

Company Name: Windstream
Company Ticker: WIN US
Date: 2009-05-08
Event Description: Q1 2009 Earnings Call

Market Cap: 3,991.94
Current PX: 9.05
YTD Change(\$): -.15
YTD Change(%): -1.630

Bloomberg Estimates - EPS
Current Quarter: 0.227
Current Year: 0.899
Bloomberg Estimates - Sales
Current Quarter: 772.429
Current Year: 3076.688

Q1 2009 Earnings Call

Company Participants

- Rob Clancy, Senior Vice President
- Jeff Gardner, President and Chief Executive Officer
- Brent Whittington, Executive Vice President and Chief Financial Officer

Other Participants

- Mike McCormack
- David Barden
- David Barton
- Jason Armstrong
- Michael Rollins
- Thomas Seitz
- Simon Flannery
- Batya Levi
- David Coleman
- Christopher King

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Carol and I will be your conference operator. At this time, I would like to welcome everyone to the Q1 2009 Windstream Communications Earnings Conference Call. [Operator instructions].

I will now turn the call over to Mr. Rob Clancy, Senior Vice President and Treasurer. Sir, please go ahead.

Rob Clancy, Senior Vice President

Thank you, Carol and good morning everyone. Thank you for joining us this morning. Today's conference call was preceded by our first quarter 2009 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 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. 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.

Before we begin, let me update you on a reporting change affecting the presentation of our financial information. We have combined the Wireline and Product Distribution segment and are now only reporting one segment for the

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company, which eliminates the need for us to report inter-company eliminations as well. To assist investors, we have revised our quarterly results back to 2007, including adjusting our revenue detail to now exclude the inter-company revenues. This change in segment reporting had no impact on our consolidated revenues or operating income.

In addition to these reporting changes, this quarter we started amortizing our wireline franchise rights, given the competitive landscape that we operate in. Previously, these assets had indefinite lives. However, given that the business is flat to slightly declining, we believe that a 30-year life is appropriate. Thus, these franchise rights will be amortized over a 30-year period resulting in an increase in amortization expense by roughly \$8 million per quarter and, importantly, this is a non-cash charge.

We have provided our pro forma results from current businesses, which contemplate the changes I just mentioned and include CT Communications while excluding our Publishing and Wireless businesses for all periods. We will make references to these pro forma results from current businesses including the year-over-year comparisons during our call.

Participating in our call this morning are Jeff Gardner, Windstream President & Chief Executive Officer and Brent Whittington, Windstream Executive Vice President & 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. I'm pleased with our results for the first quarter, particularly our operating metrics and cash flow. While our revenue declined year-over-year somewhat reflects the challenging economic environment, our operating metrics continue to lead the industry. And we have done a great job managing our overall cash expenses. Despite an incremental \$6 million this quarter, related to ice storms we experienced in January, our net cash from operations this quarter was \$215 million flat with the first quarter a year ago, which is a testament to the hard work of our entire team and supports our belief that we can sustain these cash flows over time.

With the tax benefits associated with the federal stimulus package, we now expect to generate between 705 and \$775 million in free cash flow during 2009, which is up \$20 million from our previous guidance.

Given the recent stability in the credit market and our solid liquidity position, we resumed our repurchase efforts late in the quarter. Specifically, we repurchased 2.6 million shares for \$21 million in the first quarter and an additional 1.5 million shares for \$12 million that settled in early April, bringing our total year-to-date repurchases to 4.1 million shares or \$33 million at an average price of \$7.94.

We will continue to evaluate free cash flow accretive initiatives including strategic opportunities, additional share repurchases and debt repurchases if credit conditions deteriorate.

Let me turn to the first quarter operational results. We added 31,000 new high speed Internet customers this quarter, nearly double the net adds in the fourth quarter, bringing our total broadband customer base to over one million customers, an increase of almost 11% year-over-year. The entire Windstream team worked very hard to cross this significant milestone. Our overall broadband penetration is now at 34% of total access lines and residential broadband penetration is approximately 52% of primary residential lines. Our team continues to focus on selling faster Internet speeds as well as additional broadband products and services, which has contributed to broadband ARPU growth.

We added over 21,000 digital TV customers in the quarter, bringing our total customer base to approximately 295,000 or 17% penetration of primary residential lines. We continue to have success selling this service to new customers, as well as migrating existing DISH customers to our bundle, which meaningfully improves overall customer retention. We also have been working to enhance our relationship with DISH and recently finalized an agreement allowing us to sell digital TV to our commercial customers, which should be a valuable addition to our small business bundle.

During the quarter, access lines declined by 44,000, and we ended the quarter with just under three million customers. This represents a decline in total access lines of 5.3% year-over-year. Residential line loss improved year-over-year, but we lost more access lines in our business channel compared to the first quarter of 2008. Additionally, we saw a

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small increase in non-paid disconnects year-over-year. Sequentially, access lines improved by 4,000 units, which was helped by 2,000 fewer non-pay disconnects.

We ended the quarter with just under two million long distance customers, representing 66% penetration of total access lines. While we experienced disconnects during the quarter primarily related to non-bundled long distance customers, we continued to increase the penetration of long distance packages which is now roughly 37% of our base versus just 27% a year ago.

Within our business channel, as I just mentioned, we lost more lines this quarter than a year ago. While some of this loss is related to the migrations to other services that resulted in fewer access line counts, the challenging economic environment appears to be responsible for much of the loss.

From a revenue perspective, we are seeing declines in usage-sensitive services as well as product sales, due to customers managing expenses more aggressively and delaying purchasing decisions. That said, we continue to experience growth in our next generation data services, which is offsetting some of the revenue declines in this channel. We believe this channel represents a significant opportunity for us going forward and we continue to make investments in training of our sales teams as well as developing new bundle packages to stimulate demand.

From a regulatory perspective, we support the new administration's focus on expanding high-speed Internet access and have been working diligently with the various government agencies to position us for economic stimulus grants allocated toward broadband expansion.

To date, we have invested hundreds of millions of dollars in our network expansion, which has allowed us to reach 88% of our customers with broadband today, and we are excited about the possibility of reaching the remaining 12% in improving existing service in the more rural market.

We understand what is required to reach these customers currently unserved, and believe that we are in the best position to accomplish the objective of providing broadband services to these customers. Strategically, we remain convinced that consolidation makes sense for this industry, and we'll remain focused on delivering solid operational metrics and financial results, so that we will be well positioned if strategic opportunities arrive. From a liquidity standpoint, Windstream is in great shape. We do not have any significant maturities until 2013 and we remain confident in the free cash flow this business will generate over time.

Before I hand the call over to Brent, I do want to extend a special thanks to the Windstream team for their efforts in the first quarter to restore service to the many Windstream customers affected by the ice storm. As a company, we have made great strides over the past year improving our overall service levels.

In addition, Business Week recently ranked Windstream number four in the top 50 best performing companies in 2008, an accomplishment our entire team should be proud of. In summary, we are pleased with our results for the first quarter. We continue to deliver industry-leading results, despite a difficult economic environment and I am particularly pleased with how well we are managing overall expenses.

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

Brent Whittington, Executive Vice President and Chief Financial Officer

Thanks, Jeff, and good morning everyone.

For the first quarter on a GAAP basis, Windstream achieved consolidated revenues of \$755 million. Operating income of \$253 million and \$0.20 of diluted earnings per share. Our GAAP results include the following items, which lowered EPS by roughly \$0.04: \$5 million in after-tax non-cash amortization expense of our franchise rights; \$7 million for a non-cash adjustment of a deferred tax asset related to a state net operating loss; and a \$4 million after-tax expense related to ice storm damage.

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In addition, our results this quarter include incremental non-cash pension expense of approximately \$14 million, net of tax, or \$0.03 per share, which affects the year-over-year comparisons.

Let me turn to our pro forma results from current businesses. For the quarter, Windstream achieved revenues of \$755 million, a decrease of 5.6% year-over-year. Specifically, voice revenues declined by \$17 million year-over-year, or 5.5% driven by fewer access lines.

Long distance revenue declined by \$3 million year-over-year as growth in our recurring revenues of \$2.5 million was offset by declines in usage-based revenue streams.

Data and special access revenues increased \$12 million or 7%, the result of our continued growth in high-speed Internet customers and our data products.

Switched access and USF revenues declined \$24 million year-over-year or 15%, driven by a number of factors. Within switched access, revenues declined by \$16 million year-over-year related to fewer access lines and decrease usage, various billing settlements and rate reductions associated with our price cap conversion last year. Within USF, revenues declined \$8 million year-over-year, a result of lower USF surcharges associated with the deregulation of broadband revenues last year and lower state USF revenues.

Miscellaneous revenues declined by \$8 million year-over-year, of which roughly \$5 million was related to the termination of certain network management services we provided to Alltel with the remainder resulting from lower fees and service charges. Total product sales, which now includes both our ILEC retail product sales as well as the external wholesale business formally in our product distribution segment, was down \$6 million year-over-year, driven by lower business product sales which appear to be economically driven as businesses postpone buying decisions.

Sequentially, revenue was down \$22 million. Switched access in USF declined by approximately \$9 million, of which \$4 million was related to lower switched access revenues due primarily to fewer minutes of use and \$5 million resulted from lower state and Federal USF revenues. Additionally, given the slower sales environment, product sales were down by \$9 million sequentially.

Turning to expenses, excluding depreciation and amortization, expenses declined by \$10 million or 3% year-over-year, which is quite an accomplishment considering that our expenses include an incremental \$23 million in non-cash pension expense and \$6 million related to the ice storms we saw early in the quarter.

Specifically, cost of services decreased by \$2 million or 1% year-over-year, in spite of an additional \$18 million of non-cash pension expense and \$6 million of expenses related to the ice storms. However, we were able to lower the cost as a result of several factors, including a reduction in workforce we announced in the fourth quarter, lower business taxes and lower usage-related network expenses associated with the revenue reductions I mentioned previously.

Cost of products declined due to fewer business product sales during the quarter. Within SG&A, expenses decreased by \$2 million or 3% year-over-year, the result of overall improved expense management and lower sales costs, which were offset by \$5 million of incremental non-cash pension expense.

Our team is doing just a fantastic job managing overall expenses and making continued improvements to our cost structure in almost every area of our business. Sequentially, total expenses, excluding depreciation and amortization, declined approximately \$6 million versus the fourth quarter, even with the incremental \$29 million in pension and ice storm-related expenses.

I mention many of the drivers in the year-over-year comparisons; however, we also had approximately \$6 million in lower restructuring expenses this quarter, and saw a \$4 million decline in bad debt expense.

For the quarter, OIBIDA was \$385 million, a decrease of 8% year-over-year. Excluding pension and ice storm-related expenses, OIBIDA declined by about 1% year-over-year and our OIBIDA margin was nearly 55%, the best that we have seen in the company. Operating income for the quarter was \$253 million.

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This quarter, net cash from operations was \$215 million, the same as the first quarter of last year and a direct result of how well our entire team is managing expenses, particularly in light of the revenue decline. In addition, we spent \$63 million in capital expenditures and generated \$152 million in free cash flow. As Jeff mentioned, we have repurchased 4.1 million shares for \$33 million year-to-date and from a balance sheet perspective, we ended the quarter with \$312 million in cash and our net leverage ratio was 3.2 times.

In February, we provided the investment community with guidance, including expectations for 2009 free cash flows. Since then, the economic stimulus package passed, lowering Windstream's expected cash taxes for 2009. While some of this tax benefit will be offset by lower tax depreciation versus previous years, due to reduced CapEx spend and the benefits from last year's stimulus package turning on us, we do expect our cash taxes to fall within a range of 175 to \$200 million in 2009. Contemplating this additional \$20 million of tax savings, we now expect to generate 705 to \$775 million in free cash flows resulting in an expected dividend payout ratio between 57 and 63%.

In summary, we are pleased with our results from the first quarter. While we are experiencing some declines, primarily in usage revenues as a result of the slowing economy, the Windstream team is focused on selling more recurring revenue services and we've done a fantastic job managing overall expenses. We continue to believe the business is well positioned to succeed and to generate sustainable cash flows.

With that, we will now take a few of your questions. Operator, if you would please review the instructions and go ahead and open the call to questions. Thank you.

Q&A

Operator

Thank you, sir. [Operator Instructions]. Sir, our first question will come from the line of Michael McCormack with JPMorgan.

<Q - Mike McCormack>: Hey, guys. Thanks. Just to drill a little bit deeper on the broadband potential, you've got an obviously pretty high penetration on primary lines, but what do you think is a sort of terminal penetration rate you can reach just based upon cable overlap and your market share in that business and also in the quarter was there any promotional activity that we should be aware on the broadband side?

<A - Jeff Gardner, President and Chief Executive Officer>: Great. Thank you, Michael. How are you today?

<Q - Mike McCormack>: Excellent.

<A - Jeff Gardner, President and Chief Executive Officer>: Great. With respect to your question, yes, our primary residential line penetration in our market is very high today, but we continue to find ways to reach more customers. The other thing that I think is important to consider in our markets is that we believe in almost every case we have an advantage versus our competitor, and so we have the dominant market share, we're not simply trading customers with them and we've always had a good position there. So, there is, we believe there is upside. You have seen that it's slowed down this year, but we think there are, in addition to penetrating additional customers in our existing footprint, of course, I think everybody knows what's going on in Washington now, which has the opportunity also allow us to reach more customers.

So we're bullish from that perspective and I think, importantly, if you looked at our average revenue per unit for the quarter, we're really focused on selling higher speeds to existing customers. That's another opportunity. We made significant investments for the last 18 months in our network and our marketing plan is very, very focused on up selling. With respect to the promotion environment, we were business as usual in promotions for the quarter, and so I'm very pleased that we're able to achieve these great results without doing any significant discounting.

<Q - Mike McCormack>: Great. Thanks Jeff.

<A - Jeff Gardner, President and Chief Executive Officer>: You're welcome.

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Operator

Sir, our next question comes from the line of David Barden with Bank of America.

<Q - David Barden>: Hey guys, thanks a lot for taking the question. Maybe two if I could. One, just maybe if you guys could kind of elaborate a little bit on the more specific cost moves that you took in the quarter to offset the impact of the pension and also the ice storm expenses, and are these kind of actions that have happened and now we'll run rate them or are they in process and are you going to be able to extract some more benefit as we go through the course of the year?

I guess the second question is more the M&A market consolidation question. It's a hard question to ask because you never get specifics, but I guess maybe philosophically speaking, based on the experience that we've seen from guys like Carlyle and FairPoint buying assets from Verizon, and Verizon having kind of stated publicly that they are a seller. Could you walk us through whether you think that the lessons we've learned is that you should maybe stay away from those assets or do you guys think you have something that these other companies have not been able to have, that were a situation to arise, that you would look at them seriously because you think you can bring something to the table and turn those assets into productive assets in a way that other people haven't. Thanks a lot.

<A - Jeff Gardner, President and Chief Executive Officer>: Okay, I'll let Brent take part one and then I'll get to the M&A.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: Yeah, David on the call side, I mean you've consistently heard from us a real focus on continuing the find ways to constructively take cash count cost down the business that benefit us over the long-term and that's really the main things we were focused on this quarter. They weren't what I'd call big actions we undertook. I mean you do remember probably that we had a head count action we took in the fourth quarter.

That drove sequentially probably about \$3 million improvement in our cash cost. Just a small thing that we did but also kind of really helped us drill into our overtime rates and really improve on that in a big way versus last year, even in spite the ice storm was we did also roll out last year and really got that operational in the first quarter, a wireless dispatch system as well, that's allowed us to really more efficiently track work force assigned to our technicians in the field and that's paid dividends for us in the quarter.

And then another thing, I mean some of our cost if you kind of look in the details there, some of the revenue pressure we saw was also from some usage-related items that have some cost benefits as well. So we saw lower long distance calls this quarter. USF surcharges, which is just a gross up on both the revenue and then the cost line, also declined both year-over-year and sequentially around 3 or \$4 million.

And then the products sales, I mean although we've got a much heavier emphasis on product sales than many other companies in our space, because of our third party distribution business, as well as our focus on CPE and sales of that to our business customers, those saw some revenue pressure in the quarter and also had some cost benefits that we saw as well.

So those are really drivers from a cost perspective. As far as directionally where that heads, and I think seasonally you'd expect our cost typically to kick up a little bit from our run rate that we saw in Q1, and we also expect product sales to come back. We don't expect the pressure that we saw there to remain a constant throughout the year. There has been some softness, because the economic conditions we expect some of that to come back. Both of those have an impact on cost as well as just wage rates that we typically have some increases in late in the first quarter.

<Q - David Barden>: Right, super.

<A - Jeff Gardner, President and Chief Executive Officer>: Great. As it relates to M&A, our acquisition criteria hasn't changed at all, Dave. I think what we're, we've always been focused on is generating an accretion for our shareholders in terms of our cash flow. It is always better to do that in less competitive markets and that's true even in

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our own footprint today.

We do much better in markets that are less competitive. And so, there's nothing that would change in terms of how we would look and act at an acquisition. We'd obviously look at something if it were out there, but with that in mind, can we generate significant accretion in free cash flow? Are these markets less competitive? Are they the kind of markets where we think we can produce the results that you've seen from us from the beginning of Windstream, which we've done very well in managing our access line losses, focusing on broadband et cetera. So all those elements are really important. But there's really been no change in really our focus in -- on M&A and what we're looking for when we look at a target.

<Q - David Barton>: And if I could just follow-up on that real quick, based on your assessment of credit markets where they stand today, do you feel that the credit markets are maybe the impediment today that they may have been in October and November of last year to pursuing larger acquisitions based on the change of control covenants?

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: Well, the credit markets have improved a great deal over the last couple of months. So obviously that puts everyone, including us, in a better position should we need to access those credit markets.

Q – David Barton>: All right. Great. That's helpful, guys.

Operator

Our next question will come from the line of Jason Armstrong with Goldman Sachs.

<Q - Jason Armstrong>: Okay, thanks. Good morning, I am wondering, a couple of questions. First, on leverage flash buybacks with the dividend payout ratio moving down here, you've got sort of cash freed up for other activities. Can you step us through where you see the opportunities, whether it's on buyback activity, which clearly accelerated sort of exiting the quarter versus opportunity to de-leverage off the 3.2 times you are currently at.

And then second question, just on the business channel, the up tick in losses, there's talk obviously sort of attributing it to the economy. What gives you confidence that this is economic rather than competitive? Are there specifics, sort of either reporting stats or something else you could offer us that is as a good indication that this truly is economic, because a lot of the cable companies obviously are talking about success on the SME side this quarter? Thanks.

<A - Jeff Gardner, President and Chief Executive Officer>: Jason, on the leverage, we are still comfortable with the leverage where we've got it. Our credit ratings remain solid. We're in great shape, we believe in that regard. We took a cautious view late last year both the volatility of equity and the debt markets really increased and that really was a trend that held for at least six to seven months. But we were continuing to build cash on the balance sheet and, frankly, felt late in the quarter, as we saw the credit markets really improve, our bonds trade around par late in the quarter.

Our stock was very attractive and that's the reason we began to buy it back at that time. And we've consistently said we're going to use our cash for things to draw free cash flow accretion. There's a range of options we always look at. We've certainly got help on our balance sheet. We'll continue to look at that and those options as well as strategic opportunities. In the first quarter, we talked about a bias toward debt and paying, buying back debt at attractive prices but with the improvement of the credit markets that kind of went away from us. And so the opportunity to really to drive accretion was buying back stock and we felt like we needed to deploy some of the cash on the balance sheet.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: Right.

<Q - Jason Armstrong>: As we look forward, just on that question, is there a, Jeff obviously talked about M&A. A lot of industry participants have talked about M&A. As you think about using excess free cash flow just entirely to buy back stock and sort of pad the free cash flow per share statistics versus starting to build a little bit more of a cash balance in anticipation of further M&A, how do you think about those two?

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<A - **Jeff Gardner, President and Chief Executive Officer**>: Well, I mean clearly when credit markets are tight, it's nice to have some cash on your balance sheet, but I don't think you're going to see us build a war chest far in excess in what we have currently, so I mean I think kind of the liquidity at levels that we've kept historically is what we're comfortable with and that's how you should think about it.

<A - **Brent Whittington, Executive Vice President and Chief Financial Officer**>: Very good, with respect to the business channel and why we're confident that will come back, what we're seeing there is softness and we're not losing business to the competition. As you mentioned, we are able to look at some fairly detailed information on ports, etcetera, and our gross is actually soft in that channel. We are talking to our customers about equipment deals and what we're hearing is that they just want to put those off until they have more visibility into this economy and how that's going to be affecting their business.

So that's why we're optimistic. We're taking this time to really improve not only our product selection across the enterprise space because, remember, we have a very significant market share in that space today. We have a very qualified sales force. We are very well prepared to continue to do well in that channel. We're actually making investments, both on the marketing side and in the sales area to really make sure that we've got a 100% focus on this business when the market turns. So if we were losing to the competition that would be very visible to us, but that's just not the case.

<Q - **Jason Armstrong**>: Okay, thanks guys.

<A - **Brent Whittington, Executive Vice President and Chief Financial Officer**>: You're welcome.

<A - **Jeff Gardner, President and Chief Executive Officer**>: Thank you.

Operator

Our next question comes from the line of Michael Rollins with Citigroup.

<Q - **Michael Rollins**>: Hi, good morning.

<A - **Jeff Gardner, President and Chief Executive Officer**>: Good morning.

<Q - **Michael Rollins**>: Just wanted to follow up on the wireless side. You were hearing and seeing more Cable and Telco's try to build in different wireless solutions to the bundle, be it WiFi or looking at 4G technologies. Can you talk about, if you've revisited your thoughts on how wireless could play a role for you company and where you may see that going over the next 12 to 18 months?

<A - **Jeff Gardner, President and Chief Executive Officer**>: Michael, it's real clear that, as we look at our overall access line results that wireless is becoming a more important element. Voice Over IP competition is kind of stable in our markets and we have seen some increased wireless migration over the last three to six months, I would say and yes, we are changing our business plan as a result of that in terms of, we've rolled out our Greenstreak long ago with a focus on targeting that wireless only segment, and selling those customers our bundled product there with broadband. And so that will continue to be our focus going forward.

We really try to segment just to that wireless segment, that younger segment that really is not as focused on the voice, the value of the voice product, but we'll continue to do that. And I don't think with respect to – do we need wireless in our bundle? I don't think we do today. We've got a very compelling bundle today.

We've got to get much more precise on our targeting of each segment, and I think we're doing that and we've actually seen very good results with respect to Greenstreak, and I think Brent mentioned in his comments that we actually saw some pretty good things as it related to residential access line losses in the trends there, which I attributed to this aggressive stance we're taking and the extent to which we've bundled our residential base going forward.

<Q - **Michael Rollins**>: Thanks very much.

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<A - **Jeff Gardner, President and Chief Executive Officer**>: You're welcome.

Operator

Our next question comes from the line of Tom Seitz with Barclays Capital.

<Q - **Thomas Seitz**>: Thanks for taking the question. This one is probably for Jeff. You guys obviously have industry leading access line decline metrics in terms of much less than a lot of the other comps, a much higher DSL penetration, in part, I think because you've been more aggressive with price and more aggressive with the Greenstreak product. This quarter we saw ARPU essentially be flat year-over-year, maybe as a consequence of some of those pricing actions, but maybe there's some increased business pressure too. So if you could, could you talk about ARPU trends and what you maybe have in the pipeline regarding being able to increase revenue?

<A - **Jeff Gardner, President and Chief Executive Officer**>: Right. Well there's a lot of moving parts on our revenue this quarter and, as it relates to our pricing strategy, I don't know that I agree that totally, I think there are many reasons why we've had the lower access line gain in broadband penetration. We've not been a deep discounter in any of those products. We've been really focused on selling the bundles. So I think it has a lot more to do with our aggressiveness on the marketing side in terms of distribution and segmentation and less about discounting on the marketing side. We had very few promotions this month and I'm going to let Brent talk to the revenue trend.

<A - **Brent Whittington, Executive Vice President and Chief Financial Officer**>: Yes. Tom, on ARPU, I mean there's really a couple of things going on. I did mention in my comments the pressure that we saw on business and as much as anything that was in some of our LD revenue streams, but the other thing that you've got to look at is the impact that switched access has had on those on a year-over-year basis. That also, remember we report ARPU, that's a total revenue perspective inclusive of all those categories. And so when you start looking through the details, just a pure customer ARPU for us has been a pretty good story.

I've talked about our recurring revenues on the LD side have actually been really strong and we've had growth in data and special access and, as a result of the strong growth we're seen in our broadband customer base, LD for us, a year ago had been an increasing revenue stream. You've seen over last year because we have had some price increases, we had lost some customers over time and that, coupled with decline one plus usage put some pressure on that revenue stream on a year-over-year basis that we hadn't seen before.

We were expecting that, but on a year-over-year basis that had about a \$3 million impact. So it's really a combination of those things. They'll put pressure on ARPU, but importantly on the LD stuff what we've had great success doing is continuing to sell recurring revenue plans. So when you have periods of time with economic softness like this, you've sold customers packages that they value and we've seen less churn in that customer base. But it's really the one plus usage in both the residential and the business side that's had more pressure on it.

<Q - **Thomas Seitz**>: Thanks. That color helps.

<A - **Jeff Gardner, President and Chief Executive Officer**>: You're welcome.

Operator

Our next question comes from the line of Simon Flannery with Morgan Stanley.

<Q - **Simon Flannery**>: Okay, thanks very much. Good morning. I think you've mentioned on the revenue side there was a billing supplement issue that depressed the, I think some of the switched access; perhaps you could just size that for us. And then I think you've mentioned favorably, Jeff, about the broadband stimulus. What's your sense of when we might start to see the funds flowing from that and some of the issues you're really focused on to be comfortable with getting those funds? Thanks.

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 Company Ticker: WIN US
 Date: 2009-05-08
 Event Description: Q1 2009 Earnings Call

Market Cap: 3,991.94
 Current PX: 9.05
 YTD Change(\$): -.15
 YTD Change(%): -1.630

Bloomberg Estimates - EPS
 Current Quarter: 0.227
 Current Year: 0.899
 Bloomberg Estimates - Sales
 Current Quarter: 772.429
 Current Year: 3076.688

<A - Jeff Gardner, President and Chief Executive Officer>: On the revenue component, Simon, that wasn't hugely material, 2 to \$3 million in the quarter and we mentioned those because they show up maybe in one quarter and not another, and when you're trying to really normalize for consistent a revenue trend, it's something it's something that warrants a mention. So nothing too significant there.

<Q - Simon Flannery>: Okay.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: On the broadband timing of the stimulus package, I think it'll be later this year, in the late half of the year from everything that we hear today. There's still a lot of work to do there. What we've done to prepare I think is very detailed. We've taken a look at our business at the exchange level in terms of being very precise about what kind of investment is required for us to get to that last 12% of our customers, and so our engineering team and our regulatory team have worked very closely, helping these various government agencies understand exactly what is entailed in terms of bringing broadband to additional customers and, in addition, helping them understand what it would cost to improve the speed that we can offer in some of these small rural areas. So I think we're very well prepared. It's the kind of thing, Simon, where I think we've just got to keep a very constant dialogue and stay on top of this thing, but I am very comfortable that we're doing all the right things.

<Q - Simon Flannery>: Great. Thank you.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: You're welcome.

Operator

Our next question comes from the line of Batya Levi with UBS.

<Q - Batya Levi>: Thanks a lot, just a couple of quick questions. A follow up on the cost cutting. Can you remind us when the workforce reduction you had announced in the fourth quarter actually left the payroll? When shall we see a full quarter benefit from that? And also, I believe that you had expected the stimulus package to lower taxes by roughly 45 million and it looks like it's 20 million now. Can you talk about why there was a change there? Thanks.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: Yes, Batya, hey this is Brent. I'll go ahead take both of those. On the cost cutting side, I mean we completed virtually all of that early in January. So for the most part, I mean we've seen a full quarter benefit in Q1. As it pertains to cash taxes, there's a couple of things really going on. I mean, one, whenever you have two years in a row with the stimulus package, the 45 million was the benefit we saw last year. But you've got a turning impact, because you've got it left obviously with a depreciable base as a result of the bonus you took last year on those assets, coupled with if you look at our CapEx over the last four and five years, we've seen declines consistently in CapEx.

So it's a combination of those two things that is resulting in lower depreciation for tax purposes that mitigate some of the impact of that stimulus accelerated depreciation that's really what we chalk that up to. So we are still importantly, though, seeing \$20 million in lower projected cash taxes than we'd hoped, which is a nice boost to both free cash flow and our pay out ratio.

<Q - Batya Levi>: Okay, thanks, and a follow-up maybe on CapEx. It actually grew 13% annually and it was a bit higher than we thought. What were some of the initiatives that saw higher spending in the quarter? And do you expect CapEx to be more linear this year as opposed to a more back end loaded year.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: As always, my goal is that it's linear, but it's always hard to get those projects to line up perfectly in our engineering organization. And I'll tell you as much as anything, the acceleration you saw from those in CapEx this year versus Q1 last was a function of how low our spend was in Q1 last year. We really had a lot of big projects in our network organization preparing for ADSL2-plus and some other items that were driving spend late in Q4 of '07 that we completed a big chunk of that, that really drove lower than normal Q1 '08 CapEx. So there's no change to our guidance. Our guidance for the year is still

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right around 290 to \$320 million in CapEx; just because we got a little better start this year, it's likely to be a little more linear. How that'll shape up the next three quarters is hard to predict.

<Q - **Batya Levi**>: Okay, thanks a lot.

<A - **Brent Whittington, Executive Vice President and Chief Financial Officer**>: You're welcome, thank you, Batya.

Operator

Our next question comes from the line of David Coleman with RBC.

<Q - **David Coleman**>: Thank you. Could I just get a quick update as far as business trends, for as far as purchasing decisions, as well as trends in usage based revenue so far in the second quarter, and then as far as the Greenstreak product, is it possible to estimate how much of an impact that had on reducing residential access line losses in the first quarter? Thanks.

<A - **Jeff Gardner, President and Chief Executive Officer**>: Okay, well, we're not going to talk about our second quarter. We just have made it a policy not to do that. So I will just restate what I said about the first quarter in that, we still were talking to our business customers, putting deals in front of them and kind of their mindset was that they wanted a little more visibility. Whether that will come in the second quarter or later in the year we're not sure. But I can assure that we're going to be in there pushing as hard we can, trying to help our customers get through these difficult times. And the second part of the question...

<Q - **David Coleman**>: Greenstreak impact.

<A - **Jeff Gardner, President and Chief Executive Officer**>: Greenstreak impacts. Greenstreak continues to do well. It didn't have a disproportionate impact this quarter. It's very similar to what we have seen in prior quarters. So I don't think there is anything unique about the first quarter of 2009 in that regard.

<Q - **David Coleman**>: Just going back to the business purchasing decisions as well as or I maybe sort of the way to think about it or explain it would be which buckets of revenue would you anticipate seeing a rebound..

<A - **Jeff Gardner, President and Chief Executive Officer**>: Sure.

<Q - **David Coleman**>: ...later in the year maybe with economy improvement?

<A - **Jeff Gardner, President and Chief Executive Officer**>: Sure, well we take a bit of approach here at Windstream that it maybe a little bit unique in the space or maybe not. I think we're all a little bit different in this regard. But we really focus a lot on selling equipment to our customers and equipment, yes, it's one time and there's a margin there, so it doesn't do much for you on the recurring side, but our philosophy has always been that if we can sell them the equipment, then ultimately we are going to get the first call as it relates to recurring usage.

We are going to be really in a position to consult that customer in terms of how to best utilize their telecom services and that really positions Windstream well. And so what we would see recovering would be first those CPE sales, but then ultimately the recurring revenues that we get from our business customers. One of our big focus' in 2009, probably the most important thing that we needed to focus on as a company, was this special data recurring high speed data usage with our business customers. That has grown nicely year-over-year, but we anticipate it's growing faster because we have such a great set of products and services that we've made in network investments. So when the economy turns, that's really where we expect to see the results show up.

<Q - **David Coleman**>: Awesome, thank you.

<A - **Jeff Gardner, President and Chief Executive Officer**>: Thank you, David.

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Operator

Our next question comes from the line of Chris King with Stifel Nicolaus.

<Q - Christopher King>: Thank you and good morning. Two quick questions for you. First of all, just was wondering if you can comment on any signs that you've been seeing over the last month or two with respect to signs of a strengthening economy, be it in some of the housing markets, in some of the markets that you're in or even perhaps on the business side, whether you're seeing any signs of stability, let alone strength, in either of those markets? And secondly, just a bit of a housekeeping question, I noticed that your D&A was a little bit higher in the quarter and you talked about the amortization side of that, but your 2009 guidance appears to be a little bit lower than that run rate. Just was wondering if there is anything that we should be thinking about, particularly in the back half of the year with respect to lower D&A expenses?

<A - Jeff Gardner, President and Chief Executive Officer>: Okay. Hey Chris, I'll take the first part and Brent will talk about the depreciation and amortization. I would say there is not a lot we've seen in our markets with regard to, that would give us clear signals on where the economy is done with regard to housing starts. The thing that I would tell you is that, once again, we did talk about our residential markets doing pretty well in terms of year-over-year comparisons, and the fact that Windstream has weathered this downturn pretty well to date because of the kind of markets that we're in today. And so that'll always be a factor there and then on the business side I think I already responded to that.

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: Yes, and on DNA, Chris, I mean Rob kind of talk about that in his prepared remarks. But really in our guidance, we didn't contemplate changing the life on our franchise rights. If you look at our balance sheet, we've got a fairly sizable intangible asset, that we call kind of a franchise right, and we break that apart from goodwill. But frankly, when we looked at that this year as part of our annual impairment analysis, it's hard to call that indefinite lived any more, just given the kind of competitive nature of the business that we operate in.

So we ended up actually beginning to amortize that over a 30 year period of time, a very long period of time, obviously, that we think is represented of the cash flow stream in this business and so that drove about \$8 million in amortization expense this quarter and you'll see that continue throughout the year. That's really the only big driver.

<Q - Christopher King>: So does that essentially, then increase your free cash flow guidance for 2009?

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: No, amortization is non-cash. I mean it has, importantly, no free cash flow impact. And really the update on the free cash flow for the year was the \$20 million impact benefit as a result of the stimulus package I talked about.

<Q - Christopher King>: Okay. But just in terms of the way that you calculate your dividend payout ratio in your -

<A - Brent Whittington, Executive Vice President and Chief Financial Officer>: No, it is not. It did not have any impact on free cash flow.

<Q - Christopher King>: Okay, thank you.

<A - Jeff Gardner, President and Chief Executive Officer>: Thank you Chris. Carol, we have time for one more question.

Operator

Thank you, sir. Our final question will come from the line of Jason Fraser with Raymond James.

<Q>: Good morning. Just a couple of quick follow-ups on the DSL. I was wondering if you could just talk about kind of the trends you have been seeing exiting the quarters leaving through March, and secondly just on what portion of the new ads are coming from competition and what part are coming from just growing the pie in general? Thanks.

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<A - **Jeff Gardner, President and Chief Executive Officer**>: Right. With respect to broadband, it started the quarter fast and it ended strong. And so throughout the quarter we have seen strength there. I think it speaks more to just the utility of broadband. Our customers place a great deal of value on that broadband product. More people are staying home. I think it becomes more valuable and so that kind of drove our results. But we just saw, really beginning in January and all the way through the end of the quarter, very steady results and, again, without any significant promotion in that area, just business as usual.

In terms of where we're getting the customers, I think that we are obviously as these markets get more mature, conversions are a part of that. We don't give out the specific numbers on that, but I am real comfortable now. We made some improvements in our speed last year. I think, without a doubt, if you look at the offers across our markets, we offer a great deal of value for the speeds that we provide to our customers, and they view us as a very, very viable provider of broadband services in the market. And that's really helped us strengthen our market position.

<Q>: Great. Thank you very much.

<A - **Jeff Gardner, President and Chief Executive Officer**>: You're welcome.

Rob Clancy, Senior Vice President

We'd like to thank you folks for joining us this morning. We appreciate your interest and support and we'll be available for additional questions throughout the day. Thank you.

Operator

This concludes today's teleconference. You may now disconnect.

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