

FINAL TRANSCRIPT

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WIN - Q1 2007 Windstream Communications Earnings Conference Call

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May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

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PRESENTATION

Operator

Welcome to the first quarter 2007 Windstream Communications earnings call. My name is Jackie and I will be your operator for today's conference. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. (OPERATOR INSTRUCTIONS)

I would now like to turn the presentation over to your host for today's conference, Mr. Rob Clancy, Senior Vice President and Treasurer. You may proceed.

Rob Clancy - *Windstream Communications - SVP and Treasurer*

Thank you, Jackie, and good morning. My name is Rob Clancy and I lead Treasury and IR for Windstream. Thank you for joining us this morning. Note, that a live Webcast of this call is available on our Website. To access the call, go to our Website at www.windstream.com/investors and click on the Live Webcast link. Today's conference call was preceded by our first quarter 2007 earnings release, which has been distributed on the news wires and is available from the IR section of our Website. Today's conference call should be considered together with our earnings release and related financial information.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Today's discussion includes statements about expected future events and future financial results that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events or results to differ materially from those expressed in such statements. Other factors that could cause actual results of Windstream to differ materially, many of which are beyond the control of Windstream, include but are not limited to the items listed in the Safe Harbor statement contained in our first quarter 2007 earnings press release.

Additionally, today's discussion will include certain non-GAAP financial measures, including the term OBITDA, which is defined as operating income before depreciation and amortization. Again, we refer you to the IR section of our Website, where we've posted our earnings release and supplemental materials, which contain information regarding these non-GAAP financial measures including a reconciliation of each such measure to the most directly comparable GAAP measure.

To assist the investment community and provide meaningful year-over-year comparisons, we've also provided pro forma results from current businesses. These results include the Alltel wireline and VALOR results as if Windstream had existed since January 1, 2005. In addition, the pro forma results from current businesses exclude the results from the publishing business, as well as certain one-time charges, which will be discussed in more detail on the call.

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

Jeff Gardner - *Windstream Communications - CEO, President*

Thank you, Rob, and good morning, everyone. This morning, I will start our discussion with a few highlights from the first quarter and then provide updates on strategic initiatives. Keith will review the operational highlights, and Brent will cover our financial results. Let me start with our quarterly results. For the first quarter, on a GAAP basis, Windstream generated consolidated revenue of \$784 million, operating income of \$270 million, and \$0.21 of diluted earnings per share. Our GAAP results include a noncash charge in interest expense of \$5.3 million for the early retirement of debt issuance costs; \$4.8 million of restructuring and transaction related expenses; and our publishing business results.

Excluding the \$4.8 million of expense and our publishing business, Windstream generated pro forma OBITDA from current businesses of \$394 million, which was in line with our expectation. Operationally, we increased our broadband customer base by 42% year over year by adding a record 59,000 broadband customers this quarter, a testimony to solid execution, as our promotional offers did not materially change. We also added 35,000 digital TV customers, bringing our total customer base to 122,000.

By having a singular focus, our team is off to a great start operationally, driving solid results in both of these very important service offerings. During the quarter, we lost approximately 29,000 access lines, a decline of 4.5% year-over-year. So once again, Windstream grew total customer connections with our 59,000 broadband additions more than doubling our line loss.

In terms of the directory publishing transaction, the only remaining closing condition is the IRS Private Letter Ruling, which will probably not be issued until the third quarter due to the current work load at the Internal Revenue Service. As a result, we now expect this transaction to be completed in the third quarter, although roughly 20% of the share exchange may occur in the fourth quarter. Again, this deal will allow us to focus on our core communications and entertainment business, while retiring up to \$250 million in debt and repurchasing approximately 19.6 million shares of Windstream common stock valued at roughly \$275 million at the time of signing.

On the regulatory front, the Federal-State Joint Board on USF recently recommended to the FCC that an interim cap be placed on the amount of high cost support that competitive eligible telecommunications carriers, otherwise known as wireless carriers,

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

receive. We support the Joint Board's recommendation and are hopeful that the FCC adopts it to control the growth in the fund. Windstream supports comprehensive forward-looking reform that targets explicit support to high cost areas and looks forward to working with the Joint Board to develop further reform measures.

As you know, we receive roughly 3% of our total revenues from federal high cost USF. Although less than 1% is derived from the High Cost Loop Support Fund. So we are much less reliant on federal subsidies than many of our peers. Nonetheless, we will continue to support reforms that incent carriers serving rural areas toward efficient operation.

From a balance sheet perspective, we continue to have ample flexibility to pursue strategic opportunities should they arise. And as we have previously stated, we will be disciplined and favor rural properties with the potential for cash flow accretion. We also will evaluate other potential uses of our cash with a focus on activities that are free cash flow accretive and reduce our dividend payout ratio.

Our current share repurchase capacity, which is governed by our bond covenants, will be utilized by the 19.6 million shares repurchased in the publishing transaction. We will begin accumulating additional capacity in the fourth quarter of this year.

In summary, I would like to thank the entire Windstream team for a great start to 2007. Our team has done a fantastic job executing on our ongoing initiatives, and we are well positioned to continue to deliver solid results and generate strong and sustainable free cash flow while we are transforming our business model. Now, let me turn the call over to Keith to discuss the operations.

Keith Paglus - *Windstream Communications - COO*

Thank you, Jeff. And good morning, everyone. I am very pleased to report that we achieved a record quarter of adding over 59,000 new broadband customers. Bringing our total broadband customer space to over 715,000, which is an increase of 42% year-over-year and a penetration rate of 22% of total access lines. We also experienced improved demand for faster speeds, with over 27% of broadband gross adds subscribing to 3 megabit speeds and higher this quarter. Our targeted marketing efforts, coupled with solid sales execution produced these strong broadband results, which are among the best in the industry in terms of both penetration rate and penetration growth.

This quarter we rolled out a broadband offering called GreenStreak, which targets customers using wireless as their primary voice service by combining broadband service with a metered voice line. Although still early, we're encouraged by the initial results and we'll continue to market this service in a very targeted manner. This quarter, we added 35,000 digital TV customers, also a record quarter. This brings our total digital TV customer base to over 122,000, which has grown 320% year-over-year and it represents a 4% penetration of total lines.

We lost approximately 29,000 access lines this quarter, a decline of 4.5% year-over-year, primarily due to fixed line competition and wireless substitution. The competitive landscape did not change significantly during the quarter, and we continue to focus on improving our gross additions by expanding our distribution channels, marketing aggressively at the local level, and improving our overall competitiveness.

Excluding the publishing business, average revenue per customer for the first quarter was \$76.60, which is an increase of 6% year-over-year, primarily the result of our continued broadband growth and long-distance revenue growth; related to increased sales of unlimited plans as well as price increases, which we made in the fourth quarter. As expected, these price increases also led to a net reduction of 9,000 long-distance customers, although we actually added customers within our service territory, so the losses were confined to out-of-territory customers.

We have been very pleased with the progress that we're making in our business channel. Specifically, our sales teams have been focused on selling broadband and new data services to small and mid-size businesses as well as pursuing additional wholesale

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

opportunities. We will remain focused on these opportunities given the growth potential in broadband and special access. Thus far, we are making great progress on our 2007 initiatives.

The sales and marketing initiatives implemented last year are working well, as evidenced by the record quarter for both broadband and digital TV additions. We also implemented new marketing plans designed to accelerate growth in our key products, and we adjusted our media mix to be more productive. Our latest studies continue to indicate improved brand awareness across our markets.

We also just launched our second Green Truck tour in April, which supports our strategy to continue our local presence within the communities that we serve. The Green Truck tour was very successful last year in introducing Windstream to consumers and building brand awareness. As a part of the tour this year, we will promote our products and services and will advocate the safety and security of land line phones with the message, "your land line is your life line."

Land line phones allow emergency responders to pinpoint the exact location of home or business. And they provide the most reliable connection to emergency services even during power outages, which are important advantages over wireless and Internet phone service providers. I also would like to thank the Windstream team for another quarter of solid execution. Our team remains energized and understands the value of being competitive, taking initiative at the local level, and providing exceptional customer service.

We're off to a great start in 2007, and we're well positioned to deliver on our objectives for the year. With that, I'll turn the call over to Brent to review our financial results.

Brent Whittington - *Windstream Communications - EVP and CFO*

Thank you, Keith, and good morning, everyone. In the first quarter, Windstream achieved \$0.21 of diluted earnings per share on a GAAP basis. These results include a \$5.3 million noncash pretax charge related to the unamortized debt issuance costs originally incurred on the \$500 million portion of Term Loan B that was paid down in February.

In addition, the GAAP results includes \$4.8 million of one-time pretax expenses, consisting of \$3.2 million of expense related to the workforce reduction, which as we've previously announced, we expect to yield savings of \$15 to \$20 million in 2008. And \$1.6 million of expenses associated with the announced split-off of the directory publishing business. Our GAAP results also include the publishing business, which generated revenue of \$23 million and operating income of \$4.9 million, which includes the economic benefit reflected in the wireline segment.

Let me turn to the pro forma results from current businesses, which exclude the \$4.8 million of one-time expenses, as well as the publishing results. We generated consolidated revenues of \$761 million, an increase of 2% year-over-year. This increase resulted from a 1% increase in our wireline revenues and lower inter-Company service revenue eliminations.

We mentioned on our fourth quarter call, certain network access revenues from Alltel, before the spinoff, were eliminated from the consolidated results but are no longer eliminated because Alltel is an external customer. In the first quarter, this accounted for approximately \$9 million of the revenue increase but is neutral to OBITDA because the associated expenses are no longer eliminated as well.

For the quarter, Windstream generated consolidated OBITDA of \$394 million, a 2% decline year-over-year and in line with our expectations. As we explained at our recent analyst day, the year-over-year comparisons for the first half of 2007 are somewhat challenging. Specifically in the first quarter of 2006, we transitioned from an allocation to a direct cost methodology as we began the separation process from Alltel. As a result, the first half of 2006 does not reflect our current cost structure, and this was contemplated in our 2007 annual guidance that we provided in February.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Within our wireline segment, revenues were \$741 million, an increase of approximately 1% year-over-year. This increase resulted from substantial growth in broadband and long-distance revenues as well as higher revenues associated with digital TV activations. We are successfully transforming this business to a broadband model and thus far, have been able to offset the revenue declines in voice and switched access with substantial growth in data and special access. Wireline OBITDA was \$395 million, a decline of 1% year-over-year. Attributable mainly, to higher cost of service related to increased customer usage of unlimited long-distance bundles and increased circuit expense related to broadband growth.

This quarter SG&A expenses were down year-over-year as we began to fully realize the synergy related to the VALOR merger. In our product distribution business revenues were \$83 million and OBITDA was negative \$700,000. The year-over-year revenue increase of 20% resulted from an increase in affiliate sales, which is eliminated in our consolidated results. The vast majority of the revenue in this business is internal. Our external business, although relatively small, allows us to leverage our spin and gain efficiencies in our procurement activity.

This quarter capital expenditures totaled \$80 million. We will aggressively manage capital expenditures while remaining focused on modernizing our network and we have plans to introduce speeds of 10 to 12 megabits in the latter part of this year. We will also continue to investigate new technologies that can enable us to expand the services that we provide. We ended the quarter with a cash balance of \$398 million.

In terms of our capital structure, our net debt to OBITDA was 3.1 times, or approximately 3 times after giving effect to the publishing transaction. During the first quarter, we completed a \$500 million debt refinancing that extended our debt maturities and lowered our overall cost of debt. Resulting in expected annual interest savings of approximately \$4 million.

In summary, we are very pleased with our results for the first quarter. The Windstream team has done a great job executing on our operational initiatives, completing the VALOR integration, and continuing to improve our cost structure. With that, we will now take a few of your questions. Operator, please review the instructions and open the call to questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, gentlemen. (OPERATOR INSTRUCTIONS) And your first question will come from the line of Richard Klugman from Prudential. You may proceed, Richard.

Richard Klugman - Prudential - Analyst

Good morning. Could you -- there was something you said, Jeff, in the beginning about -- it sounded like you were alluding to potential share repurchases once you're completed with the yellow pages sale. I was wondering if you could ask you to elaborate on that? Thanks.

Jeff Gardner - Windstream Communications - CEO, President

Absolutely. We were -- obviously, our business is generating significant cash flows, as evidenced by our cash balance and that's really fundamentally what we believe this business can do over the long run what. What we've tried to do is to make it clear to investors in that the short run, our repurchase capacity is going to be used with respect to our transaction in the yellow pages business. Where, as a part of that, we're going to repurchase shares from Welsh, Carson. Going forward, we will have more flexibility, beginning in the fourth quarter, to repurchase shares. As we've said what we're really looking to do with our cash is really optimize the cash accretion that we can generate, and that would be through M&A or share repurchase. So depending

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

on what the landscape looks like in terms of M&A, cash -- share repurchase certainly will be an option beginning in the fourth quarter.

Richard Klugman - Prudential - Analyst

So it sounds like if you -- as you survey the landscape later this year, if there's nothing that you're ready to bite on, we should anticipate some announcement along the lines of; we're going to buy this many shares or have this much authorization?

Jeff Gardner - Windstream Communications - CEO, President

Right. I think that's a bit premature to say that exactly. When you look at our industry, there has been significant consolidation this year. There's been three deals with the VALOR deal, the Commonwealth deal, Madison River, over 1 million lines. We believe that there's more to come. Scale is very, very important to this model, especially as you look at in the out years, because the cost side of the equation is so important. So we believe there will be opportunities for that. If that doesn't turn out to be the case, we have other options, which would include that share repurchase.

Richard Klugman - Prudential - Analyst

Okay. And if I could just add one unrelated question, Brent, you talked about 10 to 12 megabit per second DSL being introduced in the fourth quarter. It sounded like you were saying that there would be some CapEx associated with that. I was curious, what about that? How much do you expect to spend to make it available and how are you going to price this?

Brent Whittington - Windstream Communications - EVP and CFO

Richard, there is some CapEx associated with that. That was contemplated in our original CapEx guidance we issued in February. And just to remind you that number was \$350 to \$380 million. The pricing on that service has yet to be determined. I think it's fair to say, that we'll continue to incrementally price that above our current offerings, which range up to 6 megabits today. But we're still evaluating that product offering and haven't settled on what that's going to look like just yet.

Richard Klugman - Prudential - Analyst

Do you anticipate this is more of a business offering or do you think you will get consumer acceptance?

Brent Whittington - Windstream Communications - EVP and CFO

No, I think consumer and business. I think definitely, as demand for speed continues to increase, this also will be an attractive residential offering as well.

Richard Klugman - Prudential - Analyst

Thanks a lot.

Operator

Thank you, gentlemen. And your next question will come from the line of Tom Seitz from Lehman Brothers. You may proceed Tom.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Tom Seitz - *Lehman Brothers - Analyst*

Thanks for taking the question. Can you talk about your video strategy a little more? I think Brent alluded in making investments in the network to allow additional services, which you might conclude means video. You also had a great quarter on satellite TV. So, can you just walk us through your latest thinking on IPTV? And then discuss whether or not you've had any conversations with AT&T or DISH or vendors about a Homezone product to integrate your high-speed data a little bit more with satellite TV? Just kind of walk us through the strategy in general across the board. Thanks.

Jeff Gardner - *Windstream Communications - CEO, President*

Thanks, Tom. This is Jeff. There has been no change in kind of our view on our video strategy. The DISH product that we offer today has really allowed us to offer our customers a great entertaining product. They're really focused on high definition and value and we think the DISH product pricing is -- fits perfectly within that framework. And they have a big advantage with respect to their ability to offer HD, which is contributing to our ability to close on those sales. We've found it more and more natural for our customer service reps to offer the DISH product, and we are generating some nice incremental revenue with that product.

So for the medium term, we think that is absolutely the best product. We've just signed, I think Keith talked about on our last call, we signed a new three year contract with DISH. Brent alluded to the fact that we're always looking at different technologies going forward. And was more of a general statement to say that we're really staying abreast of what's going on in the IPTV area, in strategies to reach the last 15% of our customers with broadband. And we have no specific plans there but our engineers are constantly looking at our alternatives there and running business models, so that we can continue to stay abreast of the current landscape.

Tom Seitz - *Lehman Brothers - Analyst*

And is there any sort of looking at a Homezone-like box to integrate the high-speed data more completely with -- and maybe the video-on-demand capability you might be able to bring along with hi-def that satellite can offer?

Jeff Gardner - *Windstream Communications - CEO, President*

Yes, it's too early to give some specifics on that but we've been working on this. We think that that product, integrating the broadband and the video solution can offer some real value to the customer. And so we've been working on that with our partners and more to come later this year on that.

Tom Seitz - *Lehman Brothers - Analyst*

Great, thank you very much.

Operator

Thank you, gentlemen, and your next question will come from the line of Rayna Smith from Morgan Stanley. You may proceed ma'am.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Rayna Smith - Morgan Stanley - Analyst

Thanks for taking my questions. I had two questions. The first one was on broadband. I was wondering if you could comment on where you see share? The share that you're taking, is that coming from dial-up, is it coming from cable? Is it coming from people who haven't had Internet access before and are customers choosing your broadband offering because of the speeds you offer? Or are there other aspects of the promotion that seem to be helping? And then if you could give us an idea of what the ARPU is on average for that product currently? And then, the second question was on payout. It looked like the payout of cash from operations, less CapEx, was about 88% this quarter. According to your guidance, I would assume that would fluctuate down in the remaining quarters of the year. But if you could give us any kind of color on how that might look or if we might see payouts below your 70% to 75% range in some of the quarters of the year? Thanks.

Jeff Gardner - Windstream Communications - CEO, President

Okay, that was a lot. Rayna, I'll take the first part and Keith, jump in if I miss anything on the source of our broadband game. I think that one of the reasons that we're doing well in this area is that our marketing team taking a very segmented approach. So we are seeing a fair number of new to broadband customers. We continuously also target our detail-up customers. There's fewer and fewer of those out there.

So new to broadband has been a big segment but we're also going after our competitors' broadband customers. In our markets, we believe that we're taking the majority of the share in terms of the broadband market going forward and being very competitive. We have increasing speeds to offer to our customer, as Keith talked about, with our 3 meg and 6 meg offering. And we also still have the best value in the marketplace. This is really compelling. When we can really convince our customers of the value of our bundle, showing what we can do with the triple-play, they're finding again and again that's a very good value. Our ARPU is around \$30 a line.

Keith Paglus - Windstream Communications - COO

I think the only thing that I would add to that too, is that we've made the transition from primarily service to sales and service. So our customer service agents, our retail stores and our technicians in the field are clearly much better trained in asking for the sale and being able to qualify people as they talk to them and meet with them. And I think that's where we're seeing some of our success from a broadband perspective, as well.

Brent Whittington - Windstream Communications - EVP and CFO

And Rayna, on the payout ratio, the 70% to 75% that we talk about is an annual number. The quarterly number really can fluctuate based on timing of the interest and taxes. This quarter it was more a function of timing of interest payments but 70% to 75% is still the right number from an annual perspective.

Rayna Smith - Morgan Stanley - Analyst

Okay, great. Thank you.

Operator

Thank you very much, gentlemen. And your next question will come from the line of David Barden from Bank of America Securities. You may proceed, sir.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

David Barden - *Bank of America Securities - Analyst*

Just looking at the long-distance side, a couple questions. One, obviously the subscribers kind of ticked down to the negative this quarter. I was wondering if that was related to maybe how you're accounting for bundles or whether you -- how you see that happening and trending kind of on a go-forward basis? And related to that, if you could kind of talk about the second question on the magnitude of switched access, interstate and intrastate and the rate per minute that you guys are looking at right now? Thanks a lot.

Jeff Gardner - *Windstream Communications - CEO, President*

Keith, would you take the subscriber question and then Brent maybe on the switched access.

Keith Paglusch - *Windstream Communications - COO*

David, I think the fundamental point that we made as it related to long-distance is that our long-distance revenue growth is primarily attributable towards the sales of unlimited plans and some of the pricing increases that we made in the fourth quarter. The changes that occurred in that base, were that we lost some customers but those customers were primarily out of our service territory. We actually gained customers and revenue inside our service territory. So we're comfortable that our pricing is still competitive, as we continue to implement the changes that we made in fourth quarter.

Brent Whittington - *Windstream Communications - EVP and CFO*

And on the switched access, overall switched access and USF revenues were down right at about 6% year-over-year. We do continue to see some declines. It is primarily in the intrastate switched access, a trend we saw throughout last year. In terms of our rate, overall, when you look at both inter and intra, our average rate still is in the \$0.035 to \$0.045 kind of a range but definitely continue to see some pressure in that category as well.

David Barden - *Bank of America Securities - Analyst*

If I could just ask a quick follow-up. On the -- what percentage of the LD subs we're looking at here, then, would be still kind of remaining out of territory versus in territory?

Jeff Gardner - *Windstream Communications - CEO, President*

Approximately 150,000 of our LD customers are out of territory.

David Barden - *Bank of America Securities - Analyst*

Okay. Are those kind of -- do you expect them to kind of attrit down or have you kind of just carved out that initial base of users and kind of probably hitting a little bedrock there?

Jeff Gardner - *Windstream Communications - CEO, President*

We would expect that to attrit down. They have a smaller ARPU to us and it's not where we're primarily focused. Obviously, we're primarily focused within our service territory, hence the reason why you saw some gain within our service territory.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

David Barden - *Bank of America Securities - Analyst*

Perfect, okay, guys. Thanks much.

Operator

And your next question will come from the line of Chris Larsen from Credit Suisse. You may proceed, sir.

Chris Larsen - *Credit Suisse - Analyst*

Thank you. Jeff, I wonder if you could -- you did obviously a good job of adding more broadband lines versus access line loss. I wondered if you could walk us through maybe the profitability of an access line versus a DSL line? And then maybe your thoughts on the potential to get some USF funding for broadband? And then a couple of questions off of that. If could you give us a sense for second lines that were lost versus primary lines lost in the quarter? What percent of your access lines you think you can do 10 to 12 megabits? And maybe the cable speeds as they compare in those markets? Thanks.

Jeff Gardner - *Windstream Communications - CEO, President*

Okay.

Chris Larsen - *Credit Suisse - Analyst*

Sorry about the multipart there.

Jeff Gardner - *Windstream Communications - CEO, President*

The first part of your question was on broadband. So what we're doing with -- voice is obviously our most profitable product. We're replacing that with voice. And so with broadband, which as you know, has an ARPU of about \$30 a month, the profitability continues to improve on broadband as we scale that business but it's not quite as profitable today as the voice product.

And so, thereby -- that's why we're working to drive other revenues through other incremental products, as well as working on our cost structure. That's part of this transformation. So you've got to offset some of the cost pressure. But our broadband business is scaling up nicely. I think we reported we have over 715,000 customers and we have some of the best penetration in the industry.

The second part of your question was around USF and broadband. Well, I think that goes to the broader question of USF reform. I think there's no doubt that today, when you look at who's providing services in rural America and you look at broadband in particular, they're very dependent on the rural LEC to provide broadband out in those markets. We've worked really hard in these rural markets to bring broadband to our customers, as evidenced by our 80% addressability. So, I think we're in great position to make the case that when looking at universal service reform, as we said earlier, we want it to be cost-based, based on who's really providing services in these rural markets. And the last question was on access lines.

Keith Paglusch - *Windstream Communications - COO*

I can take that. The second access line. Actually, Chris, there really is no change in terms of trajectory in terms of second line versus primary line. I'll tell that you our teams are focused on second lines and primary access lines in terms of asking for that sale. And the real reason for that really drives back to this safety, security and reliability that our product offers that others don't. Second lines for us is less than really 10% of our total access lines.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Chris Larsen - *Credit Suisse - Analyst*

And on the 10 to 12 megabit product, a sense for how much -- what percent of your footprint is addressable with that? Is that going to be an ADSL or a VDSL type product?

Jeff Gardner - *Windstream Communications - CEO, President*

It's an ADSL2+ type product. Today, 20% of our broadband addressable customers we can offer 6 megabit service to. It's a subset of that customer base where we're going to roll out the 10 to 12 megabit speeds.

Chris Larsen - *Credit Suisse - Analyst*

And that's not using paired bonding or anything like that?

Jeff Gardner - *Windstream Communications - CEO, President*

It is not.

Chris Larsen - *Credit Suisse - Analyst*

Any sense for, will paired bonding be available for your type of a footprint and what it might do to your potential data rates?

Keith Paglusch - *Windstream Communications - COO*

This is Keith again. I think that it will be and I think that as you look at what we're going to do from 10 and 12 megabit speeds with ADSL2+, we've trialed that at this point. We're very comfortable with it and I would expect probably the next time we get together, we'll have some more details. Some of the territories we may roll that out on a limited basis in the fourth quarter.

Chris Larsen - *Credit Suisse - Analyst*

Thanks a lot. Terrific.

Operator

Thank you, gentlemen. And your next question will come from the line of Jonathan Chaplin from JPMorgan.

Jonathan Chaplin - *JPMorgan - Analyst*

If I could just follow up on the broadband questions. To get the 10 to 12 megabits per second, is this just -- are you putting in new DSLAM's, or is it just line costs, or is there some loop shortening that you guys have to do to get that as well? And then I've got that 20% is 6 megabits per second. If you could give us an idea of how much of your footprint is addressable with 3 megabits per second? That would be great. And then just on broadband ARPU, it seems to have been somewhere around \$30 for quite some time now, despite the pretty decent sell-through rates you guys are getting on higher speeds. And I'm wondering if that's just because of promotional offers that go in for the first three to six months and if there's kind of going to be upward momentum to ARPU over time? That would be great. Thanks.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Brent Whittington - *Windstream Communications - EVP and CFO*

I'll start on that Jonathan, this is Brent, by taking the ARPU question. It has hovered around \$30 for some time. Keith mentioned this time, some of the success we've had selling the higher speeds. And frankly, that's an area where we've just increased our focus in our 2007 plan. We were working on that throughout 2006. I'd say that the demand in our customer base perhaps wasn't there, the awareness of consumers of the multiple offers wasn't there. We've worked on that. And I think that's something that's going to help us stabilize ARPU going forward versus seeing some pressure overall. I'll let Keith take the other component of your question.

Keith Paglus - *Windstream Communications - COO*

Jonathan, relative to your question on speed. I think, fundamentally, the most important thing here is that we realize that speed over a period of time will become more and more important to customers. So hence the reason why we're moving forward with an ADSL2 type application. The amount of capital and all, that I think Brent addressed earlier, was contemplate in our original CapEx numbers. But yes, for the most part, it is line cards and it is equipment that gets added to existing DSLAM's. It's not adding new switches or adding new applications in that regard. Your second part of that question was relative to addressability. We can provide broadband services to 80% of our addressable lines at 3 megabit, which I think was the fundamental part of your question. We would expect, and I think we've indicated earlier, that we'll be at around 83% addressability at the end of this year.

Jonathan Chaplin - *JPMorgan - Analyst*

If I could just follow up on that, how much of your footprint can you advertise that you have the highest broadband offering? I'm also wondering if you -- the tremendous momentum you saw in net adds this quarter, if we would expect that to carry through for the next three or four quarters? Thanks.

Keith Paglus - *Windstream Communications - COO*

When you look at -- that varies great daily depending on the market that we're in, in terms of advertising broadband speeds. But generally, we feel very comfortable that we're competitive in most of our markets. Obviously, our additional investment in terms of offering these higher speeds is focused on those markets that are most competitive. And so, what we've done with our advertising, when you look at the speed capability that we have in addition to the value that we offer versus the cable companies, we've been very, very competitive.

Jeff Gardner - *Windstream Communications - CEO, President*

I think that, as you take a look at where we are for -- we had a record quarter in the first quarter and we continue to be very aggressive at how we're going to sell. We realize that there is seasonality in terms of some of the activities that we have but we're confident that our teams are clearly energized gazed around this and they're asking for sale as we go forward.

Jonathan Chaplin - *JPMorgan - Analyst*

Great. Thank you very much.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Operator

Thank you, gentlemen. And your next question will come from the line of Frank Louthan from Raymond James. You may proceed, Frank.

Frank Louthan - *Raymond James - Analyst*

A couple questions. Jeff, you said you're working on changing the cost structure and so forth. And can you give us an idea of where you think you are in that process and when that is complete -- or is it never really complete, but to the extent that you're on the process you're in now, can we expect margins to flatten or to increase? Give us an idea of where you are there.

And then on the M&A, you made the comment earlier that you think there probably still are other transactions out there. With the Reverse Morris Trust structure out there that you are very familiar with and looking at deals like the FairPoint deal, that obviously seems very attractive. Those types of structures seem much more attractive to the bells. And given the equity limitations, I think, that makes it difficult for companies your size to make those acquisitions. So when you're looking at that, are you thinking -- when you're saying there's more acquisitions out there, do you think it's more access line purchases or do you think it's more acquisitions of entire companies, some large mergers of some entire companies? Give us an idea of your sense of the landscape there. Thanks.

Jeff Gardner - *Windstream Communications - CEO, President*

I'll ask Brent to take the first part on our cost structure and then I'll respond to your question on M&A.

Brent Whittington - *Windstream Communications - EVP and CFO*

So, Frank, in terms of the cost structure, I think it's fair to say in this business, that is an ongoing process. Every single day in our operations we have to think about the way we do business and find ways to do it more efficiently and at better price. That's part of the culture we've tried to create and we're asking that of every individual on our team.

Whenever we've kind of talked about our guidance for 2007 I think that was evident about effort we put forth toward that throughout 2006. We didn't wait until the fourth quarter of the year to come up with some of the LD pricing changes that we put in place, to come one the workforce reduction we announced in that back part of the year. That's something we're always thinking about. So, you take that into consideration. We really have do that because of the voice revenue losses we're seeing in addition to switched access, just because of the competitive nature of the business right now.

Secondly, with regard to margins, when you think about what we're trying to do to offset those declines in voice revenues, we're doing it and we're doing it successfully with growth in broadband. But broadband's got its own kind of cost pressures as well. I made some reference to that this quarter and in my comments earlier. So it is lower margin. So I think as you think about the longer term trajectory of the business, you'll see some margin compression. Still very healthy margins, for sure, but there will be some margin compression.

Jeff Gardner - *Windstream Communications - CEO, President*

And to your question on M&A, it is very difficult, obviously, as you know to predict whether or not there will be more RBOC lines on the market. And as you said, with a Reverse Morris Trust, given our relative size, that obviously is challenging. The way we look at this, Frank, is even without that, we believe there's going to be opportunities to grow this business over time. And again, that is really based on our view that to be successful in sustaining cash flows over the long run, you're not only going to have to transform these businesses from a voice to a broadband model but you're going to also have to make, as Brent just explained

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

in our business, consistent regular improvements in your cost structure. And if you have scale, that's much, much easier to do. And so again, that's why we believe that we'll still have more opportunities in that space.

Frank Louthan - *Raymond James - Analyst*

Great. Thank you. Very helpful.

Jeff Gardner - *Windstream Communications - CEO, President*

You're welcome. Jackie, we have time for one more question.

Operator

Thank you, gentlemen. And your last question will come from the line of Michael Rollins from Citigroup. You may proceed Michael.

Michael Rollins - *Citigroup - Analyst*

Just continuing on this theme of swap -- or I should M&A and what you could do for your portfolio. How do you view swaps? Is that something that you can do under the tax code with some degree of flexibility? And is that at all interesting to you as you try to optimize your portfolio? Thanks.

Jeff Gardner - *Windstream Communications - CEO, President*

I don't think there's anything out there that would limit us from doing a swap related to the tax structure. Obviously, we'd have to look at that. I haven't explored that specifically, Michael. But on the surface, it would have to be pretty compelling, maybe a situation where you'd swap a urban property for a rural property. As you know, we're mostly rural today. The problem with swaps is that you have all the expense related to an integration without the significant synergies and so I think that makes that pretty challenging from an execution perspective.

Michael Rollins - *Citigroup - Analyst*

Great. Thank you.

Jeff Gardner - *Windstream Communications - CEO, President*

You're welcome.

Rob Clancy - *Windstream Communications - SVP and Treasurer*

I'd like to thank you all for joining us this morning. We appreciate your interest and support. Mary Michaels and I will be available for additional questions throughout the day. Thanks.

May. 10. 2007 / 8:30AM, WIN - Q1 2007 Windstream Communications Earnings Conference Call

Operator

Thank you, ladies and gentlemen, for your participation in today's presentation. This does conclude today's presentation. You may now disconnect, and have a wonderful day.

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