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## WIN - Q4 2007 Windstream Communications Earnings Conference Call

Event Date/Time: Feb. 08. 2008 / 8:30AM ET

## CORPORATE PARTICIPANTS

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*Windstream Communications - SVP, Treasurer*

**Jeff Gardner**
*Windstream Communications - President, CEO*

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*Windstream Communications - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Frank Louthan**
*Raymond James - Analyst*

**Michael Rollins**
*Citigroup - Analyst*

**David Barden**
*Banc of America Securities - Analyst*

**Tom Seitz**
*Lehman Brothers - Analyst*

**Simon Flannery**
*Morgan Stanley - Analyst*

**Tim Horan**
*Oppenheimer - Analyst*

**David Stibliss**
*JPMorgan - Analyst*

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## PRESENTATION

**Operator**

Welcome to the fourth quarter 2007 Windstream Communications earnings call. All lines are placed on music -- placed on -- hold.

We would now like to introduce our speaker, Rob Clancy, Senior Vice President and Treasurer.

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

Thank you, Darlene, and good morning, everyone. We appreciate you joining us this morning. Excuse me. The conference call was preceded by our fourth quarter 2007 earnings release which has been distributed on the newswires and is available from the Investor Relations section of our website. Today's conference call should be considered together with our earnings release and related financial information. Today's discussion includes statements about expected future events and future financial results that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events or results to differ materially from those expressed in such statements. Other factors that could cause actual results of Windstream to differ materially, many of which are beyond the control of Windstream, include, but are not limited to, the items listed in the Safe Harbor statement contained in our fourth quarter 2007 earnings press release.

Today's discussion will also include certain nonGAAP financial measures including the term OIBDA, which is defined as operating income before depreciation and amortization. Again we refer you to the Investor Relations section of our website where we've posted our earnings release and supplemental materials which contain information and reconciliations for any nonGAAP financial measure. Today we will discuss our GAAP results which include our publishing business through November 30th, 2007, the date when we completed its disposition. In addition we've provided pro forma results from current businesses that include our results as if the VALOR and CT acquisitions had occurred on January 1st, 2005, and exclude the results from the publishing business and one-time transaction-related fees. We will make references to these pro forma results from current businesses including the year-over-year comparisons during our call.

Let me also highlight a minor change in presentation to our investor supplemental information which has no effect on our overall consolidated results. We are now showing restructuring charges not associated with a particular transaction in each applicable business segment. Previously these restructuring charges which we view as routine and therefore included in our current business results, were shown in our consolidated results only. Participating in our call this morning are: Jeff Gardner, Windstream President and Chief Executive Officer, and Brent Whittington, Windstream Executive Vice President and Chief Financial Officer. At the end of the call we will take a few questions. And with that here is Jeff Gardner.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Thank you, Rob, and good morning, everyone. This morning I will start with an update on a couple of strategic initiatives, review our operational highlights for the fourth quarter and full year. Brent will then provide the details of our financial results and our 2008 guidance. I'm very proud of the entire Windstream team for all that we accomplished strategically, operationally, and financially in 2007. We have led the RLEC industry on many key operational metrics and continued to deliver solid financial performance despite increasingly competitive challenges. We remain confident in our ability to sustain cash flows over a long period of time, and as we have stated before, we will pursue strategic opportunities that are free cash flow accretive.

Accordingly, yesterday our Board of Directors adopted a $400 million share repurchase plan which will expire at the end of 2009. At the current stock price, this plan would equate to approximately 8% of total shares outstanding, and when completed, would result in lowering our payout ratio by 300 to 400 basis points without materially affecting the leverage of our balance sheet. In the fourth quarter, we completed the split-off of our publishing business. This transaction resulted in our retiring roughly 19.6 million shares and $210 million of term loan A debt, and receiving $40 million of cash which we used to repurchase slightly more than three million shares of Windstream common stock during the fourth quarter. This transaction was important strategically because it positioned us to focus entirely on our core product: broadband, voice, and digital television.

The fourth quarter of 2007 marked the 12th consecutive quarter that we grew our customer connection as net broadband additions again outpaced access line decline. Specifically, we added over 41,000 new broadband customers in the quarter, bringing our total broadband customer base to over 871,000, an increase of 28% year-over-year, and a penetration rate of 27% of total access lines. In the quarter, access lines declined by roughly 38,000, a 7,000-line improvement in absolute lines lost year-over-year, and certainly a notable accomplishment given the gradually increasing voice competition. The improvement in our access line loss benefited from a 16% sequential decline in nonpaid disconnects. The total access lines have declined 4.6% year-over-year.

During 2007, cable voice competition increased to roughly 50% of total access lines from 40% at the end of 2006. And we expect a continued gradual increase in 2008. However, given our increased penetration of bundled services and proactive marketing plans in advance of new competitive voice launches, we are in much better position than we were a year ago. We added over 18,000 digital television customers in the quarter, bringing our customer base to approximately 196,000, or 10% penetration of primary residential line. We also launched the DISH service in the former CT markets and have been pleased with the initial response.

Our business channel, which makes up nearly one-third of our overall revenue stream, continues to perform well. We are pleased with the success that we have seen with the launch of the small business bundle, as well as selling additional data services. We also experienced nice growth in CPE sales, allowing us to extend contracts and strengthen our existing business relationships. Overall, we are very pleased with our fourth quarter and our full-year 2007 results. Operationally, we made significant progress with our sales and marketing initiatives, which are yielding industry-leading operating metrics for broadband and digital television as well as access lines.

Financially, we met the guidance we provided earlier in 2007, which Brent will cover in more detail shortly. On a pro forma basis, we grew revenue and OIBDA slightly year-over-year and adequately invested in our network while reducing capital expenditures. Strategically, we completed the CT transaction and split off our publishing business. So 2007 was a really great year for our company, and I'm very proud of what our team accomplished.

Looking forward, we believe we have positioned the business to continue generating sustainable cash flows. We expect to complete the CT billing system conversion by the end of the first quarter which will allow us to begin realizing the full synergy run rate of $30 million annually. We recently made several organizational changes to better align our network and operations teams with a major focus on improving sales and service levels, and we have created a consumer sales group which will focus on expanding our distribution channel. These changes should provide even greater emphasis on improving our competitiveness and serving our existing customers. Given current broadband penetration rate we expect broadband unit growth rate to slow in 2008. We will likely need to invest more in marketing to continue improving our overall penetration. However, we believe there is certainly room for additional unit and revenue growth, particularly if we focus on selling faster speeds and developing new products and services to leverage our broadband infrastructure. We expect ADSL2+ to be operational within the next couple of months, allowing us to essentially double our broadband speeds across most of our footprint.

In addition, we plan to introduce a home networking solution, and we will further explore opportunities to grow revenue through Internet search and advertising as well as provide services that allow customers to access video OnDemand. Expanding our broadband revenue opportunities is an important part of our strategy to transform this business to a broadband-centric model. From a regulatory perspective, as we have previously reported, Windstream has petitioned the FCC to migrate the balance of our ILEC properties from rate of return regulation to price cap regulation at the federal level. We have received overwhelming support for our request within the industry, including from our largest customers that purchase the services affected by this change, and expect the FCC to approve our petition before the end of the second quarter. We continue to support comprehensive reform of the federal universal service fund, including the retargeting of support to service providers in high-cost areas where necessary.

Over the past two years, the RLEC industry has experienced significant consolidation, which we believe is very healthy for the industry. Of these transactions have created opportunities to realize meaningful synergies. With declining access lines, this is a business that demands scale, and we expect to see consolidation continue over the next few years. We will stay focused on improving sales and service level and achieving our financial goals so that we will be well positioned for any strategic opportunities that are in the best interest of our shareholders. Now let me turn the call over to Brent to discuss the financial results.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

Thanks, Jeff. And good morning, everyone. For the fourth quarter, on a GAAP basis, Windstream generated consolidated revenue of $828 million, operating income of $300 million, and $1.25 of diluted earnings per share. Our GAAP results include a tax-free gain of approximately $451 million related to the split-off of the publishing business, and $3.3 million of merger and integration expenses related primarily to the CT acquisition.

Let me now turn to our pro forma results from current businesses,s which exclude the publishing business, the $3.3 million of merger and integration expenses, and reflect the VALOR and CT transactions as if they occurred on January 1, 2005. For the quarter, Windstream generated consolidated revenues of $804 million. Consolidated OIBDA was $415 million, which is essentially flat year-over-year, and operating income was $292 million, an increase of 4% year-over-year. The increase in operating income was driven by lower depreciation expense, which resulted from lengthening the lives of various assets based upon depreciation studies we conducted in the quarter. Within our wireline segment, revenues were $781 million, a decrease of 1.5% year-over-year. But there are a couple of items affecting this change, particularly as it relates to our year-over-year comparisons throughout the first three cautious of 2007.

First, because we implemented our long-distance pricing increases in the fourth quarter of 2006 we are no longer seeing the year-over-year benefit of that change as those revenues are now in both periods, and that's been a big driver of growth for us in the first three quarters of this year. Second, in the fourth quarter of 2006 we realized approximately $4 million net of favorable USF revenues. Finally, the sequential decline in revenues is largely related to favorable USF and switched access revenues recorded in the third quarter. We are continuing to see nice growth in broadband and special access revenues which have helped to partially offset the declines in voice and switched access revenues.

Turning to wireline expenses, in total our cash expenses declined by $14 million, or 4% year-over-year, which consisted of a $9 million decline in restructuring charges as well as a reduction of $5 million of operating cash expenses. Turning to specific expense categories, our cost of services increased by approximately $10 million, or 4% year-over-year. Roughly half of this increase was driven by higher overtime costs resulting from inclement weather, higher fuel costs, and an increase in contract labor expense. The remainder of the increase resulted primarily from reclassifying various expenses from SG&A to cost of service. Within SG&A, expenses decreased by $15 million, or 14% year-over-year. This is largely the result of cost efficiencies related to our IT optimization activities throughout the year, realization of synergies from the acquired VALOR and CT businesses, and the reclassification of expenses I just mentioned.

Sequentially, our total cash expenses declined by $12 million, related primarily to additional synergies realized in the fourth quarter, lower bad debt expense resulting from fewer nonpaid disconnects that Jeff mentioned, and seasonally higher operational costs in the third quarter. Wireline OIBDA was $413 million, a slight increase year-over-year. The revenue decline we experienced in the quarter was offset by lower restructuring charges this year resulting in this slight increase.

In our other operations, which include our product distribution business and the wireless business we acquired in the CT transaction, revenues were $92 million, down approximately 18% year-over-year, mostly attributable to our supply business. Remember, a large portion of our supply business revenue comes from internal sales, which were closely related to our capital expenditures. And our engineering team really did a fantastic job last year managing our capital spending evenly throughout the year. Thus, we didn't experience the traditional four-quarter increase in CapEx spend, and this contributed to lower inner company supply revenues. OIBDA for our operations was $3 million, essentially flat year-over-year.

From a balance sheet perspective, we ended the year with $72 million of cash and a revolver balance of $100 million, leaving approximately $400 million in additional borrowing capacity. At the end of the year our leverage ratio was 3.2 times after giving pro forma effect for the CT and publishing transactions. For the full year 2007, we generated approximately $668 million of free cash flow, defined as net cash provided from operations less capital expenditures, equating to a payout ratio of 71%, which was in line with our expectation of 70% to 75%. And as of 12/31/07, we had 454 million shares outstanding.

Let me turn to our full year 2007 results on a pro forma basis which exclude our publishing business and include the CT business for the full year. We generated consolidated revenue of $3.3 billion, an increase of $45 million or 1.4% year-over-year. This was largely driven by strong growth in data, special access, and long-distance revenues as well as favorable USF revenues and a favorable cash settlement in the second quarter of last year. Pro forma OIBDA totaled $1.66 billion, up $10 million or 1%, primarily driven by the revenue items I just mentioned, and we spent $397 million on capital expenditures.

Now last February we provided the investment community with 2007 guidance on revenue, OIBDA, and capital expenditures for the Windstream legacy business which excluded the publishing business. We are pleased to report that we met the guidance ranges in all categories for 2007, specifically our legacy consolidated revenue was $3.076 billion, which was at the high end of our guidance range of $2.995 billion to $3.085 billion. Our legacy business generated OIBDA of $1.59 billion, which was within the guidance range of $1.57 billion to $1.62 billion. And finally, we spent $362 million on capital expenditures, which was within the guidance range of $350 million to $380 million while achieving all of our network modernization objectives. For 2008 there are several variables that you've got to consider in connection with our annual guidance. First, we continue to expect declines in voice and switched access revenues. However, we also expect these declines to be mostly offset by continued growth in data and special access revenues, as well as an increase in long-distance revenue related to the more recent pricing changes.

Second, with respect to cash costs, we expect to fully realize the $30 million of annualized CT synergies starting in the second quarter. And the optimization plan we implemented throughout 2007 in our IT, network, and call center functions will yield additional savings in 2008. However, we do plan to make additional investments in marketing and distribution to improve our competitiveness, particularly in our larger markets. Giving effect to these items collectively, we expect 2008 revenue and OIBDA to be within a range of minus 3% year-over-year to plus 1% year-over-year, compared to our pro forma 2007 results.

Specifically, we expect revenue to be within the range of $3.16 billion to $3.29 billion. We expect OIBDA to be within the range of $1.605 billion to $1.675 billion. And finally, we expect to spend $340 million to $370 million on capital expenditures, which reflect an absolute reduction in our heritage business as well as the CT transaction capital synergies. In addition, we are assuming cash interests of roughly $410 million to $415 million and a cash tax rate in the low 30%. Thus we expect our payout ratio to stay within a range of 70% to 75% once again this year,without contemplating any accretion from the $400 million authorized share repurchase program that Jeff previously mentioned.

In summary, we are very pleased with our results for the fourth quarter and full year 2007, and are optimistic about 2008. At the same time Windstream team has done an exceptional job with all 2007 initiatives, including splitting off the publishing business, integrating CT, implementing new operational initiatives, and improving our cost structure to position Windstream to succeed going forward. With that, we will now take a few of your questions. Operator, if you would, please, review the instructions and open the call to questions, and thank you.

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## QUESTIONS AND ANSWERS

**Operator**

(OPERATOR INSTRUCTIONS) We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Frank Louthan with Raymond James.

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**Frank Louthan** - *Raymond James - Analyst*

Good morning. Just got a -- quick -- couple quick questions. One related to the CapEx cut and then your potential regulatory changes. Is it the CapEx coming down related to moving off of the rate of return, and what is sort of the upside should we think about, are we going to some margin lift possibly from going off of rate of return, and what's really precipitated that change now versus maybe in years past? Thanks.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

Frank, this is Brent. I'll take that question. In terms of the CapEx cut there is absolutely no reduction in CapEx as a result of our move to seek price cap approval. That was really just a business decision, a long-term business decision that we think makes sense given the competitive nature of our market. So unrelated there. Really, when you think about the CapEx changes and the reduction, we were able to make, I'd really target it to the just better consistent management of CapEx throughout the year and continuing to find a way to do that better. No real major drivers there from a year-over-year standpoint, other than in '07 we did make some investments in the transport and back-haul capabilities in our network to make some improvements there that doesn't have to repeat next year. In terms of our -- the margin lift, and from a price cap approval standpoint, really we don't expect that to have any significant impact in our business next year. We've talked about that we're seeking this because we don't believe competition -- or we believe competition, frankly, is prevalent in our markets. And that lack of regulatory change there really needs to happen. So from our standpoint, we don't expect that to have any significant impact in margins whatsoever.

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**Frank Louthan** - *Raymond James - Analyst*

Okay. Great. And can you give us a little more color on the VOD and the search that you're pursuing? Who are you partnering with to do that? Is that some pass-through revenue? Or are you going to get some margin there? And are you going to have access to the home zone product AT&T has with DISH? Is that something you would have available maybe later this year in your markets. I'm hearing some of the other rural LECs are hoping they would have access to that within their markets later on this year. Thanks.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Frank, this is Jeff. We are really excited about the opportunity to monetize our broadband pipe. I think that one of the things that gets overlooked with these RLEC businesses is how centric and important broadband is becoming to the consumer. So as we look to the future the real challenge is to monetize that opportunity, and so you mentioned two things that are real important to us. Some will have a bigger revenue impact. We're partnering with a number of players, so I won't go into it on the advertising side, but suffice to say that we've got a number of marketing resources dedicated 100% to finding ways to better monetize these advertising opportunities. This targeted advertising is clearly the wave of the future. It represents a great opportunity to add value at the customer level, create opportunities for us. we've seen our revenue in that area grow significantly. It's still not a huge amount, but we are bullish about the opportunity there.

Video OnDemand, yes, is -- there will be a slight revenue upside for the company there, depending on who we partner with. And then finally, yes, we are still working on our arrangement similar to home zone where we've -- we're one of EchoStar's strongest partners. We've spent a lot of time working with that company. You've seen quarter in and quarter out that we've applied a lot of resources to growing our digital TV penetration. So we're in a good position there. All of these things collectively begin to allow to us kind of monetize that broadband connection, and so you can see that that will become more important throughout 2008 in the coming years.

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**Frank Louthan** - *Raymond James - Analyst*

Great. That's very helpful. Thanks.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Sure.

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**Operator**

Your next question comes from the line of Michael Rollins with Citi Investment Research.

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**Michael Rollins** - *Citigroup - Analyst*

Was wondering if you could talk about the revenue guidance. If we're sitting here a year from now, what's the operating scenario in which revenue is flat or grows from the '07 level? And then, secondly, can you just talk a little bit about, when you look at the competitive environment, I know you touched on it briefly already, incrementally do you see tougher competition from wireless or from cable as you look at 2008? Thanks.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Why don't we let Brent take the first question on revenue, and I'll tackle the second one.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

So, Michael, in terms of the operating scenario in which it's flat or grows, if you look at our business last year we had a tremendous success around the revenue front. We pushed through some significant changes in our LD business that drove a significant incremental lift in revenue. Secondly, the strong growth we had around broadband, really those two key things helped in a big way growing revenue on a year-over-year basis from a pro forma standpoint. Those are the same things, the same kind of recipe we're applying in 2008. I indicated before, we're taking another look at LD and expect some future price increases there. Secondly, we've looked across all of our product lines to determine where we've got some pricing opportunity, and those are things that we have underway right now, all in an effort to provide the kind of revenue results we saw last year.

As you look forward next year, we saw in '07 just over about $90 million in pressure from a loss of voice revenues, and that's something that at the beginning of the year we've got to have an aggressive plan to try to find a way to make that up. And that's what we've been focused on. The other thing, in '07 versus '06, we actually, because of some favorable items we've talked about throughout the year, we actually grew USF revenues in the aggregate. That's not a trend we'd expect necessarily to continue next year, but the success we had in LD, the success we had in broadband and helping offset the loss of voice, that's exactly what we expect to happen next year.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Great. And I'll just add to that, I think that when you look at the full-year 2007 results, and what we were focused on going into the year, and set the guidance aside for a moment, what we were focused on was maintaining the revenue and OIBDA run rate in this business, and we did. That we encountered a number of challenges that were unexpected throughout the year. We found a number of opportunities as well. This team is real focused on that -- those same issues this year. I'm sure we'll have some of those same opportunities and encounter new challenges, but I think we've got a great track record of managing this business in a way that investors can be assured that we're going to be focused on maintaining the OIBDA run rate, and that's what the plan is going forward, just to kind of step aside from the guidance for a moment.

On the competitive landscape, Michael, cable voiceover IP still presents a bigger challenge for us competitively. And mostly what that's about is the fact that we are still seeing an increase in cable VoIP competition. In other words, the wireless competition has been pretty steady. It's been out there and we -- so it's been more predictable and steady throughout 2007, and expect that to be the case in 2008. We did talk about the fact that we will see cable VoIP competition increase in '08 as well. And really when you look at wireless and take a step back from a long-term competitive threat, one of the big advantages that we have still is that broadband is becoming increasingly important, and there's no viable kind of wireless offer that has kind of the bandwidth opportunity that's available through a land-line company.

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**Michael Rollins** - *Citigroup - Analyst*

Thank you very much.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

You're welcome.

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**Operator**

Your next question comes from the line of David Barden with Banc of America.

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**David Barden** - *Banc of America Securities - Analyst*

Hey, guys. Good morning. Two questions if I could. One is just, looking at the wireline SG&A in the fourth quarter, kind of ticked down to about $90 million, that's pretty far below where it's been every quarter for the last three years. I was wondering if that was just purely something specific related to the merger integration, or what maybe moved the needle there in SG&A, and how we should think about that as a run rate looking into '08. And the second question was just on the broadband slowdown. I guess talking to some of the other rural players, one of the things that seems has been not so much economic, but the fact that the PC penetration is really just not all that high, and broadband penetration is topping out at lower levels in rural areas than you might see for some of the carriers that have exposure to larger, more urban markets. I was wondering if you could kind of talk a little bit about how you see being able to move the needle in broadband in 2008, with respect to your comments on the slowdown. Thanks.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

I'll take, David, your question on SG&A. Couple things on costs in general. In the fourth quarter we actually closed out the year with our lowest cash cost number throughout the entire 2007 year, which I was pleased with. Specific to SG&A, though the fourth quarter, two things driving that. That number one, we did after reclass up to cost of services that I indicated in my kind of commentary before, and that did impact that number slightly. Secondly, just the IT optimization and some of the things that we've been doing throughout the year to drive lower costs, we started to see the benefit of that show up in our fourth quarter results and so that did also drive some impact there.

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**David Barden** - *Banc of America Securities - Analyst*

Is that a good run rate looking into '08, start with the $90 million, or does it maybe go back more into that $90 millions --

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

Absolutely, David, I think that's a if run rate. I indicated in my guidance, what we're focused on, and Jeff indicated this, is continuing to improve the cost structure for sure, so that's an area we'll continue to keep an eye on every day.

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**David Barden** - *Banc of America Securities - Analyst*

Okay. Great.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

So on the broadband question, clearly I think there's several things going on here. First of all, penetration rates are getting pretty high across the industry, and as you know, we're pretty confident in our markets that we've done a nice job in driving penetration levels. I think we've got a nice advantage versus the cable company in all of our markets. But you're seeing penetration levels get very high so that's having an impact. The other two things, economics, obviously the people that don't have broadband today have lower income, higher -- or lower credit scores, and so it's more challenging to get broadband service to them. And so it's really incumbent on us to develop offers that still make sense from a net present value perspective, but allow to us get at that customer base.

And with respect to computers, that absolutely is an issue. There's a significant number of folks in our serving area that don't have computers into their home today. I don't know. The data that I've looked at, David, doesn't say that that's significantly higher than it is in the urban market. So my instinct there is that we're pretty much -- we pretty much look like the national numbers, but I think that is a problem nationally, so that's definitely contributing.

What I think we have to focus on, and what the opportunity is, is still most of the customers in this country are subscribing to some of the lower levels of broadband speeds. And so there is a revenue opportunity, and there's also utility there for the customer, in that their usage rates have increased four-fold over the last year, and yet still many are subscribing at that's 1.5 levels. So the challenge for us is really to begin selling value, to really drive the numbers up as much as we can, but to up-speed customers to a greater extent is really the challenge, and to convince customers that there's value in subscribing to these higher speed services.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

David, this is Brent again. I want to just touch on one other thing just to be sure you link back to my previous comments. In my commentary I've indicate in '08 we expect to invest a little bit more in distribution and in advertising next year. Some of that will be success-based costs that can inform of commissions that certainly will impact SG&A, so directionally that is an area that if those things come to fruition, that could have an impact. That's the only thing I would keep in mind as you look at 2008.

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**David Barden** - *Banc of America Securities - Analyst*

Alright. Great. Thanks for all that, guys.

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**Operator**

Your next question comes from the line of Tom Seitz with Lehman Brothers.

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**Tom Seitz** - *Lehman Brothers - Analyst*

Thanks for taking the question. Can you remind us where you are in the restricted payments basket, and how you expect that to play out over the course of the two-year buyback? And then secondly, back to the video OnDemand integrated box. Jeff, you talked about ADSL2+. And I was just wondering if you could walk us through kind of not a specific time frame, so that, you're not tipping off the cable guys, but just sort of what has to happen for you to be able to offer video OnDemand? Is it dependent on getting ADSL2+ rolled out? Are the boxes already in the labs? And what are you seeing? Just any sort of high-level plan there would be very appreciated.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

I'll take the restricted payment question, Tom. But, really, at the end of the quarter, we had just about $250 million in restricted payment capacity. And expect to have by the end of the second quarter over $400 million in capacity. So don't expect that to be an issue for us as we embark on the share repurchase program. That's the comment there.

**Jeff Gardner** - *Windstream Communications - President, CEO*

Okay. And with respect to ADSL2+, again, that will be rolled out later this quarter, just in the next couple months, so we are going to be in good shape there. And there's no relationship with respect to that and the integrated box or video OnDemand. We are offering some video OnDemand products today through our portal. The work that needs to be done with the integrated box is something that we're really focused on. Basically it's just in the product development area there working with EchoStar on a product that we think is going to be real competitive in the marketplace. And I'm not going to give a specific time frame on that. But it's something that we're very focused on as is EchoStar.

**Tom Seitz** - *Lehman Brothers - Analyst*

That's great. Thank you very much.

**Operator**

Your next question comes from Simon Flannery with Morgan Stanley.

**Simon Flannery** - *Morgan Stanley - Analyst*

Okay, thank you very much. Good morning. Great to see the buyback. Can you just talk about your thought process in terms of leverage at 3.2 times, I think you said? How do you think about that as a good ratio? Do you want to continue to work that down? Do you want to keep some flexibility for M&A, or are you happy if stock remains with a 9% yield to be pretty aggressive over the next few weeks and months to take advantage of that?

And, secondly, coming back to the guidance, you haven't really talked much about the economy. You've got plus 1% on the upside unrevenue guidance, minus 3% on the downside at 400 basis point spread and [bark] only gave us a 130 spread last night. Seems like there's a lot of uncertainty in your forecasting. Maybe you could think about the thought process and some of the variables around the economy there. Thank you.

**Jeff Gardner** - *Windstream Communications - President, CEO*

Okay, sure. Thanks, Simon. First of all, with respect to the buyback, I think, let's just step back from our business model. And obviously the key thing here is to realize with our high dividend strategy and the yields that we have today, with where the equity is today, that that is a very nice alternative versus paying down debt, so it makes a lot of sense from a shareholder perspective. The business is performing well. We're generating the kind of cash flows that we all expected this business could when we built this company.

With respect to leverage, we are -- we feel good at the levels that we are today. So we don't feel a need to dramatically reduce those to give us flexibility, but we also are very focused on staying in the same zip code, so that we will continue to have access to capital when the market settles down here. So, really, as you know, that buybacks are an important tool with this capital structure to manage your dividend payout ratio, and it's something that with excess cash we're always going to be looking at that is an alternative. And with the way the capital markets are today is by far the very best alternative. Your second part of your question was respect to --

**Brent Whittington** - *Windstream Communications - EVP, CFO*

-- minus 3% to plus 1% in guidance. Simon, I think there were a number of things factoring in. Certainly uncertainty in 2008 was one of the things we considered. Jeff indicated before that broadband growth is going to get harder and harder next year. And where that actually will fall out certainly had an impact on that as well. Again, I'd just flash back to directionally what we accomplished in 2007. We're focused on a similar recipe, although we widened guidance we'll be continuing -- we'll continue to focus on the same things that drove success in '07.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

So -- and just to remind you, when you look at our results for the four quarters that we've reported this year, we've been real pleased each quarter that we've been able to sustain cash flows, report net customer additions each quarter, and we talked about the effect that we saw in nonpaid disconnects this quarter. So to date, no real impacts from the macro financial environment. It's not to say that when we thought about guidance that we didn't consider that a little bit, but at the same token we see no evidence of that and we're just pushing ahead with our business. Again, I think what we have learned a little bit in the last two quarters as we've seen some of these macro pressures that these are less RLEC defensive. And people value not only the land line service that we offer but the broadband service which is becoming more important every day.

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**Simon Flannery** - *Morgan Stanley - Analyst*

Okay.Thank you.

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**Operator**

Your next question comes from the line of Tim Horan with Oppenheimer.

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**Tim Horan** - *Oppenheimer - Analyst*

Thanks, guys. And, Jeff, couple questions on that vein of topic there. In an economic slowdown, I know you're saying that RLECs are defensive, but have you kind of studied how RLECs have done historically operationally, in economic slowdowns and what you think might be different this time? And the same thing strategically, RLEC valuations on a private market basis have been kind of high the last couple of years. Do you think you might have a little bit more opportunity in the next year or two? And I guess to me, one of the biggest swing factors and I think would you have some good insight on this, is on the wireless front and wireless cannibalization. I know we've had pricing has been fairly stable in wireless the last really five or six years if you look at voice pricing yet the cannibalization has continued out there. Maybe some thoughts of what you think might happen in an economic slowdown on wireless cannibalization. Thanks.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Sure. Okay. First of all, yes, well, the whole dynamic in the RLEC industry has changed so much in the last five years, if you look at the last slow down we were in a much different situation regarding competitive alternatives. So obviously customers have more alternatives today. I think the thing that we can count on today is that we've got a bundled product, we've done a really nice job selling bundled features into our customer base. We've been innovative in rolling out new products to address new segments like the younger segment where we've rolled out our green streak product. So I think we're well positioned. It's hard to say what's going to happen if we see more economic hardship on the macro level, but to date, again, if you look at the last quarter, we saw an absolute decrease in access line losses year-over-year.

So I'm not going to -- I'm not a very good economist, so I'm not going to go there, but I do believe that these businesses are defensive. We're providing products and services that are important to our customers. I think we're positioned well relative to cable and wireless. You're right, wireless pricing, I don't know, you say it's been steady, but there has been a lot of these plans where you can add many family members or friends to these plans, which effectively has really driven down the yields on those, which means that they've been really competitive on the price side. So I don't think we're going see a huge change there. Certainly I think all customers are going to have to make decisions about their overall communications spend, and that's why bundling is so important to us. So I think we're well positioned. I don't expect a lot of changes in terms of the wireless competitive footprint in the next few months.

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**Tim Horan** - *Oppenheimer - Analyst*

And on the strategic front, do you think you're seeing more opportunities out there or less over the next couple years?

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**Jeff Gardner** - *Windstream Communications - President, CEO*

The reasons that have driven consolidation in our space are still there today, and so the only question is will the capital markets be there. I think that over time they will. Really, I think the big change today is if you were looking at a deal you'd probably encounter some higher interest rates. If you look at Windstream, we're a strong credit with modest leverage, good prospects. So if there are strategic opportunities, I think that for all the reasons that we've cited earlier, free cash flow accretion, the synergies that we can generate, it's a great tool to really improve the cash generation capability of these assets. So I believe that we'll continue to see acquisition opportunities.

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**Tim Horan** - *Oppenheimer - Analyst*

Thank you.

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**Operator**

Your next question comes from the line of Jonathan Chaplin with JPMorgan.

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**David Stibliss** - *JPMorgan - Analyst*

Good morning.This is actually David [Stibliss] sitting in for John. I wanted to ask you two questions. I joined the conference a little bit late, so I may have missed this in the commentary, but I heard your outward comments on access lines and some of the pressures there. But this quarters results were remarkably impressive. Trends actually improved and reversed. Could you elaborate a little more and provide some color as to what happened this quarter specifically, why things turned a little bit? And then just going forward, if you could provide a little bid more color, I think [bark] had given us a sense numerically where things might be going. And then second of all, just on the CapEx, which is obviously coming down quite a bit, could you give us a little bit more granularity on mapping out how you get there? I know there's some synergies with the recent acquisition and obviously some lower spending, but if you could provide a little bit more detail that would be great.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

Sure. Okay, David this is Jeff Gardner. With respect to access lines, what we said early in the script was that we benefited from a significant decrease in nonpaid disconnects sequentially, which really helped this quarter. But stepping back, I mean, Windstream has really outperformed the sector for a number of quarters and it's been what we've been trying to do is focus on both distribution, driving gross sales, making sure that we get the first call, so we've worked really hard on the advertising side with electronic advertising to get in front of customers who are moving. We've worked very hard in building new distribution channels, things like door-to-door sales, trying to find partnerships, focusing more on multiple dwelling units, all those things are helping on the growth side. And then secondly, we've been making some big investments on the save side, to make sure that we're not only providing better service to our customers day in and day out, so that they're happy with the value they're getting, but also when confronted with a customer who is ready to disconnect, making sure that we have all the tools and strategies to retain those.

So I think those are the reasons driving kind of our access line trend. Not unique in the fourth quarter, but in the fourth quarter we did have that additional benefits from the sequential MPD improvement. and Brent, would you talk about the capital. I think that Brent will give you some detail on this, but the key is we know how important capital is -- capital management in this capital structure. And what I don't want anyone to think is that we would do anything that would sacrifice the kind of opportunity that we have to fully realize revenue from our customers. So we think we're making the right investments in the network. You look at our broadband penetration, and our addressability of some of the best numbers in the industry. So this capital management is being done in a way that really allows us to best leverage those dollars.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

Yes. And there are really two drivers, Dave, in addition to just the continued improvement and the way we manage that, that I indicated before. The two drivers, remember on the CT deal we did indicate expected synergies in the form of capital as a result of a difference in view on the television front there of about $10 million annually. So that's one driver. The second one, as I kind of indicated before, we made some investments in our transport capabilities to better serve our broadband customers in '07, that we're not going to have to repeat next year. And we also expect to see a benefit there as well that was probably in the $15 million to $20 million range. Those are the two kind of significant things I'd point to outside of just better, consistent management by our engineering team for the reasons that Jeff indicated.

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**David Stibliss** - *JPMorgan - Analyst*

Perfect. Okay. So if you take the high end of that, the $20 million, plus the $10 million of the synergies, that's kind of only $30 million of improvement, which still could be quite a bit lower. What's the other gap that I'm missing?

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

Well, remember the pro forma number was a $397 million comparison to the $340 million to $370 million range, so that's one of the things going on.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

And Brent mentioned earlier that the other thing going on there is, with broadband slowing there's less DSLAM rollout in our market, so we're at 85% addressability. We don't see nearly as much investment there this year.

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**David Stibliss** - *JPMorgan - Analyst*

Okay, that makes sense.

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**Jeff Gardner** - *Windstream Communications - President, CEO*

And the ADSL2+ investment was largely made in 2007.

**Brent Whittington** - *Windstream Communications - EVP, CFO*

Yes. That's right.

**David Stibliss** - *JPMorgan - Analyst*

And just a quick follow-up. The nonpay disconnection that you saw in the access lines, I'm assuming you didn't have any sort of benefit on your DSL net adds this quarter either then.

**Jeff Gardner** - *Windstream Communications - President, CEO*

No significant benefit there. The other thing, we talked about the NPD as the driver of improvement in access lines. But remember, we said at the time we announced our third quarter, our access lines results had picked up a little bit. And a lot of that increase was due to a couple of universities that drove that number, so our view is all those NPDs certainly improved but there was also return to normalcy around our access line trends and we were pleased with that.

**David Stibliss** - *JPMorgan - Analyst*

Great. Thanks, gentlemen.

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

Darlene, we have time for one more question.

**Operator**

Your final question comes from the line of Michael Nelson with Stanford Group.

**Michael Nelson** - *Stanford Financial Group - Analyst*

Thanks for taking the question. Could you talk a little bit about what you're seeing in DSL and data speed trends in terms of what -- are you seeing customers migrating to higher data speeds? How price sensitive are they? And what kind of take rates are you seeing from your lower data rate plans? Thanks. Or data speeds. Thanks.

**Jeff Gardner** - *Windstream Communications - President, CEO*

Yes. We've made steady improvement with regard to selling our three and six-meg products, and we're real excited about the opportunity to sell 10 and 12 later this quarter. So we've made significant improvement. Those numbers have probably improved 15% to 20% year-over-year. Our promotions, we've made a big promotional change at the beginning of the year, so we're not as focused with that entry level plan. One of the things we're doing to try to support this overall move to higher speed is we're offering a promotion where customers can sign up for $19.99 and pick their speed, which I think is really supportive of that. So we've moved up our promotional price by about $5 and put the focus more on speed.

Previously, much of our promotion strategy was get them in at the low end and migrate them up over time. And this is a different approach. We've been pleased with the early results, but again I think it's another opportunity to see if we can sell this utility. And really the challenge I think for the marketing team and [house] throughout the year is to continue to convince customers that there is value to subscribing to a six-meg product. There's certainly price sensitivity, especially in this environment, and it's our job to really prove the utility of these products.

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**Brent Whittington** - *Windstream Communications - EVP, CFO*

And the key on that new promotion really, so $19.99, pick your speeds is at the end of six months, and certainly from a sales channel perspective, we're trying to promote the higher speed to our customer base. And at the end of six months that pricing resets to the speed that was selected by the customer. So that's another area as indicated before we expect to use to try to drive some incremental broadband revenue.

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**Michael Nelson** - *Stanford Financial Group - Analyst*

Great.

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

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

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**Operator**

This concludes today's conference call. You may now disconnect.

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