MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, welcome to the Q3, 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. Instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Rob Clancy, Senior Vice President and Treasurer. Please begin.

Rob Clancy, Senior Vice President and Treasurer

Thank you, LaToya and good morning everyone. I appreciate you joining us today. Today's conference call was preceded by our third quarter 2010 earnings release, which has been distributed on the newswires 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 describes 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 excludes non-cash pension expense, stock compensation expense and restructuring charges. Additionally, expected free cash flow is defined as adjusted OIBDA, excluding merger integration expense, less cash interest, cash taxes, capital expenditures and pension contributions. And it's 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 IR 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.

We have provided our pro forma results from current businesses, which include D&E, Lexcom, NuVox and Iowa and exclude our former supply businesses for all periods shown. In addition, we reclassified some minor expense items between cost of service and SG&A and have adjusted the prior periods accordingly. We will make references to these pro forma results from current businesses including the year-over-year comparisons during our call.

Participating on 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 third quarter results and provide an update on our strategic initiative. Brent will then discuss our operating results and Tony will review our financial performance. First, I am very pleased with our third quarter results. We are executing well on all fronts. Our integration efforts are proceeding as planned and we are right on track to meet the financial goals that we set forth earlier this year.

Importantly, our strategy to improve our revenue mix with an emphasis on broadband and business continues to yield improving revenue trends in both our business and consumer channels. In fact, during the third quarter, business revenues grew 1% year-over-year and consumer revenues declined 3% year-over-year. Both are significant improvements in our year-over-year trends. In total, revenues declined 1.5% year-over-year, our lowest decline rate in several years.

These revenue improvements, combined with deal synergies and other cost savings initiatives, led to adjusted OIBDA growth, despite higher weather-related costs that we incurred in the quarter. The continuing improvements in our financial trends illustrate our successful strategy to transform this business and sustain cash flows.

Turning to the strategic front, this morning we announced the acquisition of Hosted Solutions for $310 million in cash. Hosted Solutions is a leading regional data center provider focused on colocation, managed services and cloud computing with a history of significant revenue and OIBDA growth.

This acquisition will significantly increase the scale and scope of Windstream's existing data center business by adding five best-in-class data centers in attractive, high growth markets and further build on our strategy to expand our business service offerings. Importantly, we also obtained a very experienced management team and a platform for future growth.

With these five data centers, Windstream will now operate 12 data centers including one related to our Q-Comm transaction. The Hosted Solutions transaction is accretive to free cash flow per share in year one, after realization of synergies. In addition, Windstream will be able to fully amortize the purchase price goodwill over 15 years, resulting in tax benefits with an expected net present value of $52 million. We expect this transaction to close before the end of the year and we plan to finance it with cash and revolver borrowings.

During the third quarter, we also announced plans to acquire Q-Comm, the parent of Kentucky Data Link, or KDL, a regional fiber transport provider in 22 states, and Norlight, a competitive local exchange carrier primarily serving the Midwest. KDL's fiber network is highly complementary to our markets and more than doubles Windstream's existing fiber footprint by adding over 30,000 contiguous fiber route miles, which will enhance Windstream's network capabilities and expand our growth opportunities, particularly as it relates to transport services for wireless carriers.

We expect to generate approximately $25 million in annual operating and capital expense synergies and we expect this transaction to close before year-end as well. The acquisitions of Hosted Solutions and Q-Comm continue to build on our strategy to focus on the growth opportunities within broadband and business services. These acquisitions will accelerate our capabilities and broaden the product set available to our business customers.

On a pro forma basis, to include Q-Comm and Hosted Solutions, broadband and business revenues would have represented roughly 59% of Windstream's total revenues in the third quarter. Furthermore, both of these companies have a solid track record of consistent revenue and OIBDA growth, which will further improve our financial trends.

Turning to the regulatory front, earlier this year, Windstream applied to the Rural Utilities Service for 264 million in broadband stimulus funding. This process has now been completed and 18 of our 33 applications were approved, totaling $181 million in grants for projects in 13 states. Windstream will contribute approximately $60 million or 25% of the expected cost, bringing the total investment in our broadband network under the stimulus program to just over $240 million.

Importantly, these investments will allow us to extend our broadband availability to roughly 93% of our residential customer base and enhance our broadband speeds in underserved areas, which will result in attractive growth opportunities given the demand in these areas. We expect to finalize the agreements before year-end and plan to begin working on these projects shortly thereafter.

As we look forward, we will continue to focus on opportunities that further shift our revenue mix towards strategic growth areas. Next year, we will have more opportunities to invest capital for growth, through very promising success-based initiatives, such as fiber-to-the-cell projects within the KDL territory. In addition, with the stimulus awards, we plan to invest more to expand and enhance our broadband offerings.

These investments along with our recent acquisitions and improving legacy performance will further improve the long-term financial characteristics of our business and create a path to realize revenue growth in the future. Windstream is executing our strategic vision to transform this business to a next-generation telecom company, focused on growth in broadband and business services, while sustaining our cash flows and maintaining our dividend.

Today, we are a very different company than we were four years ago. I am very proud of what we have accomplished and excited about the future opportunities available to us. We expect to continue to differentiate ourselves by not only focusing on cost structure improvements but also by improving our revenue trends, which can truly improve the long-term sustainability of our cash flows and create shareholder value.

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 15,700 new high-speed Internet customers this quarter, bringing our total customer base to 1.29 million, an increase of 8% year-over-year. Our overall broadband penetration is now at 42% of Voice lines. In the consumer channel, residential high-speed Internet customer grew 8% year-over-year and penetration is now approximately 60% of primary residential lines. We are seeing solid demand for broadband related products which complement our Internet service while driving incremental revenues and improving retention. And in the business channel, high-speed Internet customers grew by 5% year-over-year. Additionally advanced data and integrated solutions were up over 1% year-over-year resulting in revenue growth for these services of 4% year-over-year.

This quarter, we added over 13,000 digital TV customers, bringing our total customer base to approximately 433,000 or 22% penetration of our primary residential customers. At the end of the second quarter, we began offering a triple play Price for Life bundle with a limited DISH TV package as the video component. This bundled offering has driven increased interest resulting in the highest quarterly DISH growth additions we have seen to-date. Additionally, we were able to up-sell many of these new customers to more robust DISH packages without the Price for Life guarantee.

Total access lines declined by approximately 30,700 during the quarter, resulting in a year-over-year decline of 3.7%, which was flat with the second quarter. Consumer voice lines declined 4% year-over-year, an increase of 30 basis points sequentially due primarily to higher nonpaid disconnects during the quarter. Despite this, consumer revenues were roughly flat sequentially, which is a nice improvement and quite an accomplishment given the decline in voice customers. We continue to focus on strengthening our competitive position by investing in our distribution channels and improving our service delivery and customer retention.

Business voice lines declined 4.3% year-over-year, a 30 basis point improvement sequentially and we continue to see nice growth in special access circuits, which were up 5% year-over-year, due to increasing demand from wireless carriers.

From an integration perspective, we are right on track with our expectations. We converted the Lexcom billing system during the third quarter and are progressing very nicely with the Iowa billing conversion, which we expect to complete during the fourth quarter of this year.

As a reminder, D&E, Lexcom and NuVox are now fully integrated and we expect the Iowa integration to be largely completed by the end of this year. I'm pleased to say that all of these transactions are tracking towards the free cash flow synergies we outlined when we announced each of these deals. In addition, we are very excited about the opportunities that the acquisition of both Q-comm and Hosted Solutions will bring. These companies are a great fit with our existing business and allow us to leverage the collective infrastructure, existing relationships, and service offerings across a broader platform.

From an integration perspective, both transactions should be straightforward given the nature of the businesses and limited conversion efforts required. Nevertheless, we have dedicated teams focusing on the transition plans and with our experience and track record, I am confident that we can successfully integrate these businesses according to our expectations.

Operationally, I am very pleased with the progress that we have made over the past four years both organically and through very selective acquisitions and believe that Windstream is very well positioned to capitalize on the growth opportunities going forward. From a residential perspective, we have created innovative offerings, such as the Price For Life and Greenstreak programs, in order to meet our customers' changing needs.

In addition, our sales teams are focused on selling complementary broadband products to deepen the relationship with our customers and produce incremental revenues. From a business perspective, we have improved our sales of next-generation data and IT based services and continue to invest in our network to increase our competitiveness and improve service delivery.

In summary, I want to thank the Windstream team for another solid quarter.

Now I'll turn the call over to Tony and he's going to discuss our financial results.

Tony Thomas, Chief Financial Officer

Thank you, Brent, and good morning, everyone. For the third quarter, on a GAAP basis, Windstream achieved consolidated revenue of 966 million, operating income of 270 million, and $0.18 of diluted earnings per share. Our GAAP results include 7 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 966 million, a decrease of 1.5% year-over-year. Specifically consumer revenue declined 11 million or 3% year-over-year, driven by fewer primary residential voice customers, offset somewhat by growth in our Price For Life bundles, Internet-related products and product sales.

Business revenue increased 4 million or 1% year-over-year driven by growth in data and integrated solutions and strong demand for special access circuits. Wholesale revenue declined 11 million or 6% year-over-year, primarily the result of fewer access lines. Specifically by category, voice and long distance revenues declined by 32 million year-over-year or 8%, driven by fewer voice lines and declining à la carte feature packages.

Data and integrated solutions increased by 18 million or 7% due to additional high speed internet customers, growth in Ethernet internet access and other next-generation data services. Special access revenues increased 5 million or 6% due to circuit growth resulting from increased demand for wireless backhaul.

Switched access and USF revenues declined 9 million year-over-year or 5%. Within switched access, revenues declined by 11 million year-over-year related to fewer access lines and decreased usage. Within USF, revenues improved by 3 million year-over-year due to higher state USF revenues.

Miscellaneous revenues were essentially flat year-over-year. Total product sales increased 3 million year-over-year driven by improvements of wholesale and residential sales.

Sequentially, total service revenue was roughly flat due to growth in data and integrated solutions, digital TV activations and special access revenues, which offset lower voice revenues. Additionally, total product sales increased by 7 million or 35%.

Let me turn to expenses, which exclude depreciation and amortization. This quarter expenses were lower by 35 million or 7% year-over-year. Excluding non-cash pension expense, expenses were lower by 28 million or 5% year-over-year.

Specifically, cost of services was down 16 million due primarily to lower interconnection expense related to a decrease in usage and other network grooming initiatives.

Additionally, pension and benefit expenses were lower. Cost of products sold increased by 2 million year-over-year due to better product sales. Within SG&A expenses decreased 14 million or 10% year-over-year due to deal synergies and a lower pension and benefit expense. Sequentially, total expenses increased by approximately 4 million due to weather-related increases and contract labor and overtime, higher bad debt expense and higher product expenses resulting from increased sales.

For the quarter, OIBDA was 462 million, which was up 5% year-over-year primarily due to lower noncash pension expense. Adjusted OIBDA was 482 million, an increase of 1% year-over-year. Adjusted OIBDA margin improved 130 basis points year-over-year to 50%. Operating income for the quarter was 282 million, up 13% year-over-year. During the quarter, we made a voluntary cash contribution of 41 million to our pension plan to preserve our 2010 credit balance, which can be used to offset future contributions.

Given the lower discount rate, it is likely that we will make an additional contribution to our pension plan during 2011. Although, we will not know the precise contribution until January 2011, based on current asset values and discount rates, this contribution could range from 60 million to 90 million on a pre-tax basis. It is likely that we will make this contribution in stock to manage our overall net leverage. As a result of the extended bonus depreciation rules and the pension contribution I just mentioned, we now expect our total 2010 cash taxes to fall between 105 million and 120 million.

As a result of both the improved cash taxes and a 41 million pension contribution, the 2010 expected free cash flow will improve to a range of 814 million to 859 million. This yields an expected dividend payout ratio of 54% to 57%, which is a 300 basis point improvement from our previous range of 57% to 60%.

During the third quarter, we spent 113 million in capital expenditures and ended the quarter with 155 million in cash. In July, we opportunistically raised 400 million in senior unsecured notes to pay off our revolver borrowings, which we had used to fund the Iowa transaction, and ended the quarter with nearly 500 million of borrowing capacity under our revolver.

In October, we issued 500 million in senior unsecured notes. We plan to use these proceeds, along with cash and revolver borrowings, to finance the Q-comm and Hosted Solutions transactions, which we expect to close by the end of the year. In summary, we are very pleased with our results for the third quarter and the progress we have made toward our strategic goals. Collectively, the recent transactions have significantly advanced our strategy to focus on broadband and business revenues.

With these deals, our overall net leverage has increased slightly but we have positioned the business to improve our top line trends and sustain our cash flows. That said, we will plan to reduce our leverage over time to historic levels.

With that, we will now take a few of your questions. LaToya, 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 of Banc of America. Your line is open.

<Q – David Barden>: Hey, guys. Thanks for taking my question. I guess, first, Jeff if I could strategically, it seems like over the last couple of years now you guys have kind of put a finger in almost every business pie that there is now and I guess as we start trying to figure out really where the strategic direction of the company is and kind of where the next acquisition is going to come from, as it seems they do come every quarter now, where is the focus at the margin? Is it going to be building up more of this data center business to strengthen that one area? Is it trying to be everything to everyone? Is it going to focus in particular geographies? If you could elaborate a little bit more on where it's going, so I guess, when we see the next two or three deals they kind of make sense to us.

And then if I could, just on the tax stuff, which seems to be the driver of the increase in free cash flow guidance, Tony, could you elaborate – so are these tax changes tax changes that already occurred or are they anticipatory? Are they based on CapEx that's already been spent? Could you elaborate a little bit more on what's driving the increase in the cash flow guidance? Thanks.

<A – Jeff Gardner>: Thank you, David. Just to answer your question, in terms of us doing every kind of deal in the business, I'll say this. It's a very focused strategy, one in which we have felt a need to complete our portfolio of solutions that we can offer to customers. As we've become a bigger player in the enterprise space following the NuVox acquisition, and through our own experience with our business customers, it became clear to us that customers are demanding more and more services and they expect an end-to-end provider. And so when we look at NuVox, KDL and Hosted, these really complete our business portfolio and I think that when you think about our business, our focus going forward, will continue to be on expanding our exposure to this enterprise and broadband space in a very disciplined manner.

We believe we're extremely well positioned. The recently announced acquisitions continue to advance our goal of increasing exposure to business services and as I said earlier, it really fills out our business portfolio very nicely. Already today Wind was in seven data centers. Hosted is a best-in-class provider. They are going add great value, not only for the impressive growth that they have shown and will show, but also in helping us enable how to best utilize the assets that we have today.

Looking forward we will continue to evaluate strategic opportunities that meet our strategic goals, being mindful of leverage, as Tony said earlier. And just one other thing, David, last year we said at the beginning of the year that we would like to take a pause for the first six months to really get started on our acquisitions and integrations and bring those businesses in in the right way. And we, in fact, did that.

Over the course of the third quarter, I think we had two very unique alternatives to bring in businesses that we consider extremely strategic and really focused on what we're trying to do here, which is not complicated. It's simply find a path to grow our topline and continue to invest in the businesses that we think offer the best growth characteristics going forward. And we've done all that while improving our margins and maintaining our dividend, which is also fundamentally important to us.

When you look at those deals and the stimulus awards and the continued execution in our core business, I really like where Windstream is. And these deals were very well thought out and I think when you look at our portfolio, our business salespeople are going to have something very unique in the marketplace to make us a better competitor. And as you know, that business is getting more competitive every day. You see through our growth this quarter that we're doing very well in that business space and I think this will just improve our opportunities.

<A – Tony Thomas>: David, this is Tony. Turning to your tax question, the free cash flow guidance was principally due to the improvement in cash taxes. That was related to the recent legislation that was enacted and it is our estimate based off our current projections of capital for 2010. We feel very comfortable with that estimate of the cash tax benefit.

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

<A – Jeff Gardner>: Thanks, David.

Operator: Thank you. Our next question is from Scott Goldman of Goldman Sachs. Your line is open.

<Q – Scott Goldman>: Hey, good morning, guys, and congrats on the acquisition. I wanted to stay big picture as well. So looking at kind of the capital spending and long-term margin outlook, right , so you've made some recent acquisitions moving more into the business side, CLECs, fiber assets, now moving into data center managed hosting a bit more than you were already exposed there. So those types of businesses tend to be higher capital intensity sort of businesses. So as you kind of think about the transformation that you talked about, Jeff, how should we think about the capital intensity and long-term margin opportunity of your overall business as these acquired businesses become a larger mix of the overall revenue?

<A – Jeff Gardner>: Great question. And we are going to have more success-based capital investments. And I think as you look at Windstream, and investors have been focused on Windstream for our dividend for a long time, and I think that's absolutely the play. We produce cash flow very reliably. And as we look at these businesses, we're going to have opportunities here to improve our topline and over the course of the next three years, lower our payout ratio. So while there will be some success-based capital investments, the overall profile of the company I do not think will change.

And again, what we're trying to do here is build a business that is more sustainable. And acquiring some of these high growth businesses, that by the way have pretty good margins, NuVox, we had improving margins when we bought the company. The acquisition of KDL was also something that helped our margins not only in our NuVox business but across our own ILEC and CLEC properties; and KDL is an incredibly profitable company from a margin perspective, as is Hosted. So that collection of businesses, I think, is really what we need to really move into this next generation telecom company and put together a platform we can see topline growth and improved payout ratios over time.

<Q – Scott Goldman>: Okay. And then, when you look at the acquired Hosted Solutions data center assets, I think there's a couple that are probably outside of areas where you may have exchanges or even fiber assets. Can you talk about the value of those out-of-region data centers and what sort of costs may be involved, if any, in terms of kind of getting those assets integrated into your portfolio?

<A – Brent Whittington>: Scott, this is Brent. Boston is the biggest one that you see there, that's out of territory and that's their smallest center, actually. But it's got some great opportunity and again, although out of territory there's not significant cost for us to really bring that into the fold.

The main thing there clearly is without having network we'll continue to pay third parties for interconnect costs where necessary, but that's the main thing. And as we mentioned on Hosted, the synergies in that deal are huge. I mean, we're really relying on that management team to ramp up the centers they own today in addition to the ones that you see on that map that are currently under our ownership.

<Q – Scott Goldman>: Great, thanks, guys.

<A>: You're welcome.

Operator: Thank you. [Operator Instructions] Our next question comes from Batya Levi of UBS. Your line is open.

<Q – Batya Levi>: Hi, thanks. Maybe another question on the business side. Now that your exposure has been increasing gradually, can you provide a sense of how you find the competitive environment, how the pricing in these different business services has been? And also specific to the Hosting Solutions, can you provide some sense for what kind of revenue growth they've been seeing in the last couple of quarters, the utilization of their data center space, and what kind of sales funnel they have right now? Thank you.

<A – Brent Whittington>: Batya, this is Brent. In terms of just the business space, and I tell you, it's competitive. It has been, there's been no major changes this year. It remains competitive. I mean the pricing environment, I think has been fairly stable, but by stable what I mean is on low-end services, price pressure downward, continues to be fairly stiff and we've dealt with that for a while now. That's something we continue to see in the marketplace, but I think we're handling it very effectively.

We've seen some of our access lines stabilize a little bit, even a little improvement on the business side this quarter. On the larger enterprise customers, I think that's where we've had a great deal of success and it's been one of our keys to growing revenues.

We've really put a lot of emphasis in our sales channel this past year on helping them be successful, finding multi-location customer opportunities that on average yield higher ARPU for us as a company. And I mean that's really what's working for us right now and excited about the momentum we've got there.

In terms of Hosted Solutions, they've seen revenue growth right around probably 30% recently, in that range. And I don't want to get into, Batya, utilization on a per-data center basis, but suffice it to say, there's adequate growth there in the future to continue to expand revenues, as well as margins without significant CapEx investments. And that's how we thought about those transactions. But certainly, we hope to fill them up and continue to grow the pipeline of deals that they have, that they're considering.

<Q – Batya Levi>: Thanks. And just maybe one more strategic question in terms of, as you're serving more business customers right now, do you think you need to have a wireless offer to provide them a full based service?

<A – Brent Whittington>: No. I mean I really don't believe we do. That's something we consider from time to time and the shape in which that might take is yet to be determined, but the reality is, we've got a full suite of products and services today. Adding wireless adds a lot more complexity and in almost every scenario in which we evaluate that, not a lot of incremental value to Windstream. And so it hadn't really been a high area of focus for us, as a result.

<Q – Batya Levi>: Okay, great. Thanks a lot.

<A>: You're welcome.

Operator: Thank you. Our next question is from Chris King of Stifel Nicolaus. Your line is open.

<Q – Christopher King>: Hi, good morning. A couple of questions for you. First of all, just from an M&A standpoint, just was wondering if you could talk at least at a very high level about the decision making process involved in terms of how you go about paying for these acquisitions? Specifically related to, I guess, the leverage issue versus your stock price has obviously had a very nice run up as a lot of the RLECs have over the course of the last six, eight months or so. How you view your equity valuation versus potential increases in debt and how you view the cash versus equity component of any acquisition that you might do down the road?

And secondly, just kind of a 35,000 foot question, just was wondering if you had any kind of initial commentary regarding potential changes in FCC dynamics following the mid-term elections in Washington. Specially, I know that special access is obviously an issue that you guys are keeping an eye on. Do you see any kind of shift in FCC priorities, specifically as a result of the elections this past week? Thanks.

<A – Jeff Gardner>: Good. Chris, on the first question, obviously as we think about deals, valuations, the percentage of cash versus equity that we use, it's very dependent on the transaction. And given what Tony said earlier about our desire to deleverage the company, we've always liked to be in a position to use some equity. That's not always possible when you look at these deals, especially when you're dealing with some of these private equity companies in these higher growth businesses. And so we have tried to balance that. I think that we emerge after this transaction with a strong balance sheet, a clear path to deleveraging that's going to allow us to continue to perform well for some time.

In terms of what's going on in the FCC, I don't think any major shifts as a result of the election. Obviously, I think that the change will create a more balanced environment in Washington, which should be good for business. But I don't see any drastic changes in terms of what we've been working on as you think about net neutrality, universal service reform, and inter-carrier comp. We still feel good about our position in each of those cases and don't expect any big changes.

<Q – Christopher King>: Thank you.

<A – Jeff Gardner>: You're welcome.

Operator: Thank you. I'm not showing any further questions at this time.

Rob Clancy, Senior Vice President and Treasurer

Okay, LaToya. Well we'd like to thank everyone for joining us this morning. We appreciate your interest and support. Mary Michaels and I will be available for questions throughout the day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.