP design feature;
- The mid-range KERP award opportunties, expressed either as a percentage of average base salary, or in absolute dollar terms, are within the range of KERP market practice;
- The installment payout feature is consistent with market practice as 75 percent of the chapter 11 peers for the KERP provided awards through installments;
- Companies frequently provided installments based on multiple retention periods that correspond with a consistent schedule (i.e., one payment every three months, quarterly, semi-annually, etc.); and
- 56 percent of the chapter 11 KERP peers included a range of awards or varied awards for participating KERP employees.

31. My team and I also reviewed the total cost of the KERP, which is positioned between the 50th and 75th percentiles with respect to the approved postpetition retention plans of the chapter 11 peers on both an absolute dollar basis and as a percentage of revenue.

KERP Cost				
Plan Cost	**Windstream**	**25th Percentile Market Practice**	**50th Percentile Market Practice**	**75th Percentile Market Practice**
Absolute Dollar Cost ($M)	**$5.000**	$0.971	$2.705	$6.357
Cost as a Percentage of Revenue	**0.09%**	0.04%	0.07%	0.13%

32. For these reasons, and based on my experience with retention-based compensation programs employed by companies in chapter 11, I believe the design, structure, cost and award opportunities of the Debtors' KERP is reasonable and consistent with market practice.

Conclusion

33. Based on my education, experience, and the work I have done in this case and in similar cases, I believe that the design, structure, cost, and award opportunities available under the KEIP and KERP are reasonable given the facts and circumstances of these chapter 11 cases.

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

Dated: April 23, 2019
White Plains, New York

By: /s/ *Zachary P. Georgeson*
Zachary P. Georgeson