

# Examples Illustrating Merger Tax Consequences to Former D&E Communications, Inc. Shareholders

## Overview

This document provides examples illustrating how to calculate, for U.S. federal income tax purposes, taxable gains and losses on the merger, as well as the tax basis of the new Windstream Corporation shares received in the merger. The examples are for individuals who are citizens or residents of the United States, purchased all of their D&E Communications, Inc. shares for cash and held those shares as a capital asset (generally, for investment purposes). The examples do not address any special tax rules that may apply (including shares received as compensation), nor do they address the consequences of any state, local, or foreign tax laws.

## Important Notice

The examples are not meant to provide you with tax advice and you should not rely on them. Your tax consequences depend on your individual circumstances and could differ significantly from those in the examples. **You should consult your own tax advisor regarding the specific tax consequences of the merger to you in light of your own tax circumstances.** These examples are provided for illustrative purposes only and do not replace the discussion of tax consequences contained on pages 51-54 in the joint proxy statements/prospectus dated August 19, 2009 and distributed to D&E Communications, Inc. stockholders of record on August 17, 2009. Additional copies of the joint proxy statement/prospectus can be obtained through an email request sent to [windstream.investor.relations@windstream.com](mailto:windstream.investor.relations@windstream.com).

## Calculations

The taxable gain or loss for U.S. federal tax purposes for U.S. taxpayers and the tax basis of the new Windstream Corporation shares received in the merger may be calculated as follows:

- **Step 1:** *Calculate the Original Cost Basis in D&E Communications, Inc. Shares.* The cost basis generally equals the amount you paid for your D&E Communications, Inc. shares.
- **Step 2:** *Calculate the Total Consideration Received in the Merger.* The total merger consideration equals (1) the fair market value of the new Windstream Corporation shares plus (2) the amount of cash (including any cash in lieu of a fractional share) that you received in the merger.

- Step 3: *Calculate the Taxable Gain or Loss Realized in the Merger.* The realized gain or loss equals (1) the total merger consideration (as determined in Step 2), minus (2) the cost basis in D&E Communications, Inc. common stock (as determined in Step 1).
- Step 4: *Calculate the Taxable Gain Recognized in the Merger.* The recognized gain equals the lesser of (1) the cash you received in the merger (including any cash in lieu of fractional shares) and (2) the total gain realized on your D&E Communications, Inc. common stock (as determined in Step 3). You will not be permitted to recognize a loss.
- Step 5: *Calculate the Total Basis in New Windstream Corporation Common Stock.* Your total basis in the new Windstream Corporation common stock received in the merger equals (1) the original cost basis in your D&E Communications, Inc. common stock (as determined in Step 1), minus (2) the cash you received in the merger (including any cash received in lieu of fractional shares), plus (3) the taxable gain you recognized in the merger, if any (as determined in Step 4).

If you owned multiple blocks of D&E Communications, Inc. common stock purchased at different share prices, you will calculate your gain on a block-by-block basis. You should consult your tax advisor regarding your basis in the new Windstream Corporation common stock received in exchange for multiple blocks of D&E Communications, Inc. common stock.

### Assumptions for Examples

The following three examples utilize the calculations described above and are for illustrative purposes only and should not be considered tax advice. In each example, it is assumed that you owned 100 shares of D&E Communications, Inc. common stock at the time of the merger. It is also assumed, for purposes of calculating the total consideration received in the merger (Step 2), that the fair market value of any new Windstream Corporation shares received in the merger was \$9.84 per share, which was the average of the closing bid and ask prices for the 10 days leading up to the merger date as provided by the merger agreement.

In each example you would have been entitled to approximately 65 shares of Windstream Corporation common stock (100 D&E Communications, Inc. shares times the 0.65 stock exchange ratio) and approximately \$500 in cash (100 D&E Communications, Inc. shares times the \$5.00 cash ratio).

The examples differ as to the original cost basis in D&E Communications, Inc. common stock. In Example 1, you are assumed to have had an original basis of \$6 per D&E Communications, Inc. share. In Example 2, your basis is assumed to be \$9 per share, while in Example 3, your basis is assumed to be \$12 per share.

### Example 1:

#### Step 1: Original Cost Basis in D&E Communications Shares

100 shares x \$6/share	\$ 600.00
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#### Step 2: Total Consideration Received in the Merger

Stock Merger Consideration (65 Windstream Corporation shares x \$9.84)	\$ 639.60
Plus: Cash Merger Consideration (100 D&E Communications shares x \$5)	<u>500.00</u>
Total Consideration Received	\$1,139.60

#### Step 3: Taxable Gain or Loss Realized in the Merger

Total Consideration Received	\$1,139.60
Less: Original Cost Basis of D&E Communications shares	<u>(600.00)</u>
Total Gain Realized	\$ 539.60

#### Step 4: Taxable Gain Recognized in the Merger

Taxable Gain Recognized (Lesser of Total Gain Realized or Cash Merger Consideration)	\$ 500.00
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#### Step 5: Total Basis in New Windstream Corporation Shares

Original Cost Basis in D&E Communications shares	\$ 600.00
Less: Cash Merger Consideration	(500.00)
Plus: Taxable Gain Recognized	<u>500.00</u>
Basis in New Windstream Corporation Shares	\$ 600.00
Per Share Basis (\$600/65 shares)	\$9.23

In this example, you would report \$500.00 of taxable gain from the merger, and you would have a tax basis of \$600 in the 65 shares of Windstream Corporation common stock that you received.

**This calculation is for illustrative purposes only and should not be considered tax advice. Specific questions about your unique situation should be discussed with your tax advisor.**

## Example 2:

### Step 1: Original Cost Basis in D&E Communications Shares

100 shares x \$9/share	\$ 900.00
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### Step 2: Total Consideration Received in the Merger

Stock Merger Consideration (65 Windstream Corporation shares x \$9.84)	\$ 639.60
Plus: Cash Merger Consideration (100 D&E Communications shares x \$5)	<u>500.00</u>
Total Consideration Received	\$1,139.60

### Step 3: Taxable Gain or Loss Realized in the Merger

Total Consideration Received	\$1,139.60
Less: Original Cost Basis of D&E Communications shares	<u>(900.00)</u>
Total Gain Realized	\$ 239.60

### Step 4: Taxable Gain Recognized in the Merger

Taxable Gain Recognized (Lesser of Total Gain Realized or Cash Merger Consideration)	\$ 239.60
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### Step 5: Total Basis in New Windstream Corporation Shares

Original Cost Basis in D&E Communications shares	\$ 900.00
Less: Cash Merger Consideration	(500.00)
Plus: Taxable Gain Recognized	<u>239.60</u>
Basis in New Windstream Corporation Shares	\$ 639.60
Per Share Basis (\$639.60/65 shares)	\$9.84

In this example, you would report \$239.60 of taxable gain from the merger, and you would have a tax basis of \$639.60 in the 65 shares of Windstream Corporation common stock that you received.

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### Example 3:

#### Step 1: Original Cost Basis in D&E Communications Shares

100 shares x \$12/share	\$1,200.00
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#### Step 2: Total Consideration Received in the Merger

Stock Merger Consideration (65 Windstream Corporation shares x \$9.84)	\$ 639.60
Plus: Cash Merger Consideration (100 D&E Communications shares x \$5)	<u>500.00</u>
Total Consideration Received	\$1,139.60

#### Step 3: Taxable Gain or Loss Realized in the Merger

Total Consideration Received	\$1,139.60
Less: Original Cost Basis of D&E Communications shares	<u>(1,200.00)</u>
Total Loss Realized	(\$ 60.40)

#### Step 4: Taxable Gain Recognized in the Merger

Taxable Gain Recognized (Lesser of Total Gain Realized or Cash Merger Consideration) with No Loss Allowed	\$ 0.00
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#### Step 5: Total Basis in New Windstream Corporation Shares

Original Cost Basis in D&E Communications shares	\$ 1,200.00
Less: Cash Merger Consideration	(500.00)
Plus: Taxable Gain Recognized	<u>0.00</u>
Basis in New Windstream Corporation Shares	\$ 700.00
Per Share Basis (\$700/65 shares)	\$10.76

In this example, you would report no gain or loss from the merger, and you would have a tax basis of \$700.00 in the 65 shares of Windstream Corporation common stock that you received.

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