MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the second quarter 2010 Windstream Communications Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions be given at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

And now I would like to turn the conference over to our host, Mr. Rob Clancy. Sir, you may begin.

Rob Clancy, Senior Vice President and Treasurer

Thank you, Sharon, and good morning, everyone. Thank you for joining us this morning. Today's conference call was preceded by our second quarter 2010 earnings release, which has been distributed on the news wires and is available from the Investor Relations section of our website. Today's conference call should be considered together with our earnings release and related financial information.

Today's discussion will include certain forward-looking statements particularly as they pertain to guidance and other outlooks on our business. Please review the Safe Harbor language found in our press release and in our SEC filings which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements.

Today's discussion will also include certain non-GAAP financial measures. These terms will include OIBDA, which is operating income before depreciation and amortization, and adjusted OIBDA, which includes non-cash pension expense, stock compensation expense and restructuring charges.

Additionally, adjusted free cash flow is defined as adjusted OIBDA, excluding merger and integration expense, cash interest, cash taxes and CapEx, and is presented on an actual basis to reflect the NuVox and Iowa results from the date on which we acquired those businesses.

Again we refer you to the Investor Relations section of our website where we have posted our earnings release and supplemental materials, which contain information and reconciliations for any non-GAAP financial measures.

On June 1, Windstream completed the acquisition of Iowa Telecom. Our pro forma results include the results of Iowa Telecom for all periods shown and also include D&E communications, Lexcom and NuVox and exclude our former non-affiliate product distribution business. We will make references to these pro forma results including the year-over-year comparisons during our call.

Participating in our call this morning are Jeff Gardner, Windstream President and Chief Executive Officer; Brent Whittington, Windstream Executive Vice President and Chief Operating Officer; and Tony Thomas, Windstream Chief Financial Officer. At the end of the call, we will take a few questions.

With that, here is Jeff Gardner.

Jeff Gardner, President and Chief Executive Officer

Thank you, Rob, and good morning, everyone. This morning, I will make a few comments about our performance and provide an update on our strategic initiatives. Brent will discuss our operating results. And Tony will review the financial performance.

First, I am very pleased with the second quarter results. Our business is performing very well despite the economic conditions and we are on track to meet the operating and financial goals we set forth earlier this year.

Our innovative marketing strategies, including our price for life bundles, have been well received by consumers and small business customers alike, and our yielding continued improvement in our access buying trends which are already the best in the industry. The integrations are all on track, and should be essentially complete over the next few months yielding synergies, incremental synergies in the back half of this year.

During the second quarter, we completed the Iowa Telecom acquisition. Gaining approximately 247,000 access lines, and 96,000 high-speed Internet customers in Iowa and Minnesota.

This transaction adds very attractive and well run rural markets to our footprint and provides an opportunity to grow our free cash flow.

In fact, we are updating our full year 2010 guidance as a result of the Iowa deal. And importantly, we are increasing our adjusted free cash flow guidance to 770 million, to 810 million, which results in a lower expected dividend payout ratio of 57 to 60% for this year, as compared to our initial view of 59 to 65%. Tony will provide the details of our updated guidance shortly.

Turning to the regulatory front, we continue to share the core goal of making broadband available to everyone. Today, Windstream has deployed broadband Internet access to almost 90% of our current voice customer base. Earlier this year, we applied to the Rural Utilities Service for 264 million in round two stimulus funding, which includes three applications from Iowa.

If received, this would extend our broadband availability to roughly 93%, as well as enhance broadband speeds in underserved areas. Importantly, we were recently notified by the RUS that eight of our 33 applications have been approved, amounting to roughly $67 million in grants. These eight applications also require us to invest an incremental $22 million, or 25% of the expected total cost. Our remaining 25 applications are still under evaluation by the agency, and we expect to hear whether we will receive additional funding by September 30.

We look forward to finalizing these arrangements so we can proceed with our plans to expand broadband within our rural communities. Additionally, we support universal service reform that would direct funds more equitably and rationally across all of rural America, and we believe that the National Broadband Plan can address these issues with effective reform of universal service and [inaudible] compensation over a manageable transition period.

Having just passed our four-year anniversary, I am pleased with the transformation that Windstream has made, going from a primarily residential-focused voice business, to a next generation telecom company, focused on broadband and business. We've made significant progress in growing our distribution channels, launching innovative products such as Greenstreak and our Price for Life bundles, which have contributed to our industry-leading operational metrics.

Strategically, we have made very targeted acquisitions, without increasing the risk profile of our business, which had allowed us – which has allowed us to realize significant synergies, improve our revenue mix, and lower our payout ratio.

Collectively, these deals added over $1.7 billion in revenue and expanded our presence to 23 states. Over the past four years, we have meaningfully lowered our dividend payout ratio, highlighting the sustainability of our cash flows. Our industry-leading performance and disciplined growth strategy have led to total shareholder returns of 40% over this four-year timeframe, which significantly exceeds that of our peer group and the overall market.

Going forward, we will remain focused on improving the trends of our core business, expanding our broadband and business opportunities and increasing our market share in our competitive service markets.

Additionally, we will continue to position the company so that we can capitalize on strategic opportunities that are in the best interests of our shareholders. We have been very pleased with the NuVox transaction and we are encouraged with the better growth opportunities that exist in the business and enterprise segment.

Now let me turn the call over to Brent to discuss our operational results.

Brent Whittington, Chief Operating Officer

Thanks, Jeff, and good morning, everyone. On a pro forma basis, we added approximately 14,800 new high speed Internet customers in this quarter, bringing our total customer base to 1.27 million, an increase of 9% year-over-year. Our overall broadband penetration is now at 41% of voice lines.

In the consumer channel, residential high speed Internet customers grew almost 10% year-over-year, and penetration is now approximately 58% of our primary residential lines.

Our Price for Life program continues to resonate well with our customers. And we are having nice success in upselling bundle adders which include services like Internet security packages, home networking, and online data backup which drive both incremental revenue and improved retention.

In the business channel, high speed Internet customers grew about 4% year-over-year. Additionally, advanced data and integrated solutions, which are largely connections providing both voice and data services, was up over 1% year-over-year.

This quarter, we added over 80,000 digital TV customers, bringing our total customer base to approximately 420,000, or 21% penetration of our primary residential customers. And in mid-June, we added dish TV to create a triple play Priced for Life bundle. We're very excited about this innovative offer which provides a compelling value to our customers and although early, we've experienced a nice increase in video gross adds and expect this to yield improved retention rates going forward.

Total access lines declined by approximately 34,000 in the quarter resulting in a year-over-year decline of 3.7%. This year-over-year loss rate has steadily improved over the last four quarters, and improved 30 basis points sequentially during the second quarter.

Consumer voice lines declined 3.7% year-over-year, an improvement of 50 basis points sequentially and a result of our Price for Life program, growing distribution channels, improving service delivery and a stable competitive environment.

Business voice lines declined 4.7% year-over-year, a slight improvement sequentially, due to lower disconnects this quarter. Special access circuits were up 3.7% year-over-year due to increasing demand from wireless carriers.

And advanced data and integrated solution units were up 1% year-over-year but importantly, the revenue associated with the units increased nearly 4% year-over-year, a result of higher next generation data services as well as improved performance in our former NuVox markets.

We're very pleased with the strides we are making in the business channel, which now represents 44% of our total revenues. Our refined organizational focus on business sales, service delivery, and business marketing and branding is resulting in improving revenues in our strategic business product, which is helping to offset the pressure in the traditional voice services.

During the second quarter, we launched a new advising campaign for both our residential and business segments. The residential campaign is centered on our Price for Life program and reinforcing that Windstream is fast, reliable and delivers the most customer-focused offering with the best value.

Our business campaign is designed to boost our brand awareness by emphasizing that Windstream provides mission critical communication services to businesses, and it coincides with the launch of next generation services, including voice-over-IP, and ethernet Internet, which we expect to launch in nearly 100 additional markets this year.

From an integration perspective, we are very pleased with all of the progress we have made to-date. We expect the Lexcom billing conversion to be completed during the third quarter. For NuVox, our integration efforts are largely complete. Rather than migrate Windstream's SEALEC customers to NuVox's billing system, we are leaving the existing systems as they are, and are considering a plan to enhance the functionality within our consolidated platform by leveraging best practices from both companies, so that both the ILEC and SEALEC businesses benefit.

With Iowa, we converted their corporate systems the week we closed the transaction and have plans to convert their billing systems by the end of the year. Importantly, within the Iowa markets, we have started branding activities and launched Windstream's rate plans and product offerings, including a Price for Life initiative, which are being well received. I am pleased to say that all of these transactions are tracking toward the free cash flow synergies we outlined when we announced each deal.

In summary, I want to thank the Windstream team for another solid quarter. Our focus on execution, service delivery and innovative marketing programs continues to drive improvements in our operating results.

Now let me turn the call over to Tony and he will discuss our financial results.

Tony Thomas, Chief Financial Officer

Thanks, Brent, and good morning everyone. For the second quarter on a GAAP basis, Windstream achieved consolidated revenue of 917 million, operating income of 254 million, and $0.17 diluted earnings per share. Our GAAP results include 11 million in after-tax merger integration costs, which lowered EPS by roughly $0.02 this quarter.

Turning to our pro forma results, Windstream achieved total revenues of 960 million, a decrease of 3% year-over-year. Consumer revenue declined 17 million, or 4.5% year-over-year driven primarily by fewer primary residential voice customers.

Business revenue declined 2 million, or less than 1% year-over-year, turned by fewer access lines, which was largely offset by growth in data, integrated solution, and special access.

Wholesale revenue declined 7 million, or 4% year-over-year, primarily the result of GR access lines. Specifically by category, voice and long distance revenues declined by 35 million year-over-year, or 8%, driven by fewer voice lines, and declining a la carte features.

Data and integrated solutions increased 15 million, or 6%, due to growth in high speed Internet customers, and next generation data products, as well as growth in integrated solutions, largely driven by our former NuVox markets.

Special access revenues were up by 2 million, or 2%, due to circuit growth and increased demand for wireless backhaul. Switched access in USF revenues declined 4 million year-over-year, or 2%. Within switched access, revenues declined by 12 million year-over-year, related to fewer access lines, and decreased usage, as well as an internal network efficiency project, which resulted in the elimination of certain access revenues, which is a margin neutral, as we see corresponding reductions in inter-connection expense.

Within USF, revenues improved by 8 million year-over-year, most of which is related to higher end user surcharges, due to the increased federal contribution factor, which is open on neutral.

Miscellaneous revenues declined by 3 million year-over-year, total product sales were down 4 million year-over-year, driven by fewer business sales. Sequentially, revenue declined by 13 million, largely due to lower voice and long distance, switched access and product sales.

We are encouraged by the increased revenue from our bundled offerings, which is offsetting some of the pressure with our stand-alone legacy services. We expect to see further stabilization in consumer revenue trends, as more of our base subscribes to bundled services.

Let me turn to expenses, which exclude depreciation and amortization. This quarter expenses were lower, by 37 million, or 7%, year-over-year. Excluding non-cash pension expense, expenses were lower by 29 million, or 6%, year-over-year.

Specifically, cost of services was down 25 million, due primarily to lower inter-connection expense related to the internal initiative I mentioned previously, the decrease in usage and other networking grooming initiatives.

Additionally, pension and benefits expense was 7 million lower. Cost of products sold declined by 2 million year-over-year, due to fewer business product sales. Within SG&A, expenses decreased 10 million, or 7%, year-over-year, due to deal synergies, lower pension and benefit expense, and work force reduction savings.

These reductions were partially offset by targeted investments in advertising, to promote our Price for Life bundle, and expanded door to door distribution, both of which we expect to yield benefits going forward.

Sequentially, total expenses decreased by approximately 3 million, due to lower interconnect expenses and incremental synergies offset somewhat by the increased advertising spend I just mentioned.

For the quarter, OIBDA was 459 million, which was soft 1.5% year-over-year. Primarily due to lower to lower non-cash pension expense. Adjusted OIBDA was 408 million, lower than less than 1% year-over-year. In fact our adjusted OIBDA margin improved 120 basis points year-over-year to 50%.

Operating income for the quarter was 276 million, up 6%, year-over-year.

For the quarter, adjusted free cash flow was 198 million or $0.43 on a per share basis. During the second quarter, we spent 104 million in capital expenditures. For a balance sheet perspective, we ended the quarter with $54 million in cash. On June 1, we spent roughly $910 million in cash to complete the acquisition of Iowa Telecom, which included various fees, make-whole premiums and swap breakage costs. We funded this closing with cash and revolver borrowings and ended the quarter with $300 million outstanding balance on our revolver. In mid July, we opportunistically raised 400 million in senior unsecured notes to repay the outstanding revolver balance and for general corporate purposes.

Last February, we provided the investment community with 2010 guidance on a pro forma basis that included NuVox for a full year. As a result of the Iowa deal, we are providing updated pro forma guidance for revenue, OIBDA, adjusted OIBDA, and CapEx and we have narrowed the initial guidance ranges given that we are midway through this calendar year.

Specifically, we expect 2010 pro forma revenue to be within a range of 3.82 billion to 3.9 billion, which is a decline of 3.5%, to a decline of roughly 1.5%, to our 2009 pro forma view, including NuVox and Iowa.

We expect OIBDA to be within a range of 1.839 to 1.879 billion, or an increase of 0.5%, to 2.6%, year-over-year. We expect adjusted OIBDA to be within a range of 1.92 billion to 1.96 billion, or a decline of approximately 2%, to flat, year-over-year. Finally, we expect to spend 390 to 410 million on capital expenditures, which excludes any expenditures related to our stimulus application.

Turning to adjusted free cash flow, we expect to generate 770 to 810 million of adjusted free cash flow which yields an expected dividend payout ratio of 57% to 60%. Importantly, our adjusted free cash flow guidance is not pro forma, and reflects NuVox and Iowa on an actual basis from the date on which we acquired those businesses.

We have provided a reconciliation of our adjusted OIBDA on this basis, which includes expected net cash interest of 494 million, and cash taxes of 190 million to 210 million, for this year. The improvement in the payout ratio from our previous range of 59% to 65% is primarily due to the benefits and accretions with the Iowa transaction.

In summary, we are very pleased with our results for the second quarter, and believe the business is positioned very well for future success. Given the progress with the integrations, we expect to realize additional synergies in the next two quarters, which should lead to improved adjusted OIBDA in the back half of this year, as compared to our second quarter results. Importantly, we expect to realize the full annual synergy targets for all our acquisitions by the beginning of 2011.

With that, we will now take a few of your questions. Sharon, please review the instructions and open the call to questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from David Barden with Bank of America Merrill Lynch. You may begin.

<Q – David Barden>: Hi, guys. Good morning. Thanks for taking the questions. Just a couple. Tony, to start off, could you just maybe more specifically quantify what synergy number you're baking into the guidance from the – for the second half and if maybe you could kind of allocate it to the different deals, would be helpful?

And then second, on the switch to access revenue kind of step down that we saw, is that – like it's typically, we usually see kind of a 2Q step down, is that a good run rate for the rest of the year and then kind of forecast another step down and in 2011? That would be helpful, thanks.

<A – Tony Thomas>: Good morning, David. This is Tony. I'll start with the synergy question. We expect to realize roughly $55 million worth of synergies associated with the four acquisitions. And I think as we highlighted on our previous call, we're completely done with the D&E acquisition, so we will achieve the full synergy on D&E of $25 million.

We will achieve, the vast majority of NuVox. And on Iowa, we expect to wrap up the billing system conversion in December, so most of those synergies will realize in 2011. But we're expecting an OpEx synergy run rate in 2011 of roughly 85 million. So, we're going to get 55 million of that in 2010, and we will be on the full 85 million run rate in 2011.

<Q – David Barden>: Perfect.

<A – Tony Thomas>: On switched access revenues, I think the – as you've looked over our investor supplement, you can see switched access and USF revenues have dropped off here from 1Q to 2Q. And I mentioned that we had done a internal network grooming project that accounts for roughly half of that decline David from 1Q to 2Q. And I think even more importantly we step back, within our switch access and USF revenue just to kind of dive a little deeper 2Q, switched access revenues were $72.5 million dollars in the second quarter or roughly 7.5% of our revenues. So as you look at that, we're increasingly less reliant on switched access revenues, and we do expect continued declines in switch to access, pretty much in line with access lines. And importantly, as access lines improve, and they have been improving over the last several quarters, we expect improvements in switch to access revenues.

<Q – David Barden>: All right. Perfect. Thanks, guys.

Operator: Thank you. Our next question come Batya Levi with UBS. You may begin.

<Q – Batya Levi>: Thank you very much. Just one question on NuVox, can you provide some color on how revenue growth and margins have been trending and how does it compare with the environment and customer demand for NuVox? And another question on your Priced for Life program, you mentioned as you launched this for the triple play in June, how does that pricing compare to the other players in the markets? Some of the cable guys have been suggesting that they're increasing broadband pricing but they're promoting bundles and giving out inspirational gifts, so how, do you believe that your Price for Life program has now put a lid on your ARPU gains going forward, or is the decrease in churn and upside growth make up for that? Thank you.

<A – Brent Whittington>: Batya this is Brent, I will take that. Maybe to NuVox first, we continue to be very pleased with everything we've seen on that transaction across the board. Last year, NuVox saw year-over-year revenue growth in the low single-digits, and we expect to see similar growth this year.

So we're excited again about that, and seeing sales productivity lists every day and we remain optimistic what we're going to experience out of that transaction. In terms of the Priced for Life triple play, a little difference. That is actually one bundle for us when you actually bundle up three services you pay a little more for it, and the reason for that is because you get the lifetime price guarantee. And that is priced right now in our markets between 85 and $95 and it is a little cheaper than our competition, but the main reason for that is it is also are – the main reason for that is it's also a very limited selection of cable content and that's the primary reason for that. It is a really good kind of teaser offer that really helps us effectively switch, we believe broadband subscribers from cable back to us and so far are excited about that.

Now does it limit ARPU as we think about both the triple play price for life as well as the double play bundle we've been promoting, perhaps one could argue that, but if you think about the broadband product and what we're trying to do with penetration rates where they are today, it's really all about selling increased fees to customers, and incremental value-added services that revolve around that broadband connection. And that's where see in the future in terms of revenue growth and we think there is a model of upside there still.

<Q – Batya Levi>: Thank you very much.

<A – Jeff Gardner>: And just one more thing on the NuVox deal, the other thing, Brent is exactly right, we're incredibly pleased with synergies, the way that business is running, but we've also seen some very nice benefits across our business.

The sales philosophy that we brought over with NuVox, the aggressive approach in the marketplace is evident throughout our company, even on the ILEC side, as is a much better focus on customer service in the business channel. So as we expected, that deal had a lot of ancillary benefits, besides just getting us more focused on the enterprise space.

<Q – Batya Levi>: Great. Thanks.

<A – Jeff Gardner>: You're welcome.

Operator: Thank you. Our next question comes from Jason Armstrong with Goldman Sachs. You may begin.

<Q – Scott Goldman>: Hi, guys. It is Scott Goldman on for Jason. So I guess I will ask the obligatory broadband question. Net ads seem to be coming down across the industry a little bit more, seasonally than we would have expected going into the quarter. I've been speaking to different people over the last couple of days, and some seem to think that it's an industry-wide slowdown and others seem to think that maybe it's within some of the company controls, and are more company specific issues. I'd love to get your thoughts in terms of what you see as far as broadband seasonality and what we may be able to expect going into the third quarter with back to school. And then I have a follow-up after that.

<A – Jeff Gardner>: Sure. Scott, our decrease in broadband, as we look at the numbers that we saw in 2Q, consistent with what we've seen in the past, it's always kind of a soft quarter seasonally. It is not unusual to see this kind of decrease from 2Q to first Q. In fact if you look at our broadband adds for the first half of the year versus the first half of '09, they are almost exactly the same. So, we had a slightly heavier net adds in the first quarter, a little less in the second. I think both years added about 51,000 customers combined. We're not seeing aggressive new cable competition in the form of rollouts or promotions. And we continue to believe with our price for life promotion that we're well positioned.

<Q – Scott Goldman>: Okay. And then just in terms of, are you doing anything different for third quarter, in terms of back to school promotions, or anything like that? Or is it going to be more just status quo, focused on the Price for Life?

<A – Jeff Gardner>: We are seeing a ton of activity around our Price for Life, a ton of interest, so I think we'll stick with that. Tony mentioned that we made some advertising investments in the second quarter that I think will yield some better sales as well, so we're going to stay the path.

<Q – Scott Goldman>: Great. And then just one question on the stimulus, just wondering what the grants that you did receive mean for potential broadband expansion availability? I realize they're kind of small dollars in the grand scheme of things but wondering where that takes you and what the timing of that is and then if you were to get approval for the remaining 25 applications, what would be the implications of that as well?

<A – Jeff Gardner>: So the initial grants that we received of $67 million, that's a lot of money, we're very, very excited about it. Mostly because I think the RUS realized that Windstream could give them great bang for their buck in terms of reaching as many of these unserved customers as possible. I think the number of customers in the areas where we've been awarded licenses, customers and businesses, is around 80,000, and so we'll have great opportunity. If we were able to – the number that I have in my mind here, Scott, is if we were able to receive funding for all of our applications, we could drive up our broadband availability to 94%, so this could be very meaningful to us in the long run, maybe not in one specific quarter, but it is very good news for Windstream, and we're very excited about it, looking forward to getting started as soon as possible.

<Q – Scott Goldman>: Great. Thanks guys. Appreciate it.

Operator: Thank you. Our next question comes from Michael Rollins with Citi Investments. You may begin.

<Q – Michael Rollins>: Good morning. Just two quick things. One just an update on the regulatory side, in terms of what you expect to see out of net neutrality, and on potentially reform USF [inaudible] and then secondly just in terms of the business, how should we think about the variability of your cost structure, once you get through your operating synergies? So if revenue should continue to decline, how much cost do you think you can take out on average relative to that dollar of revenue change? Thanks.

<Q – Scott Goldman>: Good morning, Mike. First of all, as it relates to Washington, we share the goal, as I mentioned earlier, of making robust broadband available to everyone in the country. The National Broadband Plan takes many steps in the right direction on that, but it cannot be achieved without effective reform of universal service and inter-carrier compensation. So we hope that the National Broadband Plan is used as a vehicle to make those changes, and I think it needs to happen quickly. People need broadband today. This market is changing very quickly. So the sooner we deal with those issues, the better.

At this point, there are too many unknowns to speculate on the outcome. However, we expect the FCC's plan will be measured and phased in, which is good news for our investors, who are really concerned about the sustainability of cash flow, that I think that's very good news, and we think that should allow carriers to adjust to the change. We certainly think with Windstream's relative lack of reliance on USF subsidies, that we're in very good position as it relates to. So when you think about this whole Title I and Title II issue, Mike, the biggest issue is, to me, access to the Internet via the wired network is open, affordable and robust today. And that's really what the principals are after. And we really have done a nice job in the existing regulatory environment, pushing out broadband very aggressively in the country. Many believe the FCC has the requisite authority it needs to implement the Broadband Plan, and make the necessary changes to inter-carrier comp and universal service. And as we said in front of the Senate last month, we really hope they deal with an important issue on universal service, which is reforming it, and changing it, so that it's focused on treating all customers in rural areas the same way, and not differently depending on which carrier provides your service.

<Q – Michael Rollins>: Great. Thanks.

<A – Jeff Gardner>: And the second part of your question related to -

<A>: The variability of cost structure.

<A – Jeff Gardner>: And I will let Tony handle that.

<A – Tony Thomas>: Hey, Mike. This is Tony. I think we continue to have the view that the cost model Windstream has is more variable than fixed. And I think we've proven that over the last four years. We have had top-line pressures, and we have continually found year after year, ways to take out costs. And as we look forward, there is never any single silver bullet that helps you solve the cost problem, it's an organizational focus, it's an organizational culture, and at Windstream, we continue to find those ways to take out costs, in addition to deal synergies. We're continually finding ways to make this business run more efficiently. And we think that sort of focus is what has enabled us to generate the returns that we've seen here over the last four years.

<Q – Michael Rollins>: Thanks a lot.

<A – Tony Thomas>: You're welcome.

Operator: Thank you. Our next question comes from Jason Fraser with Raymond James. You may begin.

<Q – Jason Fraser>: Hi, good morning. Thanks for taking the question. I just want to follow-up on the last response, just about the exposure to the access and subsidy revenue, you break out the revenue side. I just want to think more about the cost side. If you net out the costs against the revenue, what is your exact net exposure to revenue and subsidies? Thanks. Or access to subsidies.

<A – Tony Thomas>: Hey, Jason, this is Tony. I think the way to think about this is when you look at the revenues that we were talking about earlier on the switched access, the 72.5 million, $24 million of those access revenues are originating access that really also show up in long distance expense. They're passed back to Windstream through a long distance carrier. So really where we're most exposed on switched access is on terminating access and recip comp and that is about 48.5 million, or roughly 5% of total revenues. So that is probably the best way to think about it from a net exposure perspective.

<Q – Jason Fraser>: Perfect. Thank you.

Operator: Thank you. Our next question comes from Daniel Gaviria with Morgan Stanley. You may begin.

<Q – Daniel Gaviria>: Good morning. With the integration almost, or soon to be over, and done with, Jeff, what is your current view on the M&A front? Thank you.

<A – Jeff Gardner>: Sure. Thank you. Well, as you said, I mean importantly, we're very pleased, I would say that we are actually ahead of plan in terms of the integrations. They're all on track and should be essentially complete over the next few months. The team has done a great job there. With respect to future M&A, we believe that we will have further opportunities to continue to grow, and we will continue to focus on well-run businesses. I think we've take a slightly different approach here. It has paid off. You've seen what has gone on with our payout ratio. We've improved our growth profile while lowering our payout ratio, which is a difficult thing to do, but it has been a very – it has been a very important part of our strategy, and I think we will have those opportunities going forward.

We have been extremely pleased with NuVox. That was the most unique business that we bought in the enterprise space last year, and that deal, as Brent mentioned earlier, is going extremely well And when you look at our RLEC deals, we announced the new guidance today related to Iowa. These are accretive deals, and we are very good at assimilating those businesses quickly. So we will continue to position this company so that we can capitalize on strategic opportunities that are in the best interest of our shareholders, and we are in a position to do that.

<Q – Daniel Gaviria>: Perfect. Thank you.

<A – Jeff Gardner>: You're welcome.

Operator: Thank you. Our next question comes from Donna Jaegers with D. A. Davidson. You may begin.

<Q – Donna Jaegers>: Two quick ones. On your promotional activity to push door-to-door and Price for Life, can you sort of break out, SG&A was up a little more than we expected. Can you break out how much you spent on those promotions?

<A – Brent Whittington>: Yes, Donna, this is Brent. We actually spent, probably about $5 million in incremental advertising in the second quarter. And even despite that, still, year-over-year, saw some nice improvements in SG&A. Because, I mean those are investments we got to make. It's a competitive marketplace. I mean we've talked before about increasing alternate distribution because of the competitiveness in the market. And door-to-door certainly is one good example of that. And it alone probably cost us about 1.5 to 2 million incrementally versus prior year, but again, those are success-based costs, and that channel is driving results. So we like that.

<Q – Donna Jaegers>: No, you can certainly see it in your [inaudible]. Is the 1.5 to 2 million on the door to door, that is incremental to what you spent on the ad campaign or that is within the 5 million?

<A – Brent Whittington>: That is correct.

<Q – Donna Jaegers>: Great. And then just a quick upgrade, I know you guys are working with SESME and I saw they announced a new product on the West Coast. Anything new as far as really getting more of a product that would work with? More like video-on-demand, to meld your satellite video portfolio with the broadband?

<A – Brent Whittington>: Yes, we continue to partner with SESME and are closely evaluating that, we actually have that product in our lab right now, more to come on that later this year, but other than that, Donna, nothing really new to speak about there.

<Q – Donna Jaegers>: Okay. Thanks, guys.

<A – Brent Whittington>: You're welcome.

<A – Jeff Gardner>: Sharon, we have time for one more question.

Operator: Thank you. Our next question comes from Dave Coleman with RBC Capital. You may begin.

<Q – Dave Coleman>: Great. Thank you very much. Just as far as the Iowa acquisition, I believe they had an application in with the FCC to get USF subsidies. I was just wondering if that is something that you're still pursuing, and if so, where that stands. And then secondly, just on the dividend, it's nice to see the free cash flow payout ratio continue to decline. Just wondering what your thoughts are as far as use of cash, given that dividend taxes – or tax on dividends may be taxed at ordinary income rates and whether you would look to use the excess free cash flow for share buybacks, as more shareholder friendly use of capital, versus increasing your dividend? Thanks.

<A – Tony Thomas>: Hi, Dave. This is Tony. In regards to your first question, with Iowa, I think we're really approaching USF and Iowa through the national broadband plan, and really, I think we've had a consistent message of the rural road divide. Iowa has nine access lines per square mile and received no high cost USF funding. So it's just really an opportunity to make sure that those USF moneys are being deployed in a fair way to maximize broadband availability. And that's really our overall advocacy approach on the Iowa USF money.

Turning to the dividend payout ratio, as you allude to, we were able to narrow and lower the guidance here with the addition of Iowa, with the new expected dividend payout ratio of 57 to 60%. At this point, what changes are going to be made in the dividend taxation rules are not known, and if there are going to be changes. I think we're supporting a position of parity between the dividend and capital gain tax rate, and we remain committed to the dollar dividend. It has generated consistent returns – it has enabled us to – total shareholder returns, to exceed our peer group and the total market.

And ultimately, I think that remains our focus, it's generating strong free cash flow and you've got to remember, over half of our shareholder base is tax exempt, meaning that dividend taxes have no consequence. And additionally even if those taxpayers, if you're an individual making less than 200,000 and a family less than 250,000, you're also less likely to pay higher taxes. So it is just very difficult at this point to conjecture on what ultimate impact the dividend tax rate will change but I think we remain focused on generating strong cash returns, and returning that cash back to our shareholders.

<Q – Dave Coleman>: Just a follow-up to that, how much of the '09 dividend was return of capital versus ordinary income?

<A – Tony Thomas>: Zero was return of capital. It was all ordinary income.

<Q – Dave Coleman>: Okay. Great. Thank you.

<A – Tony Thomas>: Qualified dividends.

<A>: Yes.

<Q – Dave Coleman>: Okay. Thanks.

Rob Clancy, Senior Vice President and Treasurer

Thank you, folks, for joining us this morning. We appreciate your interest and support. Mary Michaels and I will be available throughout the Mary Michaels and I will be available throughout the day for additional questions.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation. And have a wonderful day.