PARTICIPANTS

Corporate Participants

Robert G. Clancy – Treasurer & Senior Vice President
Jeffery R. Gardner – President and Chief Executive Officer
Brent K. Whittington – Chief Operating Officer
Anthony W. Thomas – Chief Financial Officer

Other Participants

Michael I. Rollins – Analyst, Citigroup Global Markets (United States)
Simon Flannery – Analyst, Morgan Stanley & Co. LLC
David W. Barden – Analyst, Bank of America Merrill Lynch
Scott J. Goldman – Analyst, Goldman Sachs & Co.
Frank G. Louthan – Analyst, Raymond James & Associates
Barry McCarver – Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Q1 2012 Windstream Communications earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now like to introduce your host for today's conference call, Mr. Rob Clancy. You may begin.

Robert G. Clancy, Treasurer & Senior Vice President

Thank you, Kevin, and good morning everyone. We appreciate you joining us today to discuss Windstream's first quarter results. Today's conference call was preceded by our earnings release, which has been distributed on the news wires and is available from the Investor Relations section of our website. Today's conference call should be considered together with our earnings release and related financial information.

To assist investors, we have developed a PowerPoint presentation that will accompany our prepared remarks this morning. This presentation can be found at our website, www.windstream.com/investors.

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

Today's discussion will also include certain non-GAAP financial measures. Again, we refer you to the IR section of our website, where we have posted our earnings release and supplemental materials, which contain information and reconciliations for any non-GAAP financial measure.

We have provided supplemental pro forma financial results, including the PAETEC business, for all periods shown. Given that Windstream and PAETEC had different operating metric disclosures, we're continuing to develop a unified approach and plan to introduce additional disclosures later this year. At this time, we have continued to provide the business operating metrics for legacy

Windstream. We will make references to these pro forma results, including the year-over-year comparisons, during our call.

Participating in our call this morning are Jeff Gardner, President and CEO; Brent Whittington, COO; and Tony Thomas, CFO. At the end of the call, we'll take a few questions.

And with that, here is Jeff Gardner.

Jeffery R. Gardner, President and Chief Executive Officer

Thank you, Rob, and good morning everyone. I will begin by making a few comments about our results and strategic activities. Brent will then discuss our operating results, and Tony will review our financial performance.

Turning to slide four, I am incredibly pleased with the outstanding performance in our core business. The business channel has gained significant traction with the acquisition of PAETEC, and our combined team is having tremendous success driving new sales opportunities.

Business service revenue, which is our most important strategic growth area, grew 3.2% year over year on a pro forma basis, an acceleration of 80 basis points sequentially. These outstanding results are a testament to the entire business sales team and to the value proposition Windstream offers business customers.

The consumer channel also had a very solid quarter, driven by 5.9% year-over-year growth in broadband service revenues and continued success with our bundling strategy.

Our wholesale revenue declined more than we expected, due largely to our decision to suspend and modify certain wholesale products that were a part of the PAETEC portfolio, which Tony will discuss in more detail.

Turning to our strategic initiatives, I'm very pleased with how quickly the PAETEC team has assimilated into Windstream. The acquisition brought tremendous enterprise level expertise and product offerings, which has strengthened Windstream's already robust business division. We now have a nationwide fiber network capable of delivering advanced communication solutions to multi-location enterprises, which has opened many new doors. In fact, we are already seeing increased sales opportunity as a result of our enhanced capabilities and national footprint. And we are executing on our plan to offer smart solutions with personalized service, which we believe is a brand attribute that improves our competitive position.

On the regulatory front, the FCC is conducting a process to develop and adopt final rules for Universal Service Funding [USF], which will be based on forward-looking cost models to extend broadband to high-cost areas. The initial November 2011 order provided for $300 million of interim support to price capped carriers to deploy broadband to unserved locations. Windstream is eligible for up to $60 million of this incremental support. Although we are not certain at this time how much we can accept under the FCC's requirements, we will continue our analysis over the next few months, with the goal of accepting the maximum amount that meets our investment criteria.

As we look forward, I am extremely confident in the business that we have built. Through targeted acquisitions and our strategic growth initiatives, we have assembled an attractive set of assets capable of generating consistent cash flows over time. I am very encouraged with the longer-term prospects, given the accelerated growth rates in our business channel and the continued stability in our consumer business.

2012 is all about execution, integrating PAETEC, and positioning this business for long-term success. As I have said before, our goal is to deliver consistent, industry leading shareholder returns. And our strategy will allow us to support our dividend over a long period of time and provide other opportunities in the future to increase shareholder value.

With that, let me turn the call over to Brent, who will discuss our operating results.

Brent K. Whittington, Chief Operating Officer

Thanks, Jeff, and good morning, everyone.

Let me begin with an overview of the business channel on slide eight. In the first quarter, pro forma business service revenue increased 3.2% year over year, representing a very nice acceleration in the growth rate, both sequentially and year over year, driven by our success in selling strategic business services. Business data and integrated services increased $29 million or 8.4% year over year, a result of strong growth in our VoIP and data bundles, data center services, and next-generation data. In addition, we are seeing increased demand for data center co-location, cloud, and managed services, which combined with our voice and data services provides complete solutions for our business customers.

Carrier revenue increased $9 million year over year or 6.2%, driven by continued demand for additional circuits to meet growing bandwidth needs. Sequentially, carrier revenue was flat as carriers' demand for new TDM circuits slowed in advance of the transition of fiber. Importantly, we have a very robust funnel for fiber circuits, both in our ILEC territory and non-ILEC territory, which we expect to be reflected in revenues throughout the year as we complete these fiber builds. For the sites we have placed in service, we are already seeing demand for additional bandwidth, resulting in incremental revenue as the circuits are priced on a per-meg basis.

Business product sales were down $7 million year over year or 16%, but do we expect these revenues to improve in the second quarter and the remainder of the year, as we've been successful selling equipment to many large business customers, and we are gaining nice momentum in this group.

Turning to the consumer channel on slide nine, we saw continued stabilization in the overall trends, as growth from broadband services offset some of the pressure from voice declines. We added 7,500 residential high-speed Internet customers, growing our broadband customer base by 2.4% year over year. While consumer broadband revenues grew 5.9%, our consumer broadband penetration is now at 68% of primary residential lines, positioning us very well as we place more emphasis on growing ARPU by selling faster Internet speeds and value-added broadband features and services.

During the quarter, we rebranded our consumer offerings to provide an integrated high-speed Internet and entertainment bundle that leverages our Internet services with a Roku box that aggregates numerous entertainment apps, allowing customers to enhance their pay-TV experience. Although still early, we have been encouraged with the initial results, which is driving better customer ARPU due to the higher price point and increased sales of faster broadband speeds.

Turning to slide 10, our team is doing a great job integrating PAETEC on an aggressive timeline. We have integrated virtually every functional discipline, including sales, service delivery, operations, engineering, and all corporate staff areas. Our combined business sales organization, which has over 2,000 associates, is seeing many benefits of this combination as we can now offer a full suite of advanced products and services across a much larger customer base and a nationwide footprint. In fact, we are participating in more proposals for multi-location enterprise companies given our enhanced service offerings and broad coverage.

We have rolled out our data center referral program and have integrated all product sales under one organization, providing dedicated teams with specific product expertise to differentiate Windstream when selling complex offerings.

In terms of systems, PAETEC and the Windstream CLEC business already operate on the same billing platform, and we are planning to migrate the former McLeod business that PAETEC had acquired to this system in early 2013. We're very pleased with the progress we are making this far and remain confident in our ability to manage this integration.

Turning to slide 11, we're making progress on our capital initiatives targeted for this year. During the quarter, we spent approximately $60 million in fiber-to-the-tower investments. To date, we've completed roughly 1,200 towers and have an additional 2,300 towers currently under construction that we expect to complete in the next 12 months. In addition, we opened a state-of-the-art data center in Little Rock, designed to support the demand for this growing product and provide a secure and reliable environment for our cloud computing and managed services offerings.

In terms of our broadband network, we are making investments to improve capacity given the demand for video over our network, and work is also underway on several of our broadband stimulus projects. While the success-based capital investment opportunities are elevating our total spend this year, beginning next year we do expect our CapEx intensity to decline over time to a more normalized level of 11% to 13% of revenues as the fiber-to-the-tower and stimulus projects wind down.

In summary, I am very pleased with our results in both the business and consumer channels. Our team is doing a great job integrating PAETEC, investing in very attractive capital opportunities, and focusing on our strategic growth initiatives, all of which position Windstream for long-term success.

With that, let me turn the call over to Tony, and he is going to discuss our financial results.

Anthony W. Thomas, Chief Financial Officer

Thanks, Brent, and good morning, everyone.

Beginning on slide 12, for the first quarter on a GAAP basis, Windstream achieved total revenue of $1.55 billion, operating income of $253 million, and earnings per share of $0.11. Our GAAP results include approximately $14 million in after-tax merger and integration expense and an after-tax gain of roughly $1 million related to the early extinguishment of debt. Excluding these items, our adjusted EPS would have been $0.13 for the first quarter.

Turning to our pro forma results for the first quarter, Windstream generated total revenue of $1.55 billion, a decrease of a 0.5% year over year. Specifically, business service revenues increased an impressive $28 million or 3.2%, while consumer service revenues declined by $9 million or 2.6%. Wholesale revenues declined $15 million or 6.3% year over year, and total product sales declined $4 million or 6.6%.

Within the business channel on slide 14, data and integrated services grew by $29 million year over year, driven by growth in IP, next-gen data, and data center services. Carrier services was up $9 million due to strong demand for wireless backhaul services. Business voice and long distance revenues declined by $13 million, related to migrations from traditional voice services to integrated voice and data services.

In the consumer channel, voice and long distance declined $15 million due to fewer voice lines and declining feature packages, which was offset partially by growth in broadband revenues of $6 million.

In the wholesale channel, revenues declined $15 million or 6.3% year over year due to several factors. First, we continue to experience declines in switched access related to declining access lines and usage. Second, as per the ICT [Information and Communication Technology] reform that went into effect on January 1, certain IP traffic is now being charged at lower rates.

Third and most significant, it became clear to us that certain PAETEC wholesale products were no longer viable in the marketplace. In particular, as a part of an appeal of a prior lower court ruling in PAETEC's favor, the FCC made a court filing in March that provided clarification on billing practices for certain wholesale products. In addition, we have experienced an increase in the number of carrier disputes involving these products. Based on these developments and the importance of our strategic relationships with these carriers, we decided to suspend and modify certain wholesale products to minimize our financial exposure for the balance of the year and beyond.

Now turning to expenses, cash expenses increased $2 million year over year. Specifically, cost of services increased by $24 million due largely to network growth and higher interconnect costs, higher data center costs related to growth and expansion, and higher pass-through federal USF surcharges. Cost of products sold decreased by $2 million as a result of fewer product sales. SG&A expenses decreased $20 million due to incremental deal synergies and lower advertising and marketing expenses.

For the quarter, adjusted OIBDA was $594 million, a decrease of 1.6% year over year, and our adjusted OIBDA margin was 38.5%. Wholesale developments put pressure of roughly $12 million on revenue and $5 million on adjusted OIBDA in the first quarter.

We spent $223 million on capital expenditures excluding $3 million in integration capital. Adjusted free cash flow was $352 million, which was aided by a $120 million federal tax refund we received in February.

During the first quarter, working capital was a significant use of cash, driven by couple of factors. First, prepaids are generally high in the first quarter and were higher than normal as we secured and paid for multiyear contracts to lower future operating expenses. Second, we experienced routine seasonal payroll and benefit payments as well as one additional payroll cycle. We expect much of this to reverse course over the remainder of the year. We also completed two spectrum sales, which generated $57 million of proceeds during the quarter.

For a balance sheet perspective, we refinanced $300 million of 2015 notes and amended our credit facility to extend a large portion of our Term Loan A maturity to 2016 and raised $280 million of additional proceeds to repay revolver borrowings and create future refinancing capacity. We ended the quarter with net leverage of 3.63 times adjusted OIBDA, down slightly from the end of the year. And we remain committed to reducing net leverage to 3.2 to 3.4 times.

On slide 17, for the remaining three quarters of this year, the development in our wholesale products could put roughly $52 million and $32 million of pressure on revenue and adjusted OIBDA respectively. Specifically, we expect year-over-year declines in wholesale revenues of 12% in the second quarter. And coupled with the inter-carrier compensation reform effective July 1, we should see wholesale revenue declines of 16% in the back half of this year.

We expect consumer revenue trends in the back half of this year to improve, given that we will increase end-user surcharges as part of this reform. In addition, given our enterprise sales success to date and our robust fiber installation pipeline, we expect our business service revenue growth rate to accelerate.

Despite the wholesale revenue declines, we still expect to achieve the low end of our revenue and adjusted OIBDA guidance range, given the strength of our core business.

As we look to 2013 and beyond on slide 18, we expect continued strong performance in our business and consumer channels, which should lead to adjusted OIBDA growth. This combined with significant reductions in capital spending and lower cash interest will position us very well to pay our dividend, deleverage the balance sheet, and consider additional returns of capital in the future, even with the expectation of higher cash taxes.

With that, we will now take a few of your questions. Kevin, if you could, please review the instructions and open the call for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Michael Rollins with Citi Investment.

<Q – Michael Rollins – Citigroup Global Markets (United States)>: Hi, thanks for taking my questions. I was just wondering if you could just go through a little bit more detail of what specifically took you by surprise to stop the offering of some of these wholesale products. And as you look through, now that you've had more experience with PAETEC and what's happening on the regulatory front, are there any other areas that you're reviewing to discontinue products or to restructure or optimize the revenue portfolio? Thanks.

<A – Anthony Thomas – Windstream Corp.>: Good morning, Michael. This is Tony. I'll get it started this morning. First, to provide some clarity, these wholesale switched access products are simply providing access to the PAETEC network, facilitating the origination and termination of voice traffic, just to get some of the definitions out of the way. But when the PAETEC deal closed, to give you some more color on the timing, there were some carrier disputes related to certain wholesale products, but PAETEC had a prior lower court ruling that supported their billing practices. That ruling was appealed, and the appellate court asked the FCC to provide some guidance. The FCC made a court filing in mid-March which attempted to clarify certain billing practice that formed the basis of those disputes. And obviously, that court filing by the FCC was unfavorable to Windstream, and it's one which we do not agree with.

But in light of these disputes and moreover in light of the larger strategic relationships that Windstream has with these carriers, we thought it prudent to suspend and modify these products. And based on the ongoing negotiations with these disputes, we've got to limit our comments specifically on this issue to that. But to get to your next question, which I think is an important one, we do believe we've capped the P&L exposure related to this issue. And to your point, we've done a thorough vetting and review of the remaining products and see little risk. I would describe these as primarily just routine resale products that PAETEC was providing, and those are products which Windstream has a deep level of experience and expertise.

<A – Jeffery Gardner – Windstream Corp.>: And then, Michael, this is Jeff. As it relates to PAETEC, the transaction is so important for Windstream, and I'm so pleased with the results that the combined business channel is generating. PAETEC brought tremendous enterprise level expertise and product offerings. We're seeing that. The benefits of our national footprint, it has really introduced Windstream to a whole new set of sales opportunities. With these capabilities, we are having tremendous success selling to larger multi-location customers, as I said earlier. So with PAETEC, we have the unique ability to offer sophisticated business solutions combined with our strategy, which we really believe and really have seen evidence in the marketplace that is differentiating by delivering this with a personal service that larger companies aren't able to execute on.

And so overall, we are very pleased with the PAETEC transaction. Their employees are playing a significant role in our company. If you look our core business results, which is what that transaction was about, on that first slide that we included in our investor presentation, every quarter we've seen increasing sequential business sales. And so as it relates to that, we're very pleased with how the core business is performing. And couple that with our consumer business continues to be, in my view, the best performing consumer business in the country.

<Q – Michael Rollins – Citigroup Global Markets (United States)>: Thanks very much.

<A – Anthony Thomas – Windstream Corp.>: Thank you, Michael.

Operator: Our next question comes from Simon Flannery with Morgan Stanley.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: Thank you very much, good morning. So just to follow up on Mike's question, just how much revenues were there in Q1 from the products that you are now discontinuing? Is there any accounts receivable or bad debt type provision that you've taken this quarter?

And then perhaps you could update us on CapEx trends for the year. You gave a fairly wide range for this year. How do you think that is tracking? Is that also tracking to the low end of guidance? And this 11% to 13% range, can you get into that range next year, or is that more a two or three-year target? Thanks.

<A – Jeffery Gardner – Windstream Corp.>: I can start with the CapEx, Simon. I'd tell you CapEx is going to be a number that's going to increase in the mid-part of the year, typical construction, frankly, where it gets a little heavier in the summer timeframe. If you think drivers of our increased CapEx intensity this year versus past and certainly in the future, it's all about fiber-to-the-tower and the stimulus projects. Those are the biggest initiatives we have going on. We started the year with momentum. That will pick up in Q2 and Q3, and then those really begin to wind down later in the year. So when we talk about the 11% to 13% intensity levels, we're thinking about that in the context of as we head into 2013 and beyond really.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: Okay, so that's a good range for 2013 as a whole.

<A – Jeffery Gardner – Windstream Corp.>: Yes, yes.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: Okay, good.

<A – Anthony Thomas – Windstream Corp.>: And, Simon, this is Tony. I'll amplify on my comments around the wholesale products. Specifically to your question about the impact to the first quarter, as I framed it up, it did lower our first quarter 2012 revenue and adjusted OIBDA in terms of pressuring it by $12 million and $5 million. But more specifically to your question, that left roughly $10 million of remaining revenue in the first quarter. So when you step back and look at the year as a whole, we've really removed from our plans $64 million of revenues and $37 million of adjusted OIBDA related to the wholesale products. And as I said, we believe we've capped the P&L exposure related to this issue. We believe we have a reasonable reserve and appropriate associated with these items from an AR perspective. And it should not be an issue from a P&L perspective going forward.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: So Q2 will have no revenues from this source, and then it will be flat line from there?

<A – Anthony Thomas – Windstream Corp.>: Correct.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: Okay. And then on the accounts receivable, any of these carrier disputes you need to provision for?

<A – Anthony Thomas – Windstream Corp.>: No, Simon. At this point, there are no additional provisions that are going to be required, especially with those carriers, based off our current view.

<Q – Simon Flannery – Morgan Stanley & Co. LLC>: Okay, thank you.

<A – Jeffery Gardner – Windstream Corp.>: Thanks for the question, Simon. I'll just say one other thing. As you look at Windstream and what we've been trying to do to transform the business, even with this issue that we're discussing this morning, our top line growth was minus 0.5%. But as I looked across the industry's results, it's one of the strongest numbers of the heritage telephone businesses that are out there today, so we're very proud of that. We do believe that we'll continue to see improvement about 2012. And I'll just remind everyone what Tony said that we still expect to be in our guidance range on both revenue and OIBDA for 2012.

Operator: Our next question comes from David Barden with Bank of America.

<Q – David Barden – Bank of America Merrill Lynch>: Hi, guys. Thanks. Can you hear me all right?

<A – Jeffery Gardner – Windstream Corp.>: Sure.

<Q – David Barden – Bank of America Merrill Lynch>: Okay. Thanks, guys.

<A – Jeffery Gardner – Windstream Corp.>: Hi, Dave.

<Q – David Barden – Bank of America Merrill Lynch>: Hey. So I just wanted to kind of – I'm sorry, [ph] I can't talk (28:50) a little bit more. So, Tony, just to be clear, is the difference between the guidance you gave at the end of fourth quarter and the adjustment that you're making to the lower end this quarter, is it exclusively related to this negative court ruling and you're provisioning for the assumption that it's not going to ever go back in your favor and to Jeff's points that basically every other thing in the business went as expected? I guess I just want to make sure that this is the specific and only issue we're talking about.

And the second question would be with respect to the tax refund you got in the quarter, I don't think that you include tax refunds in your free cash flow guidance. But if you could refresh my memory there, it would be great.

And then I guess the last piece is you guys talked about a conviction in an accelerating rate of business revenue. Are you predicating that on any hopes of a better economic environment, or do you actually have that funnel in front of you and you can say with some authority that it's going to happen? Thanks a lot.

<A – Anthony Thomas – Windstream Corp.>: Good morning, David. Let me get started in respect to the guidance. To be clear, our adjustment to the lower end to the guidance is related exclusively to this wholesale product. It is the specific and only issue with which we are adjusting expectations to the lower half of our guidance; still within our guidance range, but the lower half. And Brent is going talk about the strength in our business revenue growth in few minutes, but that's the reason we have the conviction we have around our guidance range.

And as a reminder, we do include cash tax refunds in our guidance. So as you look forward, we've talked a little bit about this into 2013. We do expect an increase in cash taxes. We're expecting an absolute number of roughly $250 million in cash tax payments in 2013. But given the reductions we expect in capital as well as the anomaly that led us to have some incremental cash interest in 2012, we think we're well positioned to 2013 as the CapEx ramps down and we get more favorable cash interest. And furthermore, in 2014, once the fiber-to-the-tower and stimulus builds are vastly complete and we'll be a full cash taxpayer, we'll be in a very good position from an overall dividend payout perspective. And, Brent, do you want to handle...

<A – Brent Whittington – Windstream Corp.>: Yes, David. On the last point, we started this year, frankly, having some risk in our sales organizations. We had a brand new, fully integrated sales team, having completed all that work after the PAETEC acquisition. But our confidence around our commentary there is really around what we've seen in the quarter and what we are seeing in the pipeline, not really an economic prediction. We try to stay out of that.

I'm really proud that the team has stayed focused during the quarter driving results. And our nationwide footprint really has value. And where we see this showing up is reps in one specific market, when they were in a deal before, now they're competitive with a larger percent of the revenue that's out there as an opportunity as part of that proposal. And simply because we can win a bigger chunk of that revenue proposal, we're seeing a lot of momentum. And this nationwide footprint really has some value. That's definitely one of the reasons we saw in increase in sales this quarter. Much of that did help with the results we saw in revenue this quarter, but again, some of that gets installed later. But we're real pleased with our start this year for sure.

<Q – David Barden – Bank of America Merrill Lynch>: Got it; all right, guys. Thanks.

<A – Jeffery Gardner – Windstream Corp.>: Thank you.

Operator: Our next question comes from Scott Goldman of Goldman Sachs.

<Q – Scott Goldman – Goldman Sachs & Co.>: Hey. Good morning, I guess a couple questions. One, on inter-carrier comp reform, maybe if you could talk a little bit about how that layers in. Is that accounting for the step down from the 12% to 16% on the wholesale? And is there any way to quantify what the impact would on the consumer side? Are you able to fully offset the losses on the wholesale side with some increased charges on the consumer side?

And then secondly, maybe just talk a little bit about the broadband results for the quarter, probably a little bit weaker than we would have thought. But maybe talk a little bit about how lower sales and marketing may have played a role in that and in the rebranding effort that you're going through there and what that means for the next couple quarters. Thanks.

<A – Jeffery Gardner – Windstream Corp.>: Great, thank you, Scott.

<A – Anthony Thomas – Windstream Corp.>: Good morning, Scott. In regards to inter-carrier comp reform, you're exactly right. When you look at the transition from the second quarter to the back half of the year, on July 1 there is a step down that begins to occur on intrastate rates and they'll transition to interstate over a period of two years. And that's what accounts for the reduction, the further reduction from 12% to 16% in our wholesale revenues. And while end-user surcharges do not fully offset that step down, we do expect to see expense reductions. And as we've indicated before, the overall adjusted OIBDA impact of inter-carrier comp reform in 2012 is pretty limited because not only do you have the offsets and end-user surcharges, but we should also be able to benefit from reduced wholesale expense.

<A – Brent Whittington – Windstream Corp.>: Scott, in terms of broadband, our sales were a little softer during the quarter. We did expect a slight slowdown when we started this year increasing the prices on our base offer by $3, but we really didn't launch our Merge product until on March 1. And from a customer standpoint, that's really where they saw the added value, including that entertainment bundle, as part of that offer as well.

And again, I'll reiterate what I said in my prepared remarks. That for us is all about trying to convince people to switch from cable to Windstream for their broadband product, focusing again on the entertainment that comes along with that high-speed Internet connection. And that's increasingly important for us. As I mentioned, we've got incredible penetration. And so for us to keep growing that franchise, it's all about a switcher proposition. And we think Merge is indeed that for us, and we're seeing some improved momentum after that launch. And really that coupled with value-added services, that's how we expect to keep up that revenue growth which, as you've seen, exceeds our customer unit growth. And that's really the critical element for us on the consumer side of the business.

<Q – Scott Goldman – Goldman Sachs & Co.>: Just to follow up on that, 2Q typically seasonally weak across the industry. Is that something where you think maybe you don't necessarily push as aggressively as you might otherwise and then may be pick up and be a bit more aggressive on the Merge marketing and the value proposition there in the back half of the year?

<A – Brent Whittington – Windstream Corp.>: Yes, I think that's fair, Scott. A big challenge with Merge was also effectively getting our communication across to customers as to what that product truly is. It is a different message in the marketplace. If you look at your promotional material on that, it's focused not on the voice services, not on the speed of the broadband, but on the entertainment bundle. So a lot of the messaging really is around communicating what that is, and we think that's going to help build momentum around that product later on.

A real positive in the quarter as it pertains to broadband that I think also helps in the second quarter has been churn. We had one of the best churn numbers we've seen in a year. I think that continues to speak to the strength of our network and that's certainly something we continue to stay focused on.

<A – Jeffery Gardner – Windstream Corp.>: And just to be clear, what our marketing team is really getting focused on and I think appropriately so because we've been talking about this for a couple of years, because our broadband penetration is so high and we've done such a good job and, as you know, we get to 93% of our customers in the markets that we serve today. But it has always been now – our strategy has been about monetizing the broadband connection into the home, using that broadband connection in our bundled sales to really drive revenue. And so even though you see lower units in the quarter, you still see some very, as Brent just mentioned, some very, what we believe, robust revenue growth of 6% from monetizing that broadband connection into the home.

<Q – Scott Goldman – Goldman Sachs & Co.>: Great. Thanks for the color, guys. I appreciate it.

Operator: Our next question comes from Frank Louthan with Raymond James.

<A – Jeffery Gardner – Windstream Corp.>: Frank, are you there?

<Q – Frank Louthan – Raymond James & Associates>: Sorry, I've got to learn how to use the equipment a little better; a couple of things, two questions, one on the commercial side of the business and one more broader strategic question. Looking at the business lines, what percentage of deals are you seeing on the commercial side where the customers are asking for bandwidth sizes that justify a fiber build into the customer? And what's the trajectory of the old legacy resale T1 business at PAETEC?

And then on the operations side, I think it's pretty well implied from what you're saying. But given the environment, I'll give you a chance to say it more specifically. Given the changes in the wholesale and now that you're coming more at the low end of the guidance, can you comment on your confidence in the dividend and maintaining the payout ratio that you currently have? Thank you.

<A – Brent Whittington – Windstream Corp.>: Frank, this is Brent. I'll take the commercial side. We're still, I'd say, in terms of just percentage that we're doing fiber builds on proposal, it's still less than 10%. That's a small chunk. No question, we continue to use third parties on the big percentage deals. But we work very hard to try to find those opportunities where we can extend our network as part of a success-based opportunity, and really working hard to make sure we know and empower our sales team importantly with where our fiber network truly is located, and have grown tremendously from the acquisition. So that's an important area of focus and I think that's something that will grow over time, but still a smaller percentage of total deals, Frank.

<A – Jeffery Gardner – Windstream Corp.>: Great. On the dividend, when you look at the strength of our core business, Frank, both on the business on the consumer side and the progress we're making and just how good we feel about where we are with PAETEC and the trajectory change, when you look at the slides and see what has happened with OIBDA and revenue trends at this company, we feel so good about our ability to pay this dividend for a very, very long time. And if you heard me clearly, not only did I say that, but I also said that we're feeling comfortable that over the long run, Windstream believes that we can consider future shareholder friendly activities. And so the cash flow generation capability of this business, we've never felt better about.

<A – Anthony Thomas – Windstream Corp.>: And, Frank, this is Tony. I would just add even with the expectation of adjusted OIBDA being at the lower half of guidance, we remain committed to the payout ratio that we've guided to of 62% to 70% for 2012.

<Q – Frank Louthan – Raymond James & Associates>: Okay, great. Thanks for that clarity. And if I can just follow up on the commercial side, are you seeing any customers that are leaving because they need higher bandwidth and maybe resale Tier 1 products can provide, and are you able to save them by running fiber to those customers? Are there any churn issues that you're running into given just the increased bandwidth demands that we're currently seeing from customers in the market?

<A – Brent Whittington – Windstream Corp.>: No, Frank. We've got some Ethernet, some Metro-E solutions for large bandwidth needs when we've got to use third parties. We continue to increase the number of third-party providers we can use if we can and generate a return leveraging our own network which, of course, is our priority. And no, I'd tell you overall churn has been really strong. We feel great about what we're seeing in terms of our ability to retain our customer base, and not only that, but continue to improve our revenue position with those customers just simply because of our broader suite of products and services.

And where I'm really proud of the work the team is doing and seeing lots of momentum is not just focusing on bandwidth, but we now have a full suite of products. We've got an impressive team as it pertains to data center and managed service solutions. We've got now a team and really almost $300 million a year in network equipment sales, who are excellent when it comes to providing the right kind of PBX type solution, voice solutions on the equipment side for customers, whether that's at a [ph] PRM (41:53) or in the cloud or hosted or however we want to sell that. We've got a really skilled team, so we're bringing much more to bear in our customer offers, and that's encouraging to see as well.

<A – Robert Clancy – Windstream Corp.>: And it's really almost the opposite of what you said, Frank. The fact that now customers realize the scale of Windstream across the country and how quickly Brent and his sales team have assimilated those two organizations, we are just getting so much more access.

And we've said this earlier in some of our talking points, but we're really now a Fortune 500 company selling to Fortune 500 companies. I had the pleasure to call on a large customer last week that I think illustrates the power of this combined company better than anything. We went. We had our CEO there. We had our Head of Sales. We had the equipment organization that Brent just talked about. We had our cloud computing experts that we just talked about, and it was a very impressive sales presentation. I think the customer walked away seeing the full capabilities of Windstream and that we can deliver services in a much different way. And customers are thinking about us very differently than they did just six months ago.

<Q – Frank Louthan – Raymond James & Associates>: Okay, that's great. I really appreciate all the clarification. Thank you.

<A – Jeffery Gardner – Windstream Corp.>: Thank you. Hey, Kevin, we have time for one more question.

Operator: Okay. Our last question comes from Barry McCarver with Stephens, Incorporated.

<Q – Barry McCarver – Stephens, Inc.>: Great. Thanks, guys. Thanks for letting me get a couple more questions in, so a couple questions. On the business opportunities to grow revenue in that segment, I'm wondering if you could break out the hosted solutions, data center, and cloud offering relative to the network services. And then back on the tower projects, you talked about the average take rates per megabyte there. I'm wondering if you can give us a little more color on what those look like as they ramp up.

<A – Brent Whittington – Windstream Corp.>: Barry, this is Brent. In terms of the hosted solutions, data center for us is still a small chunk of our total revenue, but it's growing. And when I say small, it's less than $100 million, growing in double digits, I might say in the 10% to 15% range. And we'd like to see that accelerate. We since last year invested just around $40 million bringing up four new centers and continue to push really and fill in that gap with customers just as fast as possible, so a lot of excitement and momentum there.

Around tower, what I'm talking about is really as we start bringing these fiber sites, these are priced on a per-meg basis, typically starting at a 50-meg assumption as the base rate where those billings begin, and they tend to tick up every 50 meg. And we're seeing about half of those towers come in right around 100 meg versus our original assumption, which was 50 meg. And that's incrementally more revenue. It's not double what it is because those price increments begin to really decline like you'd typically expect in a purchasing contract. But nonetheless, it's revenue accretive and a trend we like to see. And our view has always been and remains if you've got conviction in growth as it pertains to wireless data, you've got to love these investments in fiber-to-the-tower. And that's why we've been so bullish on them and remain so based on the data we're seeing. It's still early, of course, and the later part of this year is really where we start to deliver the vast majority of our fiber sites.

<A – Jeffery Gardner – Windstream Corp.>: And then on the Windstream Hosted Solutions business that Brent talked about, the growth rates, et cetera, remember that we acquired Hosted Solutions in 2010. Really one of the best cloud computing businesses in the country, their revenue per square foot was the best of any of the companies that we looked at. Kip Turco, the strategic leader of that organization, in fact that entire organization, has stayed with Windstream. And now they're running our complete cloud computing portfolio and having excellent success. So strategically, we're feeling very comfortable about how we're positioned there for future growth.

<Q – Barry McCarver – Stephens, Inc.>: Jeff, that's great color. Thank you for that. And if I can, just on the interim USF support, you talked about the $60 million. Is it possible for you guys to give us a little bit more color on what the criteria is for that $60 million that you might be looking at?

<A – Jeffery Gardner – Windstream Corp.> : Sure, we're trying to work very hard. As you know, we've done a very good job building out broadband to our customers today. We're getting to 93%. The current rules say that the maximum investment for this $60 million increment is this $775 incremental investment to get this money. We've long passed that kind of – we've built out most customers that would require that little additional cash. So what we're working on is a way to work with the commission because we think there's a lot we can do to improve broadband service in rural America, to get to more customers, to be creative around that. And so that's what we're spending all of our time on talking to the SEC, looking at our own opportunities to see how we can use as much of that money as possible because I think generally that will just improve what I think is already one of the highest addressability businesses in the country.

<Q – Barry McCarver – Stephens, Inc.>: Great. Thanks a lot, guys.

Jeffery R. Gardner, President and Chief Executive Officer

Thank you all for listening to us today and for your continued support of Windstream. In closing, I have a few comments. Our business in consumer channels delivered outstanding performance during the first quarter, and I am very excited about the opportunities ahead. The PAETEC integration is going as planned. And we are already seeing tremendous momentum, as we've said many times on this call, from this combination.

Overall, Windstream's core business has been performing very well. And I'm very confident in our ability to deliver strong, stable free cash flows, capable of supporting our dividend well into the future and increasing shareholder value.

Thank you again for joining us this morning and for your continued interest in Windstream and make it a great day.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.