FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2006 Windstream Communications conference call.

At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS).

I will now turn the call over to Rob Clancy, Senior Vice President and Treasurer. Please proceed.

Rob Clancy - *Windstream Communications - SVP, Treasurer and IR*

Thank you, Nicole, and good morning, everyone.

My name is Rob Clancy, the Senior Vice President and Treasurer and I lead Investor Relations for Windstream Corp. Thank you for joining us this morning. I note that a live webcast of this call is available on our web site. To access the call, you can go to our web site at www.Windstream.com/investors and click on the Live Webcast link.

Today's conference call was preceded by our third quarter 2006 earnings release which has been distributed on the newswires and is available from the Investor Relations section of our web site.

Today's conference call should be considered with our earnings release and related financial information. Today's discussion includes statements about expected future events and future financial results that are forward-looking statements within the meanings 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 third-quarter 2006 earnings press release.

Additionally, today's discussion will include certain non GAAP financial measures including the term OIBDA, which is defined as operating income before depreciation and amortization. Again we refer you to the IR section of our web site where we have posted our release and supplemental materials. Also, there is the non GAAP financial measures including a reconciliation of each such measure to the most directly comparable GAAP measure.

Since the spinoff from Alltel and merger with Valor occurred on July 17, 2006, our GAAP results reflect the Alltel Wireline business for the entire third quarter and the Valor business starting July 17. To assist the investment community and provide meaningful year-over-year comparisons we have also provided pro forma results as if Windstream had existed since January 1st, 2005; and we will make references to these pro forma results from current businesses including the year-over-year comparisons during our call this morning.

Participating on our call are Jeff Gardner, Windstream President and Chief Executive Officer; Keith Paglusch, 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.

Jeff Gardner - *Windstream Communications - President and CEO*

Thank you, Rob, and good morning, everyone. Thank you for joining us this morning for Windstream's first quarterly earnings call.

This has been an extremely busy quarter for Windstream as we completed the separation from Alltel and merged with Valor on July 17. And I'm very pleased with the accomplishments of the entire Windstream team and with the results of the third quarter.

This morning, I will start our discussion with a few highlights from the third quarter and provide updates on a couple of strategic initiatives. Keith will review the operational highlights and provide an update on our integration activities; and then Brent will review our third quarter financial results.

In the third quarter on a GAAP basis Windstream generated consolidated revenue of $771 million, operating income of $254 million, and achieved $0.43 of diluted earnings per share which includes a non-cash after-tax gain of approximately $100 million related to the discontinuance of FAS 71. As Rob mentioned, we provided pro forma results from current businesses which include Valor for a full quarter and exclude various onetime expenses related to the spin off and merger that Brent will cover in detail. We will focus most of our discussion on these pro forma results as they provide meaningful year-over-year comparisons.

Let me turn to the pro forma results from current businesses for the quarter. Windstream generated consolidated revenues of $795 million, essentially flat year-over-year and OIBDA of $406 million, a 2% decline year-over-year.

Operationally, we added over 55,000 broadband customers -- a record quarter, increasing our broadband customer base 48% year-over-year. Average revenue per customer increased 2% year-over-year, primarily a result of continued growth in broadband.

During the quarter we lost 41,000 access lines. A decline of 4.2% year-over-year and in line with our expectations.

We have made great progress on our transition activities. We completed most of the plant job reductions, consolidated Valor call centers, converted systems, and launched the Windstream brand. Overall, we are very pleased with the third quarter and the momentum that we have created, particularly given the substantial separation in integration efforts that took place.

From a balance sheet perspective, we ended the quarter with over $370 million of cash -- affected somewhat by timing benefits related to interest, taxes, and dividends which we began paying in the fourth quarter. We have ample flexibility to pursue strategic opportunities should they arrive; and as we previously stated we will be disciplined in in [favor rule] properties with potential for cash flow creation.

We will contemplate strategic opportunities along with other potential uses of our cash, including share repurchase and debt reduction with a focus on activities that are cash flow creative resulting in a lower dividend payout ratio.

On our previous investor call in September, we made reference to evaluating a potential wireless MVNO offering. Over the past several months, we have carefully reviewed the potential benefits and associated costs and complexities of entering the wireless business as a reseller. Of course we have a lot of experience and expertise in wireless, having been a part of Alltel for so many years.

Our conclusion, at least for the time being, is that wireless would not materially benefit our bundle or meaningfully reduce access line losses. Rather at this time we believe that an emphasis on driving broadband and digital TV penetration is more important to customer retention, particularly in front of competitive cable voice offerings. That said, we will continue to evaluate development that make warrant a change in our view.

On the regulatory front, Windstream has agreed to support the Missoula Intercarrier Compensation Reform Plan, which is a significant step toward reforming the outdated intercarrier compensation system. We believe that this plan -- or one similar to it -- will reduce the level of regulatory risk and overhang in the [R-LEC] sector.

As we look forward, we will continue to manage both operating and capital expenditures aggressively. And we are evaluating our business processes on an ongoing basis to identify ways to improve efficiencies that will lead to consistency and improve service levels for our customers. A dedicated singular focus that we now have on this business is beginning to manifest itself in our operating results, as well as new initiatives to drive revenue and manage expenses.

In summary, I would like to say thank you again to the entire Windstream team for the tremendous efforts put forth to launch this business and deliver solid third-quarter results. Over the past several months, many of us on the executive team have visited with Windstream employees across the 16 states in which we operated. I have been overwhelmed with the excitement, dedication and hard work that employees have demonstrated in both completing the transaction as well as executing on our business plan. And I am very proud of all that has been accomplished and excited about the future of Windstream. Thank you.

Now let me turn the call over to Keith to discuss the operations.

Keith Paglusch - *Windstream Communications - COO*

Thank you, Jeff, and good morning everyone. I'm very pleased about the operational results the Windstream team achieved in the third quarter and I will provide an update using our pro forma results from current businesses.

We added over 55,000 broadband customers in the third quarter, bringing our broadband customer base to 603,000 or 19% of total I-LEC access lines. Our broadband self-improvement is a result of increased brand visibility and improved productivity within our call centers, our retail stores and by our service technicians. We are also emphasizing faster speeds to drive incremental revenue as evidenced by the fact that 20% of our broadband customer base now subscribes to 3 Mb speeds or higher.

In addition, we're on track to reach our goal of 80% broadband addressability by the end of the year.

With respect to digital TV, we spent an entire week in September promoting Dish internally to better educate and train our entire workforce on the strategic importance of this service and improving sales. We also outfitted all of our retail locations with high-definition Dish service and DVR functionality to give customers the opportunity to sample the product while visiting our stores.

Throughout the year, we have experienced sales improvement by bundling this service with voice and broadband. Bundling two or more products was a key strategy for Windstream and we have seen that churn is significantly reduced when broadband is added to the bundle. And we expect a further reduction with digital TV service.

This quarter we simplified our long distance offerings; and we are seeing positive net residential long distance growth with our connect bundles which combine long distance and a feature package with a primary residential line access.

Connect sales helped drive long distance additions of over 5,000 in the third quarter and we ended the quarter with the total long distance customer base of over two million. With roughly 200,000 of these customers outside of our footprint, our penetration is approximately 57% of total access lines. Average revenue per customer for the third quarter was $75.79, an increased of 2% year-over-year, primarily the result of our continued broadband growth.

This quarter, we lost approximately 41,000 access lines -- a decline of 4.2% year-over-year, primarily due to fixed-line competition and wireless substitution. At this time, the incumbent cable providers are offering voice services to approximately 35 to 40% of our access lines. We continue to expect that percentage to increase gradually over time.

We have implemented various sales and marketing initiatives to improve our overall competitiveness in our markets. Specifically, we have established relationships with companies to promote Windstream as the voice, broadband, and digital TV choice for new customers with the goal being the customer's first call.

We have also introduced a door-to-door sales strategy and local advertising campaigns to promote the value of our bundled service offerings. In addition, we implemented win-back campaign in certain markets, targeting customers that had previously disconnected. Because initial results have been successful, we will deploy these win back strategies in additional markets in the fourth quarter. We have been encouraged by all of these sales and marketing initiatives and will focus on them throughout the remainder of this year and into 2007.

In addition to the residential initiatives that I just mentioned, we are working aggressively on expanding our relationships with business customers which account for roughly 25% of total access lines. Our teams are doing a great job, transitioning from a culture of primarily service to one of sales and service by continuing to ask for the sale. We are also focused on promoting the safety, security and reliability aspects of our products and services.

We all understand the importance of providing quality service in a competitive environment. And I am pleased with our customer satisfaction efforts thus far as we work to retain access lines.

Let me now provide an update on integration activities. During the third quarter we completed the consolidation of the Valor call centers and migration of Valor's customer service provisioning systems, allowing customer service reps to serve all Windstream customers from a common platform. As part of our brand launch, our green trucks have been on tour around the country -- visiting our local markets, promoting the neighborly spirit of our Company, and increasing awareness of our brand and allowing us to introduce and sell our broadband and digital TV services.

Through this transition we have been fortunate to work with many talented former Valor employees, now Windstream employees, who have brought us valuable ideas and best practices which have been implemented across the entire Windstream footprint. All in all, the transition has gone very well and we are positioned to deliver on our targeted synergies.

With that I will turn the call over to Brent to review our third-quarter financial results.

Brent Whittington - *Windstream Communications - EVP and CFO*

Thank you, Keith. Good morning, everyone. Before I get started, let me also thank the Windstream team for outstanding execution during the entire separation and integration process. In less than four months since this transaction closed, we have developed the shared service functions necessary to operate the Company on a stand-alone basis, and completed the vast majority of the integration work by consolidating corporate functions and various call centers, and converting the customer service provisioning system -- all of which position us to deliver on the $40 million of net annual synergies during 2007. Really a great effort by all.

In the third quarter, Windstream achieved $0.43 of diluted earnings per share on a GAAP basis which includes a non-cash, after-tax gain of approximately $100 million related to the discontinuance of FAS 71. Our GAAP results reflect the former Alltel Wireline business for the full quarter and Valor beginning July 17th -- the date the transaction closed. As Jeff mentioned our pro forma results for current businesses include a full quarter of valor and exclude various onetime expenses related to the spinoff and merger as well as the gain I just mentioned.

Let me review the onetime items in greater detail. First, beginning in the third quarter we had discontinued the application of FAS 71 which generally applies to companies with rate of return regulation. This change resulted in a reversal of the liabilities associated with the cost of removal of certain assets which was previously reflected in accumulated depreciation on our balance sheet resulting a onetime gain of roughly $100 million.

Second with respect to the spinoff and merger, we incurred roughly $15.4 million of pre-tax expenses primarily related to launching the Windstream brand and $15.6 million of expenses primarily related to the accelerated vesting of restricted stock for former Valor employees. We have excluded the $31 million of expense in computing our pro forma results from current businesses.

Let me turn to the results from current businesses on a pro forma basis. Windstream generated consolidated revenues of $795 million, essentially flat year-over-year and OIBDA of $406 million -- a 2% decline year-over-year which was in line with our expectations. Within our Wireline segment, revenues were $752 million -- a decline of 2% year-over-year. This decline is largely driven by access line losses that led to lower local service and network access revenues. These declines were somewhat offset by solid growth in broadband, a slight increase in long distance and the commissions we received for activating new digital TV customers on the Dish service.

This quarter, Wireline OIBDA was $405 million, a decline of 2% year-over-year driven primarily by the revenue declines I just mentioned.

On the expense side, cost of service is up year-over-year, primarily due to increased customer usage driven by unlimited long distance bundles. Within SG&A, expenses are down year-over-year affected largely by transitioning from allocations from Alltel to direct cost. Collectively we have managed expenses well as total cash costs are down almost 2% year-over-year and we are well-positioned to begin realizing some synergies in the fourth quarter.

As we mentioned on our previous call, the fourth quarter of 2005 included several favorable items that will affect the year-over-year comparisons. Within our Other segment, which includes our publishing and supply businesses, revenues were $113 million -- a 4% increase year-over-year. Due to the fact that we publish the majority of our books in the second and fourth quarters we expect to see a sequential increase in publishing revenues during the fourth quarter.

This quarter, capital expenditures totaled $90 million and we ended the quarter with a cash balance of over $370 million. And as Jeff mentioned this is somewhat driven by timing benefits related to interest, taxes, and dividends which we began paying in the fourth quarter. In terms of our capital structure our net debt to OIBDA is roughly 3.1 times. In addition roughly 85% of our debt has a fixed interest rate as we swapped a large portion of our bank debt from a floating to a fixed interest rate at the time we closed the transaction in mid-July.

In summary, we are very pleased with our results this quarter and particularly pleased with the progress we have made to realize our targeted synergies. Given the extensive work already accomplished and the fact that most job eliminations have taken place, we expect to realize some synergy benefits in the fourth quarter and expect to achieve the full $40 million of net synergies during 2007.

With that, we will now take a few of your questions. Operator, please review the instructions and open the call to questions and thank you very much.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Tom (indiscernible) with Lehman Brothers.

Unidentified Participant

I think it is a very good thing that you are not going to sell Wireless. I think that's a bit of a waste of time, but can you go into our -- can you go into your decision-making progress a little bit more please?

Jeff Gardner - *Windstream Communications - President and CEO*

Sure, Tom. Thanks for the question. We wanted to make sure that any product that we put out there could be really competitive. We could do a good job, make a difference in the marketplace and most importantly support the core products and services that we sold. I think as we thought about that process, we just didn't see the wireless aspect really helping us with regard to -- helping us retain customers. If customers were going to move from a wireline phone to a wireless phone we didn't think we really changed the game significantly in today's environment if we had a wireless resale product.

So we also had to consider the fact that we have a number of other strategic initiatives going on here, mainly selling broadband. We believe that the Company that owns the broadband pipe into the customer's home has a tremendous advantage. And we were very cautious not to do anything to get in the way of that.

And I think from the numbers that Keith reported, you can see that we continue to do a very good job there. It's a clear focus of ours. Similarly, we feel very strongly about the need to get digital television out to our customers as well and so that is not just another product that we have thrown into our bundle, but one that we are trying to push very hard. We have seen it increase tremendously over the last few quarters. We still have a lot of work to do to get it at to the broadband penetration level but began if we can get broadband and digital television into our customers' homes, we are going to make it very difficult for the cable companies to take our customers. So that really was the essence of our strategy.

Unidentified Participant

Thanks and just one follow-up. In markets like Lexington, Kentucky, where you have got a lot of students are you selling naked DSL?

Jeff Gardner - *Windstream Communications - President and CEO*

Keith, why don't you take that?

Keith Paglusch - *Windstream Communications - COO*

We actually have launched a product called Simple Broadband and we pilot launched it in sixth markets where we are selling the product, as you mentioned it. We also do bundle it with an access line with measured service. We found that to be somewhat effective. It is a very good win back program. It's very good in a save program.

And so as a result, we are in the process of determining if we are going to roll that out nationwide. I expect we will make a decision on that probably in the next 20 to 30 days.

Operator

Rayna Smith with Morgan Stanley.

Rayna Smith - *Morgan Stanley - Analyst*

I was hoping you could give us a little bit more color on margins and the trend going forward. It sounds like based on this quarter's pro forma results and your former second half guidance that, maybe, we could expect a higher dollar amount of EBITDA in the fourth quarter, which sounds like it is consistent with your comments about the directory of business seasonality.

But how should we think about EBITDA margins? What is the run rate? And then given that you think a lot of the integration has already taken place, what can we expect for '07?

Brent Whittington - *Windstream Communications - EVP and CFO*

This is Brent. I will take that question. Really, in the fourth quarter a couple of things going on. As I mentioned, we did complete the bulk of our integration activity during the third quarter. During that quarter we were encumbered with certainly corporate costs at some of the Valor locations as well as the infrastructure we were building here at Windstream at that time. So I think given the vast majority of the job reductions were completed as of now and many of them by the end of the third quarter, we would expect margins to improve in the fourth quarter and certainly begin to see some of the synergies from the Valor transactions, as I kind of mentioned, positioning ourselves really to began recognizing those at full amount of $40 million as we move into 2007.

That is really my comment. So I think, overall, some improvement in future quarters -- primarily a result of the integration efforts we completed thus far.

Rayna Smith - *Morgan Stanley - Analyst*

So a lot of that $40 million sort of the first quarter and run rate it should already the in the numbers? Or should --?

Brent Whittington - *Windstream Communications - EVP and CFO*

I would say the -- all of it will be in the numbers in the first quarter and the fourth quarter will began realizing some of it. I don't know that I would characterize it as a lot, but certainly begin seeing some of it.

Operator

Michael Rollins with Citigroup.

Michael Rollins - *Citigroup - Analyst*

Couple of quick questions. First, strategically as you look at penetrating the market with broadband and you go after those customers that are moving to wireless, how are you looking to penetrate that younger demographic? Do you do it with a broadband only product? Do you do it with VoIP?

I'm just curious how you have been doing on that front. Then just also on the margin front is there fourth-quarter seasonality that we should be thinking about that is neither positive nor negative in the more normalized environment? Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

I will let Brent take the second part of that. As Keith mentioned, on the broadband side with the younger crowd -- and clearly that's a demographic that we are trying to reach. That is a demographic that has propensity to go to wireless only. He talked about the simple broadband product that does have an access line with limited functionality that we have used to get at that segment. So most of that has been on a trial basis to date. And we will be -- I mean that is a real focus of ours as to going forward is to really working hard to get at that younger demographic.

And we believe that if we have the broadband pipe into that demographic, that we can really play in that segment. And that's been a focus of ours. It is really a little bit early for us to give any results on that but is something that we are really focused on.

Similarly our advertising, at the same time recognizing that young people may have this propensity for wireless, we are also trying to focus our customers and potential customers' attention on value of the wireline product focusing on safety, security -- as an element of the bundle -- to really help them understand the value that our product has.

Then, obviously, our digital TV product plays very well into that younger demographic.

Brent Whittington - *Windstream Communications - EVP and CFO*

With regard to seasonality really outside of the publishing operations, the fourth quarter is really one of our larger quarters in terms of our publishing results. Outside of that, nothing else significant from a seasonality perspective that I would be focused on in the fourth quarter.

Operator

Jason Armstrong with Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

Couple of questions just on the other revenues category. Jeff, you've talked historically about 50% margins in the directory business. Backing this out, this implies very negative margins in the product distribution business. It looks like it's about negative 20% EBITDA margins.

So I guess first question is is this the right calculation or is there some other intercompany stuff that is start getting in the way here? And if this is correct can you sort of walk us through the strategic rationale of using this business as a big loss leader at this point?

Then also in this other category as it relates to directory, realizing obviously there is some seasonality here, the growth profile in that business sort of generally matches the core growth profile of the wireline business. Butt you have got public comps and recent transactions out there that would suggest valuation on directories which are well above your corporate multiple. So can you walk us through the strategic decision making here? Sort of weighing the decision of letting accretive internally versus potentially exploring external options? Thanks.

Brent Whittington - *Windstream Communications - EVP and CFO*

I will start by answering the financial questions. When you look in our other kind of segment, really, our directories business is not a loss leader per se. When you think about our publishing operations we do generally recognize about a 50% margin, but there is a royalty expense reflected in those segment results that ends up being revenue on the ILEC side of the business. So that is why you see those margins depressed a little bit. Our directories business, again, is not a loss leader by any means. We generally see margins in that range in terms of the gross margins of 10 to 14% and we only have about a $100 million non affiliate business there.

It certainly helps us leverage a warehouse we would need otherwise in terms of really helping offset some of those overhead costs. So that is how I think about the other operations. So I think that helps there.

Jason Armstrong - *Goldman Sachs - Analyst*

Does (indiscernible) insurance of that -- directories about a third of that revenue stream right?

Jeff Gardner - *Windstream Communications - President and CEO*

That's right.

Jason Armstrong - *Goldman Sachs - Analyst*

I wasn't implying that that was the loss leader. It's the -- what's implied for the other part of the business, the other two-thirds which is product distribution. Seem like that is a pretty negative margin but I guess you are implying that there is royalties in that business?

Brent Whittington - *Windstream Communications - EVP and CFO*

No. The product distribution is what I am referring to in terms of that's really the warehouse operations. We use that non affiliate business to help us offset our costs to manage that operations in general and it again is not a loss leader. If I said publishing I apologize for that. I misspoke.

Jeff Gardner - *Windstream Communications - President and CEO*

Then with respect to the directories business, a large part of that directories business is based in our markets. We also do 200 some directories for other small rural ILEC. Just like we are benefiting from a senior focus in the wireline business, we expect that same thing to occur and already is. You saw some pretty good results from our directories business in the quarter. It is a 50% margin business.

You are right. On the valuation side, that is something that we keep an eye on, but our focus today is principally on operating that business better. We have got a great management team that is really focused on driving that advertising revenue stream up in the coming years.

Operator

Jonathan Chaplin with JPMorgan.

Jonathan Chaplin - *Citigroup - Analyst*

I just wanted to follow up quickly on an earlier question on the decision not to pursue an MVNO. So it seems like the wireless MVNO wouldn't make you a whole lot in terms of EBITDA contribution. Neither would the -- would reselling satellite service. When you look to these two services you decided that satellite business would have better defensive benefits for you than than including wireless as part of the bundle.

I'm wondering if you could give us just a little bit more detail on what kind of analysis you did around those to determine the wireless wouldn't be -- that I guess the conclusion is that consumers don't really value having wireless as part of the bundle or that -- what we've heard from other carriers in terms of integrating wireline and wireless services just isn't a big draw card for consumers at this point. Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

Sure. That is a good question. I mean that is exactly how we thought about it. With respect to satellite it is clear that digital TV is a real relevant part of the bundle for our customers. It makes a difference as they look at purchasing our other products, both VoIP and broadband. So that research was -- we do enjoy some incremental economics around the satellite business.

Wireless would have been similar, more of a subsidy on the front end the wireless business so it would be a little bit different there. I think you are exactly right. Our conclusion was today with where we are at with wireless, wireline convergence, the wireless element isn't a key part to our customers bundle today. It wasn't going to influence decisions around our broadband voice or digital television products.

We will have to really stay focused on that going forward with regard to progress it has made in this whole area of wireless wireline convergence. If that changes that may lead us to think a little bit differently about this space. But today as I said the key thing is, we think that in front of competition, our strategic focus based in the 100% on driving broadband and putting up the kind of numbers that you saw from our Company this quarter and a similar focus on digital television.

Jonathan Chaplin - *Citigroup - Analyst*

And in terms of arriving at that conclusion, did you commission studies, run focus groups? How did you determine that consumers don't really care about wireless as part of the bundle?

Jeff Gardner - *Windstream Communications - President and CEO*

We worked on it with a consulting firm. This was many months after (indiscernible). Nine to 12 months we had worked on that and it was a difficult decision, but one that we all feel really comfortable with.

Jonathan Chaplin - *Citigroup - Analyst*

How much of a factor was just allocating management resources? Is it something -- was it an issue of sort of you can't focus on broadband and digital TV as well as wireless service? Or is it just wireless service fundamentally isn't that interesting even if you had enough resources to pursue all three?

Jeff Gardner - *Windstream Communications - President and CEO*

I think it was a little bit of both. Right? We think that we have got a lot going on with respect to our plans around digital television and broadband today. A lot of ideas about how to generate deeper penetration in that space. Then, on the wireless side we just didn't think we could have as big an impact.

Jonathan Chaplin - *Citigroup - Analyst*

Excellent. Thank you very much.

Operator

David Janazzo with Merrill Lynch.

David Janazzo - *Merrill Lynch - Analyst*

Jeff, you had mentioned ample flexibility to pursue opportunities. Can you review the Alltel Tech share agreement with us? What limitations that generates in? Do you have any flexibility there, relevant to the agreement?

Jeff Gardner - *Windstream Communications - President and CEO*

Yes, well, the Alltel tax agreement as it relates to our transaction that the separation from Alltel as you know, that tax advantages of that are very important. There was a huge tax savings. So we need to be very cautious with respect to that.

The limitation in the tax sharing agreement is that we can issue up to 71 million shares of equity and no restrictions related to a cash transaction. Just to restate how we think about that going forward, with respect to strategic opportunities, we want to stay focused on rural properties that are cash flow accretive, that allow us to remain in a financial leverage range that we are comfortable with, focusing on markets that will allow us to generate meaningful synergies. Those are just some of the key characteristics that we are focused on.

Operator

Tim Horan with CIBC World Markets.

Tim Horan - *CIBC World Markets - Analyst*

Jeff, just two points maybe. Give us a little bit more color on the regulatory front on the Missoula plan, which seems to be a pretty big positive for the industry if you can get it over the hump here. What do you think major roadblocks are at this point and in timing there?

Secondly, you are doing obviously a great job on the AccessLine side to stabilize. Do you think this is a pretty good run rate where we are at here? I guess, the biggest change would really be cable companies and do have a rough idea where they can build out to at this point? Maybe that would be somewhat indicative of what their cable modem overlap is, now, with you? Maybe you can give that number out.

Jeff Gardner - *Windstream Communications - President and CEO*

All right. I will take the regulatory question and I will ask Keith. We are real pleased with where we came out on the AccessLine side and I would like him to just share what we are doing in that respect going forward.

With respect to the Missoula plan, we are pretty excited about the applications of this plan. When we look at this and we studied very hard and worked with a number of other players in the industry, really our conclusion was that over the next five years we believe that the Missoula plan provides much more certainty and predictability around our access revenue.

I think that the industry did a very good job working together in that respect. When you think about the overhang in the R-LEC space I think the Missoula plan goes a long way to removing some of that overhang and allowing companies to shape their own destiny in the future.

With respect to where it goes from here, generally, we are confident that the [planet] is in good shape from the industry perspective and we expect the FCC will act on this over the next 12 months.

With respect to AccessLine, Keith, you want to give some ideas of what we are doing to manage our AccessLine?

Keith Paglusch - *Windstream Communications - COO*

Be glad to. We are very pleased with the AccessLine activity that we had during the quarter and it is obviously consistent with the range we had given. I think that if you look at what we have done, we really have done several things. It is around simplification. It is around distribution and our channels. It is around advertising and execution within those channels.

We have attempted to make sure that we have bundled these products and services in the best manner possible with appropriate pricing, so that we are very competitive in that marketplace. I mentioned to you the various channels that we have started up with feet on the street activity and some Internet types of activity. Our retail stores, from a distribution perspective, you are starting to see a new look there. And an aggressiveness by our employees. Our service technicians are doing a fantastic job of now referring customers in.

Then our advertising very much hits upon the key components that differentiate us from our competitor around service, reliability and safety. When you look at the reliable nature of our proposition versus our competitors, there is no question that our customers and our new customers are finding that to be very valuable.

Relative to your question on competition and where we saw it, we saw competition, new competition from Time Warner primarily in the North Carolina, Ohio, Pennsylvania and South Carolina areas. Not only in those areas but all the areas. Our teams are becoming very aggressive and they are learning how to ask for the sale.

Jeff Gardner - *Windstream Communications - President and CEO*

Just to tie that up, I mean our business thesis when we put this Company together was that we had good rural markets, and that is obviously true. We have very high broadband penetration and digital television penetration is growing. With the things that Keith just described we are getting much more aggressive with respect to attracting new customers. So we are not going to talk about a trend going forward, Tim, but if you look at where we have been over the last several quarters you'll see some real consistency with respect to execution there.

Operator

David Barden with Banc of America Securities.

David Barden - *Banc of America Securities - Analyst*

Just a couple of housekeeping items and then maybe one strategy question. One, just on the line count. I might have been doing some math wrong, but I was trying to get the numbers from the September presentation online with this report like the 41,000 lines lost and I wasn't able to get there.

The second question was, this kind of goes back to some of the margins we were talking about before. I want to be clear. So you are going to start to see some of the synergies in the fourth quarter to a small extent. On a run rate basis, are the separation expenses, you know all the stand-alone costs you plan on having, are they kind of run rate as of the third quarter? Or are they going to be stepping up into the fourth?

The last question is and, again, talked a lot about dogs on wireless strategy etc., but one of your peers or counterparts in the market recently has been making an incremental step in promotion. You know free PCs and bundling, a year free on video. Could you give us your assessment of what needs to be done on the promotional front to get the results which you seem to see are so important on broadband penetration? Thanks.

Keith Paglusch - *Windstream Communications - COO*

I will start by taking the line count question and make sure I understand your issue there. But the only thing we did with regard to the Valor transaction, whenever we brought over the lines from that acquisition was adjust their customer count by the test lines that had been in their numbers previously. Outside of that we will go back and review that information and make sure we can address your question there. Don't have any additional data on that point, but that is the only possible item I was aware of.

With regard to synergies. A couple of things, I mentioned that we will begin seeing some synergies from the Valor transaction during the fourth quarter. The other thing in terms of just our stand-alone cost structure. We just completed the transaction in July 17 and we had pretty much ramped up at that point in terms of the overall overhead we needed here to operate the business on a stand-alone basis. But we are still in a ramp-up mode really through the end of the third quarter. So I would say that you don't have a quarter that is pure in terms of our true ongoing cost structure, but from a materiality perspective it was substantially complete. So I wouldn't expect a significant amount of the incremental cost in the fourth quarter run rate there.

Jeff Gardner - *Windstream Communications - President and CEO*

David, I'll take the part relative to our broadband strategy and comparing that to some of the other promotions and things that you have heard. Quite frankly it is really kind of the culture in terms of how we are creating the culture here, which is moving from a service-only to a service and sales orientation. I mentioned to you earlier that our retail channel is becoming effective. Our service technicians are becoming much more effective in asking for the sale; and our customer service centers have always been critical in that.

Thirdly, our focus will be primarily on bundling the products and services as we mentioned with AccessLine digital TV. We are finding that customers like that very much and so what we're really focusing on for the most part is the basics and then, lastly, I think the brand visibility has been huge for us. We didn't spend time back in the former Alltel, the former Valor days of telling people who we were, what we had to offer.

And we are finding that the activities that are occurring true that are well. All of the members of our team are incented from a team bonus perspective as well as the management team. All their pay is attributed to how successful we are in not only the broadband marketplace but access line and digital TV and we are finding that to be extremely helpful with our team members as well.

Brent Whittington - *Windstream Communications - EVP and CFO*

If I could just ad, so the bottom line there is our bundle pricing has been very competitive. We haven't felt a need to discount the satellite service. Obviously there has been some promotions on broadband but we think we've done a nice job with the average revenue per unit there as well.

We don't feel a need to deep discount. We have very competitive offerings with the bundled prices that we have out in the marketplace today.

David Barden - *Banc of America Securities - Analyst*

So the increment is really the blocking and tackling stage?

Jeff Gardner - *Windstream Communications - President and CEO*

Absolutely.

Operator

Mike McCormack with Bear Stearns.

Mike McCormack - *Bear Stearns - Analyst*

Just a couple questions. First, margins. You talked about cost of service being up. I think based upon higher penetration of LD bundles, can you just give us a sense if that is a rotation of customers into unlimited plans or if we are looking at a higher cost per minute charge?

Secondly on wireless, I mean I think if you look at some of your peers they don't seem to be spending a tremendous amount of money on the wireless bundle. I don't know; maybe you can identify what the cash cost would be. It seems like it takes a long time to get that MVNO relationship up and running so that by the time you identified a need you might be a year away from actually getting it up and running and it just seems to me like the risk of doing it near-term should be fairly low. But maybe you can clue us in on that? Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

With regard to margins, Mike, really a lot of activity you saw going on there is two things. One, we have had some migrations of customers up to the higher value kind of LD plans which is a good thing from a revenue perspective, but certainly is also driving some of our costs up.

The other factor that is going on there, really, is now a full reflection of our LD relationship with Alltel as part of a separation effort. So you have got kind of going on in the financial statement some allocation shift from costs that previously might have been in other line items on the income statement now reflect it truly as cost of service. So I think what you're seeing, probably, is more reflecting reflective of reality in terms of run rate moving forward on those individual line items. So no other kind of major movement there.

Jeff Gardner - *Windstream Communications - President and CEO*

And just (indiscernible) I will just go over the points I made easy -- earlier. No you're right. It wasn't about near-term dilution. That dilution from this product wasn't huge. I don't think it would take a long time for us to roll this out. We know this business very well. There's obviously some billing integration that would be necessary but, really, what it was about is our conclusion that it wasn't going to move the needle with respect to our ability to retain customers and sell our bundles. So that's really what was the basis for our conclusion.

Mike McCormack - *Bear Stearns - Analyst*

On the LD rates -- are the rates any different than what you first anticipated they would be during the split off?

Jeff Gardner - *Windstream Communications - President and CEO*

Not at all, Mike. Not at all.

Rob Clancy - *Windstream Communications - SVP, Treasurer and IR*

Nicole we have time for one more question.

Operator

Frank Louthan with Raymond James.

Frank Louthan - *Raymond James - Analyst*

On a couple of regulatory things. Can you give us any idea of what you think some USF pressure would be next year on some high-cost (indiscernible) support? I saw there was another Missoula filing again by the plan. Any thoughts on the changes in Washington from this week in the elections, how that may play out? Or what the SEC's appetite may be to make some -- to take some action on intercarrier comp?

Then just, lastly, as you combine the two companies have you given any thought to the benefits of -- or negatives possibly of changing some of your rate of return at the state level? Are there any advantages with the combined company to may be looking at considering going to price cap in some of those markets? Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

With regard to USF, really no major changes I would say looking forward into next year. Would say on some of the wholesale kind of USF revenue streams, expectation of declines consistent with some of what we have seen along the AccessLine issues, but no other major movement there.

With regard to combining or reevaluating, really, the former regulations in several of our states, I think certainly that is on the agenda for next year to evaluate what makes sense. Price cap is a consideration, but we have not made those determinations yet. And we will continue to look at the competitive environment and see what makes the most sense for our business there.

Brent Whittington - *Windstream Communications - EVP and CFO*

Frank, I think with respect to Missoula the FCC really wants to get something done. That has been on their plate for a long time. I'm not -- I can't predict how the changes this week will affect that, but I do think as I said earlier the industry has worked really hard to put together a plan that makes sense, I think, for all the affected constituencies and we expect them to act on that in the next 12 months.

Rob Clancy - *Windstream Communications - SVP, Treasurer and IR*

We would like to thank you folks for joining us this morning. We sure do appreciate your interest and support. Mary Michaels and I will be available for additional questions throughout the day. You can reach me at or reach us at 501-748-5550. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.
