WINDSTREAM CORPORATION

Moderator: Rob Clancy
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8:00 am CT

Operator: Welcome to the Third Quarter 2008 Windstream Communications Earnings call. All lines are placed on mute. We would now like to introduce our speaker, Rob Clancy, Senior Vice President and Treasurer.

Rob Clancy: Thank you (Janice) and good morning everyone. We appreciate your joining us this morning. Today's conference call was preceded by our third quarter 2008 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 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. Again we refer you to the IR section of our website where we have posted our earnings release and supplemented materials which contain information and reconciliation for any non-GAAP financial measures.

We have provided our pro forma results from current businesses which include Valor and CT Communications and exclude our publishing and wireless business for all periods.

In addition our third quarter 2008 pro forma results exclude a $6.5 million non-cash impairment loss to adjust the carrying value of wireless spectrum holdings classified as assets held for sale that we acquired in the CT transaction last year.

We will make references to these pro forma results from current businesses including the year-over-year comparisons during our call.

In addition we have added additional disclosures in our supplemental financial information to include inter and intrastate minutes and rates for the third quarter of 2008.

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.

With that here is Jeff Gardner.

Jeff Gardner: Thank you Rob and good morning everyone. Let me start with a few high level comments and then discuss our third quarter operational results after which Brent will discuss our financial performance for the quarter.

Windstream's business continues to perform well despite the challenging macroeconomic environment and stress within the overall capital market. Our business has once again proven to be relatively defensive, given our rural footprint and the growing importance of the broadband connection. We are right on plan to achieve the financial goals we set earlier this year.

In fact, it was our goal to maintain revenue and EBITDA roughly flat and grow free cash flow compared to our prior year pro forma results. Thus far, we are well on our way to accomplish those goals as we continue to deliver industry leading operational metrics.

We are confident in our ability to sustain the free cash flow this business generates.

Last quarter we raised the free cash flow guidance for the full year of 2008, resulting in an expected dividend payout ratio of 56% to 61%.

While we are not providing detailed 2009 guidance as this time, we do not expect a material change to our dividend payout ratio next year. It is our intent to complete the remaining $200 million of our share repurchase program by the end of 2009 particularly at these current valuation levels.

Given the overall uncertainty in the macroeconomic environment and the challenging credit in equity markets, however, we will likely maintain higher cash balances in the near-term to improve overall liquidity.

I think the recent events in the RLEC industry warrant a few comments on industry structure and strategic initiatives.

As we have stated before, we believe that consolidation makes sense in this industry and we will stay focused on delivering solid operational metrics 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.

We have also mentioned that we are comfortable with the credit rating range we have today. Although we could probably add modest leverage and maintain our existing credit ratings, due to the recent credit market challenges and the resulting cost of capital, we will look to maintain leverage at current levels, should strategic opportunities arise.

We are most interested in pursuing activates that are free cash flow accretive and thus we are not interested in getting bigger, simply for the sake of getting bigger.

In fact, given our current credit and equity valuations, we have ample opportunities to drive free cash flow accretion on our own balance sheet. And we are comfortable with our ability to create long-term value for all of our stakeholders without a major acquisition.

Let me now turn to a few specifics within our third quarter operational results. We added 28,000 new high-speed internet customers this quarter, bringing our total broadband customer base to roughly 963,000, an increase of almost 16% year-over-year.

Our overall broadband penetration is now at 31% of total access lines, and residential broadband penetration is approximately 47% of primary residential lines.

We continue to believe there is room for additional growth and that we have been making investments in our network that will make our 1.5 meg product available to roughly 100,000 new customers.

This effort will bring our broadband addressability to roughly 88% of total access lines.

In addition, we believe there is continued opportunity to drive revenue growth by selling faster speeds. We've have been very encouraged with the increase in customers subscribing to our 3 meg speeds or higher since the launch of ADSL2-plus earlier this year.

Our promotions during the first half of the year, focused on familiarizing customers with faster speeds, available throughout our network. Although still early, we've been pleased that customers have maintained their faster speeds after rolling off the promotional pricing period which should yield higher broadband ARPU in the future.

We added nearly 21,000 digital TV customers in the quarter, bringing our total customer base to approximately 252,000 or 14% of primary residential lines. We continue to have great success selling the DISH product in our bundle, which is very important for overall customer retention.

During the quarter, access lines declined by approximately 38,000, an improvement in absolute lines lost of more than 8000 units year-over-year. In total, our access lines declined by 4.8% year-over-year which is a sequential improvement of 20 basis points in the year-over-year loss rate and continues to be significantly better than our pears in the RLEC industry.

This is quite an accomplishment given the fact that competition continues to increase and business customers are migrating to higher capacity circuits.

These industry leading results are a function of our team's focus on expanding distribution channels, increasing our effectiveness at the point of sale as well as our focus on customer retention.

Non-paid disconnects decreased by 3000 units year-over-year but did increase approximately 7000 units sequentially. We ended the quarter with just over 2 million long distance customers representing 66% penetration of total access lines.

Recall that we implemented a pricing change in the fourth quarter of 2007 which has caused some out of territory and low usage customers to disconnect their long distance service.

Importantly, we continue to increase the penetration of our long distance packages which in combination with the price increases has driven a 5% increase in long distance revenues year-over-year.

Our business channel continues to perform well as we proactively sell bundled products and migrate customers to higher capacity circuits, which enhance the value of services offered to our customers while improving the network efficiency.

We continue to see nice growth in next generation data services, broadband and special access. Also CPE sales have increased year-over-year driving incremental revenue while improving customer retention.

From a regulatory perspective, we continue to support comprehensive reform of the current inter-carrier compensation rules including uniform rates for all traffic that will allow carriers to invest in your networks and bring additional services to rural America.

We are also very much aligned with the SEC's objective to deploy broadband to rural America as evidenced by our plans to get to 88% broadband addressability and our industry leading broadband penetration.

We hope that the SEC moves forward with comprehensive reform in an orderly and rational way which in our opinion will help provide greater clarity into the future cash flows of the rural business.

Meanwhile, we will continue to work with the SEC, our peers and other constituencies on a comprehensive reform package that updates the rules in a matter that is balanced and fair and provides for ongoing stability in the rural telecom industry.

In summary, we are pleased with our results for the third quarter and all that we accomplished year-to-date. Windstream continues to perform well in this challenging economic environment demonstrating the defensiveness of our business as well as the hard work and dedication of our entire team. And importantly, we remain confident in our ability to sustain cash flows going forward.

Now, let me turn the call over to Brent to discuss the financial results.

Brent Whittington: Thanks Jeff, and good morning everyone. For the third quarter on a GAAP basis, Windstream achieved consolidated revenue of $794 million. Operating income of $271 million and 24 cents of diluted earnings per share, all of which exclude the wireless business, which is reflected as discontinued operations given its pending sales.

From a contribution perspective, the wireless business generated roughly $12 million in revenue and $3 million EBITDA during the quarter. And recall the last quarter we announced the transaction to sell our wireless business the AT&T for $60 million in cash.

We have received SEC approval and expect this transaction to close during the fourth quarter of this year.

Let me turn to our pro forma results from current businesses. For the quarter, Windstream achieved consolidated revenues of $794 million, a decline of 2% year-over-year.

Consolidated EBITDA of $401 million, a decrease of 4% year-over-year and operating income of $277 million, a decrease in 1% year-over-year.

Within our wireline segment, total revenues were $775 million, a decrease of 3% year-over-year much of which is a result of challenging year-over-year comparisons which I will cover momentarily.

Let me discuss the specific revenue categories. Voice revenues continued to decline as expected in line with the loss of access loans. Long distance revenues increased by $3 million year-over-year driven by solid sales of long distance packages and the price increase we implemented in the fourth-quarter of last year.

We have been pleased with the increase and data and special access revenues which grew $13 million or 7% year-over-year largely the result of additional high speed internet customers.

Switched access and USF revenues declined $16 million year-over-year or 10%. While some of this decline is due to the continued reduction of switched access minutes resulting from fewer customers, much of the decline is related to the challenging year-over-year comparisons.

Specifically recall last year, we recorded a net $7 million in additional USF revenues due to revised cost studies.

In addition, since we migrated to a price cap form of regulation on July 1st of this year, we have eliminated the broadband surcharge previously assessed on high speed internet customers. While this is EBITDA neutral given the corresponding decline in extents, this change did result in $3 million of lower USF revenues this quarter.

Miscellaneous revenues declined by $3 million year-over-year related to the termination of certain network management services that we have been providing to Alltel since the spin-off in 2006.

The loss of this revenue stream, which had been expected, will obviously affect all future periods as well.

And finally product sales were up slightly year-over-year due to higher PC equipment sales related to a targeted offering designed to drive sales of high speed internet service to customers who currently do not have a home computer. This product offering requires the customer to pay us a monthly fee for 24 months for the computer, resulting in a very modest subsidy.

Turning to expenses, this quarter wireline cash expenses declined by $6 million or 2% year-over-year. Specifically cost of services was flat year-over-year driven by lower USF fees related to the deregulation of broadband that I've just mentioned and lower business taxes.

These reductions were offset by increases in fuel and utility cost as well as increases in overtime and contract labor expenses related to recent storms.

Cost of products increased $5 million year-over-year due to higher PC equipment sales that I mentioned earlier and higher modem cost as we upgrade customers to faster speeds which in some cases has required a new modem.

Within SG&A, expenses decreased by $12 million or 12% year-over-year largely related to the realization of synergies from the CT business.

Sequentially total cash expenses were up approximately $7 million due mainly to the higher fuel and storm related costs that I just mentioned.

For the third quarter, wireline EBITDA was $401 million, a decrease year-over-year of 4% driven primarily by the revenue reductions and the challenging year-over-year comparisons.

Importantly, year-to-date our EBITDA is flat on a year-over-year basis and a testament to the cost management efforts and solid operational metrics we have achieved this year.

In our product distribution business, revenues were $94 million, up 4% year-over-year. EBITDA for the quarter totaled $200,000.

We spent $86 million in capital expenditures during the third quarter, bringing our year-to-date spend to $220 million, which is a reduction of $71 million or 25% compared to the same period last year.

Year-to-date we've generated $510 million in free cash flow defined as net cash from operations less capital expenditures which is an increase of 23% year-over-year.

This increase which has led to a significantly lower dividend payout ratio this year as compared to 2007 is largely due to improved management of our overall capital spending as well as lower taxes related to accelerated depreciations.

From a balance sheet perspective, we ended the quarter with $112 million of cash, a revolver balance of $150 million and our net leverage ratio is 3.2 times. Importantly, we do not have any significant debt maturities until 2013.

Our revolver balance as well as $283 million related to our term loan A mature in 2011. But those maturities can easily be financed with cash flows of the business if necessary.

As of January 1, 2008, our pension plan assets were roughly $1 billion and our pension plan was over-funded. Throughout the year our asset balances like most companies will define benefit plans, had declined significantly and our pension asset values at the end of the quarter totaled $760 million.

On January 1, 2009, we will measure the plan assets against the funding target to determine if there is a shortfall. Now since we were over-funded as of January 2008, we will have no mandatory cash contribution requirements in 2009.

However, we may elect to make voluntary contribution in 2009 if our asset values are less than 80% of the funding target.

With respect to share repurchases as Jeff mentioned, it is our intent to complete remaining $200 million of our authorized program by the end of 2009.

To date we've completed $200 million and it was our plan to repurchase shares commensurate with the cash flows generated by the business. In the near term; however, we'll likely maintain higher cash balances to improve our overall liquidity.

It is our plan to provide detailed guidance for revenue, EBITDA, and CapEx, when we announce year end earnings in February of 2009 as we've traditionally done.

That said, as Jeff mentioned earlier, we do not expect to see material change in our dividend payout ratio next year.

With that we'll now take a few of your questions.

Operator, please review the instructions and open the call to questions, and thank you.

Operator: If would like to ask a question at this time, simply press star then the number 1 on your telephone keypad. Again, that is star, 1 to ask a question.

Your first question comes from Simon Flannery of Morgan Stanley.

Simon Flannery: Thanks very much, good morning. Jeff can you just update us on right now what are your Washington folks saying on the likelihood of any movement on inter-carrier competition sort of by the end of this administration or at the December 18th meeting or is this really pushed back into next year?

And secondly, on M&A, just trying to make sure that we hear what you're saying. It sounds like go-it-alone makes a lot of sense to you. But, is that more a testament to tough credit markets or are you still open to deals if they do make sense but you just see less likelihood of that happening now? Thanks.

Jeff Gardner: Right, thanks Simon. First with respect to the regulatory question; it's really hard to say if something can get done between now and December 18th, that's a very short process.

We would - as I said are hopeful that we can reach some agreement on comprehensive reform. I think it's unclear whether it will be resolved at this December18th meeting or not.

What I will say is that Windstream is going to work very hard to be a player in this and to really help move the industry towards comprehensive reform. I think that what is great news for the industry is that the right thing was done and this order or set of orders was put out for comment.

So that we can take an objective view and really look at the impacts of this across all constituencies to see if it's doing what it is designed to do which is move to a uniform rate and provide stability in the industry.

I think what's very encouraging when you look at the statement that was included in this last order around the - or other commissioners, we talked about some consensus building on moving to interest rate to - intrastate to interstate rates over a number of years.

Also talked about an access recovery method dealing with phantom traffic. All of these things I think, can be done in a way that minimizes the impact on the rural customer, allows companies like Windstream to continue to invest in rural America.

I think it became clear to everybody as we worked through this over the last two weeks that the midsized price cap companies are doing an excellent job both in terms of addressability and penetration and bringing higher speeds to rural America.

And I think it's pretty clear to everyone that this needs to be done in a way that promotes stability across the industry. And so we're encouraged that something positive can happen with this. I think we're moving that overhang, by moving to a uniform rate makes sense and like I said it's unclear.

That's a lot of heavy lifting to do over the next 30 days, but there has been a lot of work by many in the last two weeks and we'll all be very involved in this process.

With respect to M&A, I didn't mean to say that it's no longer a focus at Windstream. What I meant to say was basically that we're reaffirming our goal that we're going to do accretive transactions.

We have a slightly different view with respect to leverage and the fact that we want to maintain current leverage levels, and also to make the comment that we don't feel the need to do a deal just to do a deal.

At the end of the day, what we're trying to accomplish at Windstream is to transform this business. These business models need to be transformed to one that focuses on broadband, focuses on cash generation and there's dramatic changes going underneath.

And so that's really where our focus is which is really paying attention to our business model and looking for opportunities that will allow us to increase cash flow accretion.

Simon Flannery: Great. Thank you.

Jeff Gardner: You're welcome.

Operator: Your next question is from Frank Louthan of Raymond James.

Frank Louthan: A little more insight into the revenue and the margins were a little lighter than what we were looking for. I mean, you know, looking at the OpEx as well particularly looking at cost of service.

Can you give us an idea of that and maybe just - maybe give a little more color on the impact from the service that you provided to Alltel that you said disappeared.

And then can you give us a little better description on the terms of the computers that you're providing to customers over the couple of your periods?

Brent Whittington: Sure Frank, I'll take that. So in terms of the revenue, as I kind of indicated we had some tough comparisons because last year we had some favorable settlements that didn't recur this year.

You know, outside that we had real nice growth and LD still as well as data and special access and it's still the same story as it pertains to pressure on voice revenues and that's really the story there.

From a cost standpoint, we had very nice improvement in cost year-over-year, roughly $6 million. But sequentially we did see and specifically our cost of services by about $7 million.

Much at that, if you look at fuel cost during the third quarter, fortunately they would come down in Q4. But in Q3, fuel costs were very high. We had a good story last year as it pertains to weather and it didn't always recur and this year storm cost really caused us to see higher overtime, higher contact labor expenses are there in Q3.

Importantly, we think that comes back in line, more of with what we saw and on Q1 and Q2 as we head into Q4.

In terms of the network management services we were providing to Alltel that was a negotiated agreement as part of the spin-off and we know that was going to cease around this timeframe.

And in the quarter, it stood about $3 million and sequentially in pressure on both revenue and EBITDA in our results. And that's also a factor that's driving that and that is something again and, Frank, that it's recurring.

Jeff Gardner: And Frank, this is Jeff. One thing that I'd point out, in the quarterly comparisons jump around a little bit as you look at the year. But I think it's important when you look at this business model to focus on what Windstream set out to do at the beginning of the year, really the same thing last year is that we're trying to manage this business as it's transforming to that broadband model in a way that drives us towards flat EBITDA. And as I said earlier, through the first three quarters, we think we are well on the way there.

As I look at this particular quarter and the fact that we had a number of hurricanes in our markets and Brent talked about the one time item, I'm very satisfied with our financial results with respect to managing through all that volatility.

Our team did a great job stepping up to those hurricanes, but it did drive some incremental expense. And we - again, we feel good about where we're going to end up for full year, which is where I think investors should be focused.

Frank Louthan: Okay. What - can you quantify what the hurricane impact was and is there any insurance recovery expected on that?

Brent Whittington: Well no insurance recoveries. I mean the hurricane in the aggregate is specific to that one hurricane was probably about 1 million bucks. But in addition to that I mean, just storms and seasonal kind of outages in the third quarter, you typically will see higher network cost in that timeframe and for us that came to fruition this year.

Frank Louthan: Okay, great. Thank you.

Jeff Gardner: Thank you.

Operator: Your next question is from Tom Seitz from Barclays.

Thomas Seitz: Yes, thanks for taking the question. A couple real quick. I noticed that your release gave interstate and intrastate revenues. I was wondering if you could also quantify the cost side of the equation which I think a lot of people are leaving out when they are trying to measure the exposure from any potential impact to change with respect to inter carrier compensation.

And then the second question is, Jeff, can you talk about how you and the Board are thinking about the dividend, I mean, clearly with these sorts of yields you could argue that it's not - you are not getting credit for it. And I am wondering what your thought process is maybe after the markets settled down a bit as to the current level of the dividend? Thanks.

Brent Whittington: I'll take the first one Tom. On the expense side, it's just not as significant. Our focus and much of the focus has been on the revenue. For us the expense side when you look at the combination of inter - intrastate switched and (unintelligible) (Sitcom) is right around $17 million for the quarter.

Thomas Seitz: And that's the expense side?

Brent Whittington: That's correct.

Jeff Gardner: Okay. With respect to the dividend question, Frank, I think you said it up nicely. There is a lot of short-term volatility here which we're not going to react to that's driving some very high yields on our stock right now which really clearly to me don't make a lot of sense.

But over the long run, we believe that the dividend is an important element of return to our shareholders. I talked about in the script that we anticipate next year that our payout ratio is going to stay about the same as where it is this year.

And so at the end of the day, our Board and our management team here have seen no change in the ability of these assets to generate cash. And that's how we think about our dividend payout ratio.

I think over the long run we're doing our job, investors will come to understand that this business is solid from a cash flow perspective and we don't really have a change in our dividend policy going forward.

Things will settle down, we're hopeful, over the next several months and then we should see yields return to what we would all call normal levels whichever - whatever those may be as we think about how things have changed over the last three months.

Thomas Seitz: That's helpful. Thank you very much.

Jeff Gardner: You're Welcome.

Operator: Your next question is from Jason Armstrong of Goldman Sachs.

Jason Armstrong: Good morning. Thanks for taking the question. A couple if I may be - I guess the first just on the payout ratio comments looking forward, you know, there are a lot of moving parts obviously behind that. And I'm just wondering, you know, if you're sort of confident in keeping the payout ratio stable next year relative to what people would question in the business, you know, is your confidence sort of more geared towards the ability to really control top line declines or is it maybe more weighted towards the ability to reduce your operating or capital cost in the business next year?

And then second question just on deal specifics. Jeff, can you take us through the Embarq deal. You know, many investors, I think would have assumed that you would have been involved there and we'd just love your perspective here. But was it something about either asset quality or control issues or the price point? You know, what sort of kept you out of that deal?

Jeff Gardner: Okay. First, with respect to the payout ratio. There are many moving parts and it's really our view about 2009 when we talked about the rate - payout ratio staying the same, focuses both on our ability to mange this business operationally.

And of course that has to do with top line. Again you heard a - you heard an access line loss number from Windstream that is far different than most other access line loss numbers that you're having in this space.

We're managing it very aggressively. We're pushing broadband very aggressively. We continue to be very focused on selling the bundle. Dish penetration is up to 14%.

So we're constantly working on that part of the model. We're constantly revisiting the cost structure as well. So, on the operational side, just as we have in 2008, we'll be very focused there in 2009.

From a CapEx perspective, I think the team has done a very nice job here and when we talk about cash, we think about it from an operating and capital perspective combined. So it's going to be all those factors taken together that will drive the consistent cash flow performance of this business.

Jason Armstrong: Okay. And then on M&A.

Jeff Gardner: M&A? Well I think I will say one thing with respect to the Embarq deal - Embarq CenturyTel deal and that is that we were fairly surprised at the timing of the deal, specifically that Embarq decided to sell their business in one of the most volatile economies that we've seen in this country over the last 75 years and I think that's all I'll say about it.

Jason Armstrong: Okay. And as you look forward to the potential other deals in the space, what sort of the guiding criteria that you would use? I think most people would assume it's got to be, you know, EPS or free cash flow accretive, is that what we should be thinking about?

Jeff Gardner: Absolutely. Free cash flow accretive allows to maintain leveraged levels at our current level or better and fits our profile in terms of driving this business. But accretion is really most important.

We look at our ability to compete in these markets and at the end of the day when we do a deal, it's not just the synergy but also our ability to drive improvement in the markets that we acquire because at the end of the day, you've got to continue to be focused on this business model and just not on the size issue.

Jason Armstrong: Great. Thanks a lot Jeff.

Operator: Your next question is from Michael Nelson of Stanford Group.

Michael Nelson: So, I have a sort of a follow-up question on access line trends. You know, it seems like you may have turned the corner with the sequential improvement in the percent of access line declines.

I wonder if you could comment if you think the worst is behind you, if you can provide some additional color, you know, beyond what you mentioned in your prepared remarks as to what you attribute the improvement to in line trends and if you think it's sustainable and can improve further. Thanks a lot.

Brent Whittington: I'll take that. I mean, I guess, as we turn the corner, competition continues to increase and we saw that albeit slightly in the third quarter. But, you know, we've been talking about our distribution efforts for a while and I think those are beginning to gain traction.

Secondly, our focus this year on our save desk has we yielded fantastic results versus a year ago and that's really helping.

You know, you couple those two things with what we all would agree, it's been a slowdown in housing and I think it's a combination of those that are driving some slight improvement. And I don't want to pretend that 20 basis points means we turn the corner, it's still incredibly competitive and we're fighting everyday to gain share and win gross adds and we're making progress.

But I don't think you'd see a material trend from the kind of results we put up in the past few quarters.

Jeff Gardner: So I think at the end of the day what drives the difference at Windstream is we just never - we never believe that it's inevitable that we're going to see increasing access line losses.

And so again we're looking very hard at things like distribution, reaching out to new customer segments, addressing the wireless only segment. And we'll continue to do that, we're very pleased with the progress as Brent said we've made with our save desk and on retention side.

So we're just going to continue to work at it. Brent's absolutely right, it's not going to get any easier, but it's something that we still think we can improve on over time in terms of how we manage access lines within the company.

Michael Nelson: Thanks. Good luck.

Brent Whittington: Thank you.

Operator: Your next question is from Chris King of Stifel Nicolaus.

Chris King: Good morning. Two quick questions for you. First of all I just wanted to follow up on the regulatory situation in Washington. And specifically I know there was some discrepancy or maybe some internal arguments from within the RLEC community that were kind of split between the price gap carriers and the rate of return carriers.

Specific question is how would you guys feel today at least of a one time election option going from price cap back to rate of return and how you guys would go about looking at that type of option?

And secondly, you know, just from a more kind of longer term strategic perspective, I know a lot's been made of 4G and when the nationwide 4G networks come and do a place and really expand out into rural areas, how that may impact the RLEC industry.

And just was wondering if you had any initial thoughts on that certainly with the one caveat that we're certainly not going to see those things for another three years to five years at a minimum.

Jeff Gardner: Yes. So with respect to the regulatory question, again I'll point to the statement of the four commissioners that I thought was very encouraging. It is difficult to think about and contrary to what we've been trying to do as a company to think about going back to rate of return.

You know, we've always tried to manage Windstream and I think the other price cap companies as well believe that we're making progress. And in terms of moving to competitive business focused on driving efficiencies in these businesses, the old rate of return system then always do that.

And so, I think there is a way to solve this problem without going in that direction. That would be our preference. That doesn't mean that that's off the table, but it's just very difficult for us to think about that given the way we've run this business and the way we managed.

To be honest, we thought that it was very consistent with what the regulators wanted that we'd continue to manage these business in an aggressive way driving efficiencies, pushing out new products and services to our customers and we thought that a competitive model with a price cap structure made sense there. And so, that's how we're thinking about it toady.

With respect to wireless, it's a very viable competitor. I don't see that 4G changes that in any big way in the near term. Obviously, we're going to have to continue to pay attention to the quality of our broadband products so that we remain competitive.

We're also going to have to find new ways to market to that wireless-only customer of that younger segment and we've done that effectively today with our Greenstreak product.

Also doing things like we did last year with the - or this year with the rollout of ADSL2-plus, doubling our speeds allows us to stay ahead of the game. So as the wireless companies make marginal improvement in their data rates, we're doing the same so that our product continues to show customers a big advantage from a speed perspective.

Brent Whittington: And I'd add to that Chris, I mean we're not just standing still on that front. I mean a lot of the CapEx spend is directed towards exactly that, increasing the number of customers that we can offer higher than 3 meg services to and we make progress on that in a big way every single quarter.

Christopher King: Thank you.

Operator: Your next question is from Michael Rollins of Citi.

Michael Rollins: Hi, good morning. I was wondering if you guys could a little bit more about the higher speed market. If you look at some of the national averages, you would see total shares start to push in favor of cable over the last couple of quarters.

How do you think that what's happening in more of the urban markets with respect to that? And then how do you respond by positioning in the more rural markets with your broadband pipe whether it's speed or certain types of advertising? What's the learning's that you've sort of agleam from what's going on in your markets and can you describe what you're going to do in the real markets to keep up the broadband adds? Thanks.

Brent Whittington: Michael, I don't know that - you know, the rural and urban aren't that dramatically different. I mean ,if you as you look at competition that continue to increase; it's not just in our urban markets.

The difference probably is how aggressive our competitors can be with door-to-door, just by virtue of the concentration of a number of customers. So, our focus isn't necessarily any different from a marketing standpoint.

We continue to stay squarely focused on winning that broadband customer and be and able to offer a very competitive broadband product at the right price which typically is positioned as a value to our competition. That's the key.

Secondly, it's not just their offer that's attracting customers in many cases; it's they're getting to them before we are. That's where DISH becomes incredibly important.

You know, now with 14% DISH customers and we've been one of the leaders in the industry on bundling with DISH, I think that absolutely has made a difference in the line loss results you're seeing for us versus some others. And so staying focused throughout the past several years on our core strategic products we think is making a difference.

Distribution is the other point and so the offer isn't really superior their product we don't believe is superior by any means. And so, it's just cable and our other competitors have been out hustling us and getting the customers first and we're having to work very hard to beat them to those customers to win our share of gross ads.

And so again I don't know that that's dramatically different in the rural versus the urban market; it's really where there's competition and how you combat it.

Jeff Gardner: And Michel, it's been unclear. I think there's some - as I look at those numbers and you know much better than me, I think there's some noise around when you look at the big carriers in their (vios) initiatives and (uverse) initiatives, it becomes more difficult to kind of compare what's going on with broadband, at least from our perspective.

But importantly, we still believe that we're driving a market share advantage in each of the markets that we serve with broadband. We're very competitively priced today. We've increased or speeds with 20 meg in our top markets, we're extremely competitive with cable companies from the speed perspective.

So we don't feel like a similar phenomenon is happening in our markets and we continue to look at ways to be more competitive.

Michael Rollins: Great. Thank you very much.

Jeff Gardner: You're welcome.

Rob Clancy: (Janice), we have time for one more question.

Operator: Our next question comes from Todd Rethemeier of Soleil Securities.

Todd Rethemeier: Thanks. Just two quick ones here. One is just to confirm; you said about the inter-carrier expense was $17 million and that is a quarterly number, is that correct?

Brent Whittington: That's correct Todd.

Todd Rethemeier: Okay. And then the non-pay disconnects you mentioned briefly, you said it was up 7000 sequentially. Is that typical seasonality that you see though, how does that compare to previous years?

Brent Whittington: It is Todd, and we did indicate it was down actually by about 3000 customers versus prior year. So, you know, bad debt for us in spite of the current economic conditions you read about each day has actually been a pretty good story for us.

Todd Rethemeier: Okay, great thank you.

Jeff Gardner: Thank you.

Rob Clancy: 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.

Operator: This concludes today's conference. You may now disconnect. .

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