## PARTICIPANTS

### Corporate Participants

**Anthony W. Thomas** – Chief Financial Officer
**Brent K. Whittington** – Chief Operating Officer
**Jeffery R. Gardner** – President, Chief Executive Officer & Director

### Other Participants

**Simon Flannery** – Managing Director, Morgan Stanley & Co. LLC
**Michael I. Rollins** – Director, Citigroup Global Markets (United States)
**Phil Cusick** – Analyst, JPMorgan Securities LLC
**Batya Levi** – Research Analyst, UBS Securities LLC
**David W. Barden** – Managing Director, Bank of America Merrill Lynch
**Scott J. Goldman** – Analyst, Goldman Sachs & Co.
**Frank G. Louthan** – Managing Director, Raymond James & Associates

## MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Windstream Communications Second Quarter 2011 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, this conference is being recorded.

I would now like to introduce your host, Rob Clancy. Sir, you may begin.

[065FXV-E Robert Clancy]
Thank you, Stephanie, and good morning, everyone. We appreciate you joining us this morning to discuss Windstream's second quarter results. Today's conference call was preceded by our second quarter 2011 earnings release, which has been distributed on the newswires, and it's available from the Investor Relations section of our website. Today's conference call should be considered together with our earnings release and related financial information.

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

Today's discussion will also include certain non-GAAP financial measures. These terms will include OIBDA, which is operating income before depreciation and amortization, and adjusted OIBDA, which excludes pension expense, stock compensation expense, restructuring, and M&I costs. Additionally, adjusted free cash flow is defined as adjusted OIBDA minus cash interest, cash taxes, capital expenditures, and is presented on an actual basis to reflect all acquisitions from the date in which we acquired the businesses. Again, we refer you to the IR section of our website where we have posted our earnings release and supplemental materials, which contain information and reconciliations for any non-GAAP financial measures.

To assist investors, we have provided pro forma results, which include all acquisitions we've completed to-date for all periods shown. We will make references to these pro forma results, including the year-over-year comparisons during our call.

Participating in our call this morning, Jeff Gardner, Windstream President and Chief Executive Officer; Brent Whittington, Windstream Executive Vice President and Chief Operating Officer; and Tony Thomas, Windstream Chief Financial Officer. At the end of the call, we will take a few questions.

With that, here is Jeff Gardner.

[004808-E Jeffery Gardner]
Thank you, Rob, and good morning, everyone. Today, I will make a few comments about our second quarter accomplishments and provide an update on our strategic initiatives. Brent will then discuss our operating results, and Tony will review our financial performance.

First, I am very pleased with our performance during the second quarter and particularly with the fact that we achieved consolidated revenue and adjusted OIBDA growth year-over-year, driven by increased strategic revenues and continued stabilization in the consumer channel.

Specifically, business and broadband revenues, which now represents 61% of total revenues, grew 4.7% year-over-year. Additionally, consumer revenues grew sequentially during the second quarter for the first time in over two years. These results demonstrate that Windstream is successfully executing our strategic initiatives and turning a pivotal corner towards organic growth.

From a strategic standpoint, earlier this week we announced the acquisition of PAETEC, which will accelerate our revenue and cash flow growth profile by expanding our focus on business and broadband services and generating significant cost synergies. Following this transaction, roughly 70% of our revenues will come from business and broadband services, which are the growth drivers of our business.

The combined company will have a robust nationwide network with a deep fiber footprint of 100,000 fiber route miles, which will improve the cost structure and enhance our capabilities to serve our customers in strategic growth areas, including IP-based services, data centers, cloud computing and managed services.

In addition, we expect to create approximately $110 million in annual operating and capital synergies and provide meaningful tax benefits. The transaction is accretive in year one and is slightly deleveraging, including synergies.

Now, let me update you on the key initiatives we're working on for 2011, which include our integration activities, investing capital for future growth and deleveraging the balance sheet. First, our team has done a fantastic job integrating the businesses that we acquired last year. And frankly, our efforts are largely complete. I am extremely confident in our ability to successfully integrate PAETEC given our extensive experience and our current readiness.

Second, we have made great progress on investing in growth initiatives, including fiber deployment to support the growing wireless demand, expanding our data center facilities and improving our internet speeds and capacity. As we have stated before, these capital investments offer attractive long-term returns that will improve our financial performance going forward. Finally, we have made progress deleveraging the balance sheet and expect to attain our historical range of 3.2 times to 3.4 times leverage within the next 12 months.

Turning to the regulatory front, the FCC is working on plans to modernize and streamline its intercarrier compensation and universal service policies. Windstream has long supported reform, and has actively worked with the Commission and within the industry to shape the reform process. In fact, Windstream along with a diverse coalition of telecom providers filed a comprehensive reform proposal with the FCC last week. This proposal recommends significant changes to the

Federal Universal Service Program, and the intercarrier compensation system that together will reset the nation's regulatory framework for the future.

The proposal core reform objectives include transitioning USF subsidies to a broadband-focused fund that explicitly supports high-cost areas across America. Additionally, the plan recommends rationalizing access rates while providing reasonable revenue replacement opportunities and manageable transition periods.

We believe this proposal is consistent with the vision of the National Broadband Plan and is good for consumers, and the providers that serve them. By addressing the shortfalls of both USF and intercarrier compensation concurrently, the FCC can ensure stability and certainty within the industry and promote meaningful expansion of robust broadband services.

Having just celebrated our five-year anniversary as a public company, it is gratifying to report that we grew revenue and improved the company's profitability year-over-year in the second quarter. The Windstream team has successfully transformed this business from one largely focused on residential voice to a next-generation communications provider on the cusp of sustained revenue growth.

Our acquisition strategy, combined with the improvement in our core business has positioned Windstream for long-term success and I'm more confident than ever in the future of this business. I'm particularly proud that we have accomplished this transformation while maintaining our dividend and delivering industry-leading returns.

The PAETEC acquisition significantly advances our strategy by accelerating our revenue and cash flow growth profile, and creates a new Fortune 500 company that offers investors a unique combination of growth with a very attractive and sustainable dividend yield.

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

[008HGW-E Brent Whittington]
Thanks, Jeff, and good morning, everyone. We've made great progress on our operational initiatives during the first half of 2011, which combined with solid execution have produced improving revenue trends in both the business and consumer channels. In the business channel, our sales team is doing a terrific job leveraging our expanded portfolio of business services across our base and driving business ARPU growth of almost 5% year-over-year.

During the second quarter, total business revenues grew by 3.6% year-over-year, an improvement of 150 basis points over the first quarter of year-over-year growth rate, driven by solid growth in our strategic business revenues. Specifically, advanced data and Integrated Solutions revenue increased $11 million year-over-year or 6% due to growth in our integrated VoIP offering, advanced data and data center services. Special access revenues increased $11 million year-over-year or 9% due to circuit growth from increased demand for wireless backhaul.

In the consumer channel, we added approximately 3,500 residential high-speed internet customers, growing our total subscribers by 5% year-over-year and increasing our consumer broadband penetration to 64% of primary residential lines. Importantly, consumer broadband revenue grew 10% year-over-year, due to the increase in subscribers combined with the success our team is having selling broadband related features. Video customers increased by 3,000 units, bringing our total video customer base to 444,000 an increase of 5% year-over-year and our penetration is now roughly 24% of primary residential lines.

Consumer access lines declined 4.6% year-over-year and total access lines declined 3.6% year-over-year. Consumer revenues were down 3% year-over-year, but importantly we're up slightly sequentially for the first time in two years, a result of the success we are seeing with our pricing strategy and growth in broadband services, and the related features.

As Jeff mentioned, we are largely complete with all of our integration activities. We have successfully combined the Hosted Solutions business into the Windstream's sales organization and are capitalizing on the data center and managed services opportunities across our footprint.

We are completing the remaining activities for Q-Comm, which we expect to wrap up in the first quarter 2012. Overall, we are very pleased with the acquired businesses, which are performing in line with our expectations and we're tracking towards the $45 million in incremental synergies targeted this year.

We have made tremendous progress on our capital initiatives, including increasing broadband capacity and capabilities to enable 12 meg service to over 40% of our footprint and 24 meg service in our most competitive markets. We completed the data center expansion in Boston, nearly doubling the size of that facility to 25,000 square feet and making it one of the most advanced managed services facilities in the Boston area.

Given the strong demand for data center services, we opened a third facility in Charlotte, again expansion plans on our Raleigh data center and started work on a new data center right here in Little Rock.

Additionally, we invested in many fiber-to-the-tower projects and remain encouraged by the contracts we are winning, both in our island footprint, as well as by extending our footprint, leveraging the KDL fiber network. Within our island territories, it's very important we continue to make the fiber investments to solidify our competitive position and grow these revenue streams.

In the non-island territories, which represent roughly half of the fiber projects, the revenue is entirely incremental. Importantly, all of the fiber-to-the-tower initiatives have long-term contracts in place prior to beginning construction and generate attractive returns that exceed our cost of capital.

Finally, work is underway on several of the broadband stimulus projects. These investments all offer exciting opportunities to earn attractive returns and better position the business for future success allowing us to continue creating shareholder value.

With that, let me turn the call over to Tony who's going to discuss our financial results.

[008HGV-E Anthony Thomas]
Thank you, Brent, and good morning, everyone. For the second quarter on a GAAP basis, Windstream achieved consolidated revenue of $1.03 billion, operating income of $293 million, and $0.18 of diluted earnings per share. Our GAAP results include $3 million in after-tax merger and integration costs and $2 million cash effective loss on early extinguishment of debt. Excluding these items, our adjusted EPS would have been $0.19.

Turning to our pro forma results for the second quarter, Windstream delivered total revenues of $1.03 billion, which was up slightly year-over-year. Specifically, business service revenue increased $14 million, or 3%, driven by growth in advanced data and Integrated Solutions and special access, which outpaced pressures from voice revenues. Customer service revenue declined $9 million, or 3% year-over-year driven by fewer voice customers offset partially by growth in broadband revenues.

Wholesale service revenue declined $11 million, or 7% year-over-year due to decline in switched access in U.S.F revenues. Total product sales were up $8 million, or 41%. Specifically by category, voice and long-distance revenues declined by $30 million year-over-year or 8%, driven by fewer voice lines and declining feature packages. Data and Integrated Solutions increased $22 million, or

7%, driven by growth in integrated VoIP and data offerings and advanced data services to business customers combined with 10% growth in consumer broadband service revenue.

Special access revenues increased $11 million, or 9% due to circuit growth from increased demand for wireless backhaul. Switched access declined $5 million year-over-year related to fewer minutes of use, which were offset somewhat by settlement during the quarter. U.S.F revenues were down $5 million year-over-year, including $1 million in pass-through end user surcharges. Product sales increased by $8 million related to better business and contractor sales.

Let me turn to expenses, which exclude depreciation and amortization. This quarter, expenses were lowered by $5 million, or 1% year-over-year. Excluding pension costs, expenses were lower by $1 million, or flat year-over-year. Specifically by category on a year-over-year basis, cost of services was up $2 million and cost of products sold increased by $5 million due to higher product sales. Within SG&A, expenses decreased $11 million, or 8% year-over-year due to incremental deal synergies and lower consumer advertising, which was partially offset by increasing commissions driven by strong business sales.

Sequentially, total revenues increased $7 million, or approximately 1% with both the business and consumer channels generating growth over the first quarter, a result of solid demand and data and integrate solution special access, broadband and product sales. Sequentially, cost of services increased by $9 million due largely to higher weather-related cost and an increase in bad debt expense. Costs of products sold increased by $4 million due to high products sales and SG&A decreased by roughly $3 million related to deal synergies and lower advertising costs.

For the quarter, OIBDA was $495 million, an increase of 1%. Adjusted OIBDA was $513 million, an increase of 0.6% year-over-year and was negatively affected by the items I mentioned earlier. Our adjusted OIBDA margin improved 30 basis points year-over-year to 49.8%.

Adjusted free cash flow was $227 million for the quarter, an increase of $29 million year-over-year or 15%. During the quarter, we opportunistically repurchased $33 million of our 2016 notes, supporting our plan to deleverage and lower cash interest expense going forward.

This quarter, we spent a $172 million on capital expenditures, which was largely related to our growth initiatives, including fiber-to-the-tower projects, data center expansion and enhancing the capabilities for our broadband network. This year, we are deploying capital expeditiously to complete as many success-based projects as possible to benefit from the 100% bonus depreciation rules and accelerate revenue realization. Thus we expect similar levels of capital expenditures in the third quarter with a significant decline in the fourth quarter.

Windstream has had a strong first half of the year, demonstrating solid execution and improving financial performance. For the back half of the year, we expect to see some sequential improvement. However, most of the improvement will occur in the fourth-quarter as we begin to receive some of the expected benefits from our capital investments and realize additional synergies. Our strategic initiatives combined with focus on our organic business are resulting in improving financial trends and importantly we expect to be growing this business as we exit 2011.

With that, we will now take a few of your questions. Stephanie, please review the instructions and open the call to questions. Thank you.

## QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Simon Flannery from Morgan Stanley. Your line is open.

**<Q – Simon Flannery – Morgan Stanley & Co. LLC>:** Thank you very much, good morning. Nice job on the revenue growth. I wonder on the synergies could you – I think you talked about it just a second ago on sort of phasing through the year, just talk about where we are on the synergy achievements from deals you've closed in the last year or so, and how that faces throughout the rest of the year and into 2012. And then on broadband, a couple of follow-ups, the adds were a little bit lower than we were expecting this quarter. Anything to point to in terms of gross ins or churn there? And you are doing a nice job on the feet, adding features and getting the ARPU on broadband up, perhaps you could just provide some color on that. Thanks.

**<A – Anthony Thomas – Chief Financial Officer>:** Simon, this Tony. I'll start it off with the synergy question. As I referenced there at the end of my discussion, we do expect to achieve more synergies, but they are going to be backend loaded to the fourth quarter and those are combination of network synergies and other barriers procurement initiatives. So, we're expecting roughly another $2 million to $3 million to flow through in terms of a quarterly benefit from Q2 going into Q4. And importantly as Brent mentioned, we also have synergies tied to our first quarter Q-Comm integration completion. So, we expect to achieve a modest amount additionally, in early 2012.

**<A – Brent Whittington – Chief Operating Officer>:** Simon, it's Brent here on broadband. Yes, we did see a little lower net than we've normally put out. But we've been talking for some time that broadband for us is not just about customer growth, but it's about revenue growth. And if we look kind of just what happened in the business, gross adds did decline sequentially from Q1 to Q2, which is something we've seen seasonally. Churn was actually flat with where it was even a year ago. But there's churn now on a larger base, so it takes more in terms of sales to outrun that from a gross standpoint. And we did change our promotion during the quarter focusing on a little bit more of a over-the-top video solution. That was a little harder and higher cost at the point of sale for our reps and didn't generate as much momentum as we hoped. We actually moved back beginning in mid-July to the Quitter Campaign we rolled out in the first quarter and that's been a real winner for us. But for a while for us now really, it's not just about the net, it's about the revenue growth and those broadband features we've been focused on some time are really helping drive nice revenue growth, which as we mentioned was 10% year-over-year.

**<Q – Simon Flannery – Morgan Stanley & Co. LLC>:** And just what sort of features are we talking about, Brent?

**<A – Brent Whittington – Chief Operating Officer>:** Yes. A lot of it, Simon, is really as simple as security suite going all the way up to a remote PC assistant solution bundled with some other kind of related products they can price somewhere in the $18 range. So, they're nice value-added features that are sticky from a customer relationship standpoint, but also really value enhancing in terms of ARPU.

**<Q – Simon Flannery – Morgan Stanley & Co. LLC>:** Okay. Thank you.

**<A – Brent Whittington – Chief Operating Officer>:** Welcome.

Operator: Our next question comes from Michael Rollins from Citi Investment Research. Your line is open.

**<Q – Michael Rollins – Citigroup Global Markets (United States)>:** Hi. Thanks for taking the questions. Really, I had two. Just following on Simon's question, if I had to characterize, I think, the quarter more holistically, it seemed like you did better across different segments in ARPU, and the volume might have been a little bit lighter than what we were expecting. So, as you look in the back half of the year, whether it's in the business segment or in the consumer segment whether its voice or broadband, would you expect to be driving more of the path to revenue growth with ARPUs or should we expecting these different segments some pick up in the volumes as well? And then the second question I just wanted to tack on was whether you could just give us some additional financial disclosures around your exposure to access, and the potential for reform, and how that might specifically affect your financials on the longer-term basis? Thanks.

**<A – Brent Whittington – Chief Operating Officer>:** Michael, this is Brent, and I'll talk about kind of the unit issue. I would tell you, broadband it's definitely more about revenue versus unit growth. That's probably the exception. On the business side, we talked about we're seeing some positive momentum from a sales perspective around our strategic products. The volume there has actually remained nice and improving. And then as it pertains to special access, we've continued to see both revenue growth, as well as unit growth there.

So I think in those key segments, it's a combination of both ARPU and volume. On the consumer side, I think access lines have fairly steady. It's really on the broadband side, which is a function of our penetration. And we've got a very dominant market share, which we've had for some time just because of our strength and bundling products and focus on this product specifically, going back for many years. So, it's really all about the revenue and ARPU growth there.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** Right. And I think, Michael, importantly, we do think about the business in terms of revenue. And as Brent said, we expect to continue to focus on that. We're very pleased with – if you just look at the underlying trends across our businesses, they are very strong in the quarter.

With regard to the U.S.F and FCC reform, I think this is quite an accomplishment. We've got a proposal that I think provides a very thoughtful framework to transition, in a manner that assures industry participants, including Windstream that all of us are financially sound. That was fundamentally one of the things that was challenging when we thought about universal service in ICC reform previously. And I think importantly, the key elements for this plan that I think should be noticed and give investors comfort because they give all of us comfort as one, the reform does a number of things that are very helpful.

First of all, it focuses U.S.F on high-cost areas. This has been a very big problem. And I've talked about this a lot in Washington about the fact that if you were a customer in a rural area of Windstream versus a customer in a rural area of a small carrier, your subsidy would be much higher and we would get very little U.S.F for that going forward. In this proposal, U.S.F is really targeted towards those high-cost areas. So, we kind of deal with this issue, that we refer to as the rural-rural divide. All rural customers are going to have the opportunity to get broadband out to them under this plan. This plan effectively eliminates the arbitrage that is going on so frequently in the industry today with some very specific reform around phantom traffic. It gives clarity on IP compensation. It provides what's very important for the financial stability of everyone, a gradual step-down in access rate over a long period of time, a recovery mechanism and finally, it does include some very modest increases to the end users.

So at the end of the day, I don't think it's at all disruptive as we look at our long-term model. It's not disruptive. It is important that the FCC deal with both U.S.F reform and inter-carrier perform concurrently. But I think this framework provides a nice starting point. There's much work to be done here. But we work very hard on this and I think we're sufficiently focused on those areas that investors have been historically worried about.

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

Operator: Our next question comes from Phil Cusick from JPMorgan. Your line is open.

**<Q – Phil Cusick – JPMorgan Securities LLC>:** Hi, guys. I wonder if you can talk a little bit about the business side. What are you seeing from cable competition? Where are you sort of incrementally successful? Thanks.

**<A – Brent Whittington – Chief Operating Officer>:** Yes. Phil, on the cable side, a lot of the competition where we've seen that the peers remains on the very small end, and then with low price bundles with a high speed broadband product. And further, as we kind of really focus our reps on, what I kind of call higher ARPU-type customers, our traditional business sales force when and as focused on small business we needed to be, we actually this year ramped up a big, what we kind of call a business door-to-door sales effort, targeting just those small business customers in the markets where we've seen that fierce cable competition. That's really paying some dividends for us. But that's really where we've seen it as much as anything. But I feel like, as it pertains to the vast majority of our customers big or small time, we've been in a very good position relative to cable and fell like we're holding around there.

**<Q – Phil Cusick – JPMorgan Securities LLC>:** So, you feel like your pushing back a little bit more now than maybe earlier in the year?

**<A – Brent Whittington – Chief Operating Officer>:** Well, I'd say early in the year, we started out strong. That really began in January. So, Q1 kind of ramped up for that incremental distribution I mentioned. In Q2, we were full steam ahead I think there. It's again – we have still a very good share. But it's where cable had been getting more aggressive, predominantly with direct mail, in addition to a door-to-door sales force focused on attacking our base. And so we responded accordingly and are finding that a very good market for us once we make those investments.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** And if I could just add, Phil, one of the most exciting things about the New Vox deal that was an opportunity for us was we really liked, during the diligence process, the aggressive nature of their sales force. And as Brent was saying, we've made great progress here. I think we're much more aggressive than the marketplace. The sales team for companies like Windstream are a big advantage in the marketplace. We have very experienced people who can sell very complex products. And when we think about PAETEC, again another example, they've got a wonderful sales force that's incredibly aggressive. And so it's just going to really further our ability to become a major player in the enterprise space.

**<A – Brent Whittington – Chief Operating Officer>:** And I would even add to that a little bit too on the small business side just to reiterate my point. Our service there is very superior to our cable competitor. So, if we can just get the speed issue solved in terms of – because that's really where they've been more aggressive, is offering those low priced high speed bundles. We've made investments in our network to offer VDSL and higher speed data services. That's going to be directed predominantly towards those small business customers, which we think takes that advantage away from them and makes us an even more viable competitor, coupled with the distribution investments I mentioned.

**<Q – Phil Cusick – JPMorgan Securities LLC>:** You bring that up, is the investment there sort of steady over the next few years as you get that back up or is that really an effort this year to -

**<A – Brent Whittington – Chief Operating Officer>:** It's largely complete. I mean, most of that spend's already been completed, Phil. It's just a matter of rolling it out and introducing it in our markets today. So, that's more of what I call a one-time investment.

**<Q – Phil Cusick – JPMorgan Securities LLC>:** Good. Thanks, guys.

**<A – Brent Whittington – Chief Operating Officer>:** You're welcome.

Operator: Our next question comes from Batya Levi from UBS. Your line is open.

**<Q – Batya Levi – UBS Securities LLC>:** Great, thanks. I want to ask a question to clarify your revenue guidance. You said that you plan to exit the year with revenue growth. With revenues stabilized with slight growth in the quarter, do you expect that trend to continue accelerate into 3Q or should we see a dip in 3Q, and then improving 4Q?

And when you add PAETEC to the equation next year, how do you expect that revenue growth to continue in 2012?

And one more follow-up on the consumer side, revenue growth actually improved year-over-year, but they were down sequentially. Can you talk if there was any one-timer in there? Thank you.

**<A – Anthony Thomas – Chief Financial Officer>:** Yes. This is Tony. I'll start it off with kind of our views on revenue. I think we've been focused on growing our revenues sequentially, and that's where we're focused on doing in the back half of the year. And importantly, if we accomplish that, we expect to exit the year with growth year-over-year. Some of the comparisons to the prior period might make that difficult in the third quarter. But importantly, as you look forward, it's a focus on sequential revenue growth going forward.

And in terms of the – I think your question in regards to broadband revenue, it's just the fact that when you look our investor supplement, we include broadband service revenue and broadband product sales together. And broadband product sales were down $3 million from 1Q to 2Q as Brent mentioned. We had lighter broadband and net additions than we'd anticipated.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** Then in terms of PAETEC, we're not talking about 2012 yet. But just – I mean, very simply, if you look at when – in my comments, I talked about business and broadband today being 61% of our business. After the PAETEC deal, that's going to increase to 70%. Those two segments year-over-year in this quarter are growing at 4.9%. And so that's why we're continuing to make investments in the enterprise and broadband area. We see real growth there for years to come.

**<Q – Batya Levi – UBS Securities LLC>:** Okay, thanks.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** You're welcome.

Operator: Our next question comes from David Barden from Bank of America. Your line is open.

**<Q – David Barden – Bank of America Merrill Lynch>:** Hi. Good morning, guys. Thanks for taking the questions. Tony, just two quick ones for you. One, obviously the first half CapEx run rate is trending above where the guidance for the year is. Could you kind of talk a little bit about where you think we might turn out for the second half, and how that impacts the full year outlook?

And just the second one on cost of service, I know there was a lot of moving parts with the equipment this past quarter. But from 4Q to 1Q, it was down $7 million. From 1Q to 2Q, it was up $11 million. If you could kind of just give us some color about how we should be again thinking about the run rate cost of service.

And then if I could, one last one for you, Jeff. You talked about getting into your targeted leverage range in about a year. Could you talk a little bit about, what then? Is PAETEC just the latest in this kind of acquisition series or maybe in a year from now, you could really settle down and start thinking about maybe incremental returns to stockholders? If you could kind of opine on that, that would be great. Thanks.

  

**<A – Anthony Thomas – Chief Financial Officer>:** David, I'll start off with your two quick questions, starting with CapEx. As Brent mentioned in his discussion earlier in the call, obviously we have a lot of capital projects underway. And as we look at the push and the success we've had in fiber-to-the-tower data centers enhancing our Internet capacity, we do think we'll be at the high-end of our capital guidance. And as I mentioned, there's a couple of reasons we're accelerating the spend, I think that was kind of another element of your question, in the first half. That's two-fold. One, bonus depreciation. You have to both spend the money and install the equipment in a given year to achieve the tax benefit. So, we're very much focused on ensuring we receive those cash tax savings. And of course, you get incremental benefit. As soon as you complete those projects, you begin to realize the revenue.

But these are – we remain very excited about these investment opportunities. They improve the long-term profile of the company. And importantly, on fiber-to-the-tower, we have yet to receive any revenue benefit from those – that CapEx spend. As we mentioned before, those are long-term capital projects, 6 to 12 months. And you'll see us continue to spend money aggressively in the third quarter, and then you will see it ramp down in the fourth quarter. But as I stated, these are clearly things that are better positioning the business for the long run.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** Great. And In terms of your strategic question, David, all of our acquisitions have been really focused on value creation, as you might expect. I think probably everyone says that. We really do mean it. And I think that the acquisitions that we've done, really with an eye towards accelerating this transformation so that we could drive very good shareholder returns. We have in the first five years. I think PAETEC is a deal that really sets WIN up to grow in the business space and is a great strategic fit. And it gives us outstanding organic opportunities.

Remember a lot of these acquisitions – the same is true of Hosted and KDL. There's great organic opportunities to grow there because we've made these acquisitions in the fiber space, in the data center space. And the same is true with PAETEC. On the enterprise side, it just makes us a much more effective competitor, and it was a very important part of our strategic plan. This was a fairly large transaction. We're focused on closing and integrating PAETEC. In the future, we'll be again using the same criteria. We do expect to manage our leverage down there. And in terms of how we think about that future in terms of shareholder returns, it will depend on many things, including what our opportunities are out there.

But I hear what you're saying. I mean, we're consistently committed to our dividend. We like operating in that 3.2 to 3.4 range. And I think we're well-positioned now, even without future acquisitions, to grow this business organically, plus we have the right balance. We've got the right focus on the enterprise side that I think presents a better long-term picture for our investors in terms of sustaining the dividend and owning a company that's actually going to grow revenue and pay a very healthy dividend.

**<Q – David Barden – Bank of America Merrill Lynch>:** Thanks for those comments, Jeff. I appreciate it. Tony, could you maybe just hit that cost of service question?

**<A – Anthony Thomas – Chief Financial Officer>:** Yes, absolutely. When you look at cost of service, as I mentioned going from the first quarter of 2011 into the second quarter, we did have some higher cost associated with the severe weather and flooding that occurred in both our South and Midwest markets. And that puts some incremental pressure on our cost of service in the second quarter.

But importantly, as we look forward, the costs that are most important to maintaining the margins in this business for us are our interconnection costs because you need to be very diligent in managing those. And those costs were down sequentially $1 million, and were really flat to about $0.5 million now year-over-year. And that's important to us because this management team has shown the ability to manage its cost aggressively. And we're very confident in our ability to do that.

The Achilles heel of the RLEC wireline business is not in the management of costs. It's in growing the top line. And if we get the top line, we're very confident that we'll be able to achieve the margins that we desire for this business. And I think we have a history of being able to take costs out of this business in a way that doesn't harm the customer. It improves the – and maintains our margin. And that's where we're going to be focused on. And in terms of just giving you some additional color, I do – there is seasonably a higher-level of cost of service in the second quarter than first quarter. And there's typically even higher levels of cost of service in 3Q, not simply seasonal, and it dips down significantly in the fourth quarter.

**<Q – David Barden – Bank of America Merrill Lynch>:** That's super helpful. Thanks, guys.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** You're welcome.

Operator: Our next question comes from Scott Goldman from Goldman Sachs. Your line is open.

**<Q – Scott Goldman – Goldman Sachs & Co.>:** Hi. Good morning, guys. Hoping I could ask maybe a housekeeping question and a more operational question. Just on the housekeeping side, you mentioned a switch to access settlement in the quarter. I wonder if you can quantify that for us.

And then I guess on the operation side, Tony, just following up to your comments there. So, as you grow the contribution coming from business and broadband and that further expands with the PAETEC deal, can you talk about what impact that has on the overall margins within the business? Particularly, you've had the benefits of some of the synergies early on this year. I think you're getting a little bit more. You said in the back half and maybe some into early 2012, but if you take the synergies sort of out of the equation, what is growing the business in broadband contribution of your revenue do to the overall margins of your business?

**<A – Anthony Thomas – Chief Financial Officer>:** Yes, Scott. This is Tony. Starting with your housekeeping item, we had that switch to access settlement was a couple of million dollars. So, fairly modest, but it was just impacting the trends.

In terms of how PAETEC influences our overall margins, we think over the long run, it's going to enhance it. Specifically, we're targeting over $110 million of synergies and we also have this combined 100,000 route miles of fiber. And one of the costs you're really trying to manage on your broadband, as well as your business network is your transport cost. It's the cost of pushing data across the country. And that combined network means we'll be able to carry much more of that traffic on our own network. And if you can do that, you're going to be enhancing your margins. And we've aggressively rolled out fiber on our own. But the addition of KDL and PAETEC, we think, positions this business very well. And fiber combined with synergies, we think, leads to very sustainable margins.

**<Q – Scott Goldman – Goldman Sachs & Co.>:** If I could just follow up on that, I mean, it's maybe less specific to PAETEC in synergies in general, but it's with two-thirds or so of your business coming from the enterprise business side in broadband. I mean, do you think that lowering – managing the transport costs like you just talked about that in the sort of the high 40% to 50% margin business is sustainable?

**<A – Anthony Thomas – Chief Financial Officer>:** Yes. I think if you looked over the last several years and see that we've continued to improve margins, and as we've been shifting this business from one that is predominantly business and broadband. And I think for some of the very same reasons. And as we talked about fiber-to-the-tower, I think fiber-to-the-tower is a good illustration. Once you make – the most important part of fiber-to-the-tower projects, are the initial CapEx investments. Those are very high margin businesses. But you've got to be comfortable with up front capital and be patient, recognizing those are 6 to 12 month investment time horizons. But once you start bringing those revenues in, the actual cost of operating a tower is low. So, I think if you look at our history combined with the investments we're making now, we think we're going to continue to improve margins kind of in the legacy Windstream business.

**<Q – Scott Goldman – Goldman Sachs & Co.>:** Okay, great. And then just one very quick question on the consumer broadband side, you guys have been rolling out higher speed 12-megabits, 20-megabits to parts of the competitive markets. Can you just talk about what the uptake is of these higher services where you do have them available? Do you see meaningful penetration at the higher level or do you still see most people taking sort of the lower 3-meg type of product?

**<A – Brent Whittington – Chief Operating Officer>:** Yes, Scott. That's an easy one. I mean, unfortunately, people just don't want to pay for incremental fee. We still see that long-term as incremental ARPU opportunity, because we know the demand is going to be there. As we've rolled it out currently, it's largely from a marketing benefit standpoint to talk about our competitiveness relative to cable and our competition. But they're largely bond at 3-meg. But as I mentioned, that's opportunity in the future because the demand curve is certainly driving higher. So, we remain optimistic there.

**<Q – Scott Goldman – Goldman Sachs & Co.>:** Okay, great. Thanks, Brent. Thanks for taking all the questions guys.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** Our pleasure. Just one thing, Scott, on the PAETEC acquisition, Tony talked about the margins. But I just wanted to highlight again that with that transaction being an old stock deal and very accretive, it actually helps with respect to the payout ratio.

**<Q – Scott Goldman – Goldman Sachs & Co.>:** Understood. Thanks, Jeff. I appreciate that.

**<A – Jeffery Gardner – President, Chief Executive Officer & Director>:** You're welcome.

**<A – Anthony Thomas – Chief Financial Officer>:** Stephanie, we have time for one more question.

Operator: Our final question comes from Frank Louthan from Raymond James. Your line is open.

**<Q – Frank Louthan – Raymond James & Associates>:** If you could – I apologize, I dropped off, but if you could talk about your CapEx priorities for the rest of the year going into the PAETEC acquisition.

**<A – Brent Whittington – Chief Operating Officer>:** Yes. I can take that, Frank. This is Brent. Our priority certainly for the year – if you look at what we've been focused on, it's been pretty steady from start to what we see at the finish and in the end of the year. And it's all about fiber-to-the-tower. And as we kind of talk about, we've been pursuing that business both in and out of territory. And we've been very pleased with our sales efforts there. And I think that's showing up in terms of demand and our revenue results where we saw 9% special access growth.

Data centers, I've talk about a number of expansion opportunities as it pertains to data centers. We've got – really when you kind of look at it in terms of just growing existing footprint where we have centers and adding space, as well as one inorganic expansion here in the Little Rock, that's definitely a high priority for us this year in addition to roll out higher speeds in our broadband network. For the reasons I've talked about before, specifically that pertains to offering much higher speeds to our small business segment with the VDSL technology. Those are all the key priorities we're working on right now.

**<Q – Frank Louthan – Raymond James & Associates>:** Just to follow up on that, one of your peers mentioned some network congestion in some of their broadband with customers downloading streaming videos, et cetera, Netflix effect I guess. Are you seeing any of that in any parts of your network? And then can you comment on the total amount of square footage you have under roof for the data center business, and what the utilization is? And with these new expansions, how much of that's sort of presold space?

**<A – Brent Whittington – Chief Operating Officer>:** So on the total data center footage, I don't know that off the top of my head. But I can tell you that whenever we open a news space, you might have 5% that's presold, but you're opening it because you're basically maxing out your existing space. You're looking through the sales funnel and you know the pipeline is bright. And so the goal is to usually fill that up within a short period of time. The time, from our perspective, is within two to three-year kind of time horizon, somewhere in that window.

As it pertains to transport, like a lot of folks in the industry, we're definitely seeing increases in network traffic really due to video consumption. No question, Netflix and other related types services are driving some of that demand. We've continued to invest in broadband transport like we have in years past. And the good thing with a lot of the things we've been doing from just a network perspective like rolling out, as I mentioned before VDSL technology and our larger markets, that's really all about fiber deployment, which helps solve some of those transport issues. So, we feel like we've been in good shape there, but it's certainly something we've been very focused on operationally, so our broadband customers don't see a degradation in the quality of their experience.

**<Q – Frank Louthan – Raymond James & Associates>:** Okay, great. Thank you.

**<A – Brent Whittington – Chief Operating Officer>:** Okay.

**Jeffery R. Gardner, President, Chief Executive Officer & Director**

In summary, I'd just like to say that Windstream has indeed pursued a different path. I think you all understand that one that is focused on improving our revenue trends by expanding services in growing areas, mainly business and broadband. That's what we've been working on for five years. You're beginning to see the fruits of that labor now with our top line. Together, those businesses represent 61% of total revenue. As I said, they grew at 4.8% year-over-year.

We remain incredibly focused on the dividend at Windstream and understand how important this is to our shareholders. We have a set of assets that are generating strong cash flows to not only pay the dividend well into the future, but also offer us the ability to grow. Windstream has never been better positioned. 2011 was a year full of execution. And incredibly important for us, we've started out right. As we make success-based growth investments and continue to execute our strategy, we're going to build a stronger and stronger company.

Thank you for your interest.

Operator: Ladies and gentlemen, that does conclude today's conference. You may all disconnect and have a wonderful day.