

## Windstream reports first-quarter results

- Delivered total revenue of \$1.02 billion for the quarter, a decline of 1.8 percent year-over-year
- Produced \$618 million in business and broadband revenue for the quarter, a 3.6 percent increase year-over-year on a pro forma basis
- Delivered \$512 million in adjusted OIBDA for the quarter, a 1 percent decline year-over-year on a pro forma basis
- Added 29,000 new broadband customers, bringing our total Internet customers to 1.3 million, an increase of 6 percent year-over-year
- Experienced lowest access line loss in the company's history at 23,000 for the quarter, a 3.6 percent year-over-year decline in total access lines
- Expects cash interest savings of more than \$90 million in 2012 and beyond as compared to the expected spend in 2011 through significant balance sheet improvements

Release date: May 4, 2011

LITTLE ROCK, Ark. – Windstream Corp. (Nasdaq: WIN) today reported first-quarter earnings results, highlighted by higher business service revenue and improved operating margins.

"I am very pleased with our performance in the first quarter and our solid start to 2011," said Jeff Gardner, president and chief executive officer of Windstream. "We delivered strong operating metrics on all fronts and we continued to show improvement in year-over-year revenue trends. We expect our year-over-year financial performance to improve throughout 2011 as a result of the investments we are making in our network and the additional synergies we will realize."

Windstream's first-quarter results under Generally Accepted Accounting Principles (GAAP) include the following items, which lowered earnings per share by roughly 14 cents:

- \$64 million after-tax loss on extinguishment of debt

- \$6 million in after-tax merger and integration costs

### **First-quarter financial results:**

Under GAAP:

- Revenues were \$1.023 billion, a 21 percent increase from a year ago.
- Operating income was \$282.4 million, an increase of 14 percent year-over-year.
- Net income was \$23.5 million, a 68 percent decrease from a year ago, or 5 cents of diluted earnings per share.
- Capital expenditures were \$159.6 million, a 164 percent increase year-over-year.

Under pro forma results:

- Revenues were \$1.023 billion, a 1.8 percent decrease from a year ago.
- Business service revenue was \$492 million, a 2.3 percent increase year-over-year.
- Consumer broadband revenue was \$116 million, an 11 percent increase from a year ago.
- Operating income before depreciation and amortization (OIBDA) was \$496.7 million, essentially unchanged year-over-year.
- Adjusted OIBDA, which excludes non-cash pension expense, stock compensation expense and restructuring charges, was \$512.4 million, a 1 percent decrease from a year ago.
- Capital expenditures were \$159.6 million, a 97 percent increase year-over-year.

- Adjusted free cash flow was \$169 million. Adjusted free cash flow is defined as adjusted OIBDA minus cash interest, cash taxes and capital expenditures.

### **First-quarter pro forma operating results:**

In the business channel, advanced data and integrated solutions, which are largely connections providing both voice and data services, increased 2.5 percent year-over-year. Special access circuits increased 7 percent year-over-year, driven by increased wireless backhaul demand.

In the consumer channel, the company added more than 27,000 new high-speed Internet customers during the first quarter, bringing its total customer base to approximately 1,196,000 – an increase of 6 percent year-over-year. Overall broadband penetration is now 44 percent of total voice lines and 63 percent of primary residential lines.

The company ended the quarter with approximately 440,000 video customers, representing 6 percent growth from a year ago and 23 percent of primary residential customers.

Total access lines declined by approximately 23,000, or 3.6 percent year-over-year, the lowest quarterly decline in the company's history. Total lines at the end of the quarter were 3.3 million.

### **Balance sheet improvements:**

"We made significant balance sheet improvements, leading to greater financial flexibility, a much better debt maturity profile and the ability to significantly lower cash interest expense going forward," Gardner said.

In the first quarter, the company refinanced over \$1.5 billion of debt and improved its debt maturity profile by moving over \$1.2 billion to 2020 and beyond at attractive long-term rates.

Windstream also increased its revolver capacity from \$750 million to \$1.25 billion and extended the maturity of these commitments to December of

2015, which will provide additional borrowing capacity and flexibility, particularly as it relates to future refinancings.

As a result of these refinancing efforts, Windstream realized a \$101 million loss on the extinguishment of debt which is principally the tender premium costs. Importantly, however, the company has better positioned its balance sheet and maturity profile going forward. Furthermore, with the increased revolver capacity, the company has an opportunity to refinance the remaining 2016 notes at a significantly lower interest rate, following the August call date. Because of the refinancing efforts to date, combined with the company's refinancing and deleveraging plans throughout the rest of 2011, Windstream could see cash interest savings of more than \$90 million in 2012 and beyond as compared to the expected spend in 2011.

#### **Revised guidance for 2011:**

As a result of greater-than-expected opportunities for success-based capital projects, including twice as many fiber to the cell projects as originally planned as well as strong demand for data center services, Windstream is increasing its capital expenditure guidance for the year.

At the same time, the company expects lower cash taxes as a result of the early debt extinguishment fees and higher capital expenditures which will benefit from 100 percent bonus depreciation.

Lastly, because of the refinancing activities and the timing of interest payments, the company expects higher cash interest in 2011 but importantly will realize significant decreases in future years.

	<u>Previous 2011 Guidance(a)</u>	<u>Revised 2011 Guidance</u>	<u>% Change From 2010</u>
Revenue	\$4.015 B - \$4.140 B	Unchanged	(3%) - 0%
OIBDA (b)	\$1.985 B - \$2.045 B	Unchanged	1% - 4%
Adj. OIBDA (c)	\$2.045 B - \$2.105 B	Unchanged	(1%) - 2%
Capex	\$520 M - \$580 M	\$570 M - \$630 M	16% - 29%
Cash Taxes	\$50 M - \$60 M	\$1 M	
Cash Interest	\$552 M	\$569 M	
Adjusted Free Cash Flow	\$863 M - \$973 M	\$845 M - \$965 M	
Dividend Payout Ratio	52 - 59 percent	53 - 60 percent	

*(a) Provided on Feb. 18, 2011*

*(b) Guidance range includes expected non-cash pension expense and restricted stock expense*

*(c) Guidance range excludes expected non-cash pension expense and restricted stock expense*

## **Conference call**

Windstream will hold a conference call at 4 p.m. CDT today to review the company's first-quarter earnings results.

### **To access the call:**

Interested parties can access the call by dialing 1-877-374-3977, conference ID 58147664, ten minutes prior to the start time.

### **To access the call replay:**

A replay of the call will be available beginning at 7 p.m. CDT today and ending at 11 p.m. CDT on May 11. The replay can be accessed by dialing 1-800-642-1687, conference ID 58147664.

### **Webcast information:**

The conference call also will be streamed live over the company's website at [www.windstream.com/investors](http://www.windstream.com/investors). Financial, statistical and other information related to the call will be posted on the site. A replay of the webcast will be available on the website beginning at 7 p.m. CDT today.

## **About Windstream**

Windstream Corp. (Nasdaq: WIN), headquartered in Little Rock, Ark., is an S&P 500 communications and technology solutions provider with operations in 29 states and the District of Columbia and about \$4 billion in annual revenues. Windstream provides IP-based voice and data services, MPLS networking, data center and managed hosting services and communication systems to businesses and government agencies. The company also delivers broadband, digital phone and high-definition TV services to residential customers primarily located in rural areas and

operates a local and long-haul fiber network spanning approximately 60,000 route miles. For more information about Windstream, visit [www.windstream.com](http://www.windstream.com).

Pro forma results adjusts results of operations under GAAP to include the acquisitions of NuVox Inc.; Iowa Telecommunications Services, Inc.; Hosted Solutions Acquisition, LLC, and Q-Comm Corporation, and to exclude all merger and integration costs related to strategic transactions. A reconciliation of pro forma results to the comparable GAAP measures is available on the company's Web site at [www.windstream.com/investors](http://www.windstream.com/investors).

Windstream claims the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward-looking statements include, but are not limited to, Windstream's financial outlook for 2011, expected amount of cash taxes, net cash interest for 2011 and future years, potential future revenue growth and capital expenditures for 2011, the expected increase in fiber to the cell projects, and estimated strong demand for data services. These forward-looking statements are based on estimates, projections, beliefs, and assumptions that Windstream believes are reasonable but are not guarantees of future events and results. Actual future events and results of Windstream may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in Windstream's forward-looking statements include, among others:

- further adverse changes in economic conditions in the markets served by Windstream;
- the extent, timing and overall effects of competition in the communications business;
- continued voice line loss;
- the impact of new, emerging or competing technologies;

- the adoption of intercarrier compensation and/or universal service reform proposals by the Federal Communications Commission or Congress that results in a significant loss of revenue to Windstream;
- the risks associated with the integration of acquired businesses or the ability to realize anticipated synergies, cost savings and growth opportunities;
- for Windstream's competitive local exchange carrier operations, adverse effects on the availability, quality of service and price of facilities and services provided by other incumbent local exchange carriers on which Windstream's competitive local exchange carrier services depend;
- the availability and cost of financing in the corporate debt markets;
- the potential for adverse changes in the ratings given to Windstream's debt securities by nationally accredited ratings organizations;
- the effects of federal and state legislation, and rules and regulations governing the communications industry;
- material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;
- unfavorable results of litigation;
- unfavorable rulings by state public service commissions in proceedings regarding universal service funds, intercarrier compensation or other matters that could reduce revenues or increase expenses;
- the effects of work stoppages;
- the impact of equipment failure, natural disasters or terrorist acts;
- earnings on pension plan investments significantly below Windstream's expected long term rate of return for plan assets;
- changes in federal, state and local tax laws and rates; and
- those additional factors under the caption "Risk Factors" in Windstream's Form 10-K for the year ended Dec. 31, 2010, and in subsequent filings with the Securities and Exchange Commission.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

Windstream undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause Windstream's actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect Windstream's future results included in filings by Windstream with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

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