WINDSTREAM CORP
Form 10-K
February 19, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________________________
Commission file number 1-32422

WINDSTREAM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	20-0792300
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4001 Rodney Parham Road, Little Rock, Arkansas	72212
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (501) 748-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($0.0001 par per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x YES ¨ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ YES x NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x YES ¨ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

¨ YES x NO

Aggregate market value of voting stock held by non-affiliates as of June 30, 2008 - $5,424,830,503

Common shares outstanding, February 12, 2009 - 441,098,355

DOCUMENTS INCORPORATED BY REFERENCE

Document	Incorporated Into
Proxy statement for the 2009 Annual Meeting of Stockholders	Part III

The Exhibit Index is located on pages 35 to 38.

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Item 1. Business

THE COMPANY

GENERAL

In this report, Windstream Corporation and its wholly owned subsidiaries are referred to as Windstream , we , or the Company . Windstream is a corporation organized under the laws of the state of Delaware, and it was organized under the name Valor Communications Group, Inc. (Valor) in 2004. For all periods prior to the merger with Valor described herein, references to the Company include Alltel Holding Corp. or the wireline telecommunications division and related businesses of Alltel Corporation (Alltel).

Windstream is one of the largest providers of telecommunications services in rural communities in the United States, and based on the number of telephone lines in service, is the fifth largest local telephone company in the country. Windstream has focused its communications business strategy on enhancing the value of its customer relationships by offering additional products and services and providing superior customer service. The Company s subsidiaries provide local telephone, high-speed Internet, long distance, network access, and video services in sixteen states.

The shaded areas in the following map reflect Windstream s service territories.

The Company s web site address is **www.windstream.com**. Windstream files with, or furnishes to, the Securities and Exchange Commission (the SEC) annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as various other information. Windstream makes available free of charge through the Investor Relations page of its web site its annual reports, quarterly reports, and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC. In addition, on the corporate governance section of the Investor Relations page of its web site, Windstream makes available its Code of Ethics, the Board of Directors Amended and Restated Corporate Governance Board Guidelines, and the charters for its Audit, Compensation, and Governance Committees. Windstream will provide to any stockholder a copy of the Governance Board Guidelines and the Committee charters, without charge, upon written request to Investor Relations, Windstream Corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

FORMATION OF WINDSTREAM

On July 17, 2006, Alltel completed the spin off of its wireline telecommunications division, Alltel Holding Corp. Pursuant to the spin off, Alltel contributed all of its wireline assets to the Company in exchange for: (i) newly issued Company common stock, (ii) the payment of a special dividend to Alltel in the amount of $2.3 billion and (iii) the distribution by the Company to Alltel of certain debt securities (the Contribution). In connection with the Contribution, the Company assumed approximately $261.0 million of long-term debt that had been issued by the Company s wireline subsidiaries. Following the Contribution, Alltel distributed 100 percent of the common shares of the Company to its shareholders as a tax-free dividend.

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Immediately after the consummation of the spin off, Alltel Holding Corp. merged with and into Valor, with Valor continuing as the surviving corporation. The merger was accounted for using the purchase method of accounting for business combinations in accordance with Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations , with Alltel Holding Corp. serving as the accounting acquirer. The accompanying consolidated financial statements reflect the combined operations of Alltel Holding Corp. and Valor following the spin off and merger transactions on July 17, 2006. Results of operations prior to the merger and for all historical periods presented are for Alltel Holding Corp. The resulting company was renamed Windstream Corporation. As a result of the merger, all of the issued and outstanding shares of the Company s common stock were converted into the right to receive an aggregate number of shares of common stock of Valor. Valor issued in the aggregate approximately 403 million shares of its common stock to Alltel shareholders pursuant to the merger, or 1.0339267 shares of Valor common stock for each share of the Company s common stock outstanding as of the effective date of the merger. Upon completion of the merger, Alltel s stockholders owned approximately 85 percent of the outstanding equity interests of the surviving corporation, Windstream, and the stockholders of Valor owned the remaining approximately 15 percent of such equity interests. In addition, Windstream assumed Valor debt valued at $1,195.6 million.

MATERIAL ACQUISITIONS COMPLETED DURING THE LAST FIVE YEARS

On August 31, 2007, Windstream completed the acquisition of CT Communications, Inc. (CTC) in a transaction valued at $584.3 million. Under the terms of the agreement the shareholders of CTC received $31.50 in cash for each of their shares with a total cash payout of $652.2 million. The transaction value also includes a payment of $37.5 million made by Windstream to satisfy CTC s debt obligations, offset by $105.4 million in cash and short-term investments held by CTC. Including $25.3 million in severance and other transaction-related expenses, the total cost of the acquisition was $609.6 million. Windstream financed the transaction using the cash acquired from CTC, $250.0 million in borrowings available under its revolving line of credit, and additional cash on hand.

The premium paid by Windstream in this transaction is attributable to the strategic importance of the CTC acquisition. The 132,000 access lines and 31,000 high-speed Internet customers added through the acquisition significantly increased Windstream s presence in North Carolina and provided the opportunity to generate significant operating efficiencies with contiguous Windstream markets. The transaction has increased Windstream s position in these markets where it can leverage its brand and bring significant value to customers by offering competitive bundled services. The former CTC markets have high-speed Internet availability to 95 percent of its access lines, 75 percent of which can offer speeds up to 10Mb.

As previously discussed, on July 17, 2006, Alltel Holding Corp. merged with and into Valor, with Alltel Holding Corp. serving as the accounting acquirer. Through this transaction, Windstream added approximately 500,000 customers in complementary markets with favorable rural characteristics making the Company one of largest local telecommunications carriers in the United States.

MATERIAL DISPOSITIONS COMPLETED DURING THE LAST FIVE YEARS

On November 21, 2008, Windstream completed the sale of its wireless business to AT&T Mobility II, LLC for approximately $56.7 million. Windstream recognized a pre-tax loss of $21.3 million to reduce the carrying value of the assets sold to the transaction price less costs to sell. Completion of the transaction allowed management to divest of a non-core asset. The transaction included approximately 52,000 wireless customers, spectrum licenses and cell sites covering a four-county area of North Carolina with a population of approximately 450,000, and six retail locations.

On November 30, 2007, Windstream completed the split off of its directory publishing business (the publishing business) in a tax-free transaction with entities affiliated with Welsh, Carson, Anderson & Stowe (WCAS), a private equity investment firm and Windstream shareholder.

To facilitate the split off transaction, Windstream contributed the publishing business to a newly formed subsidiary (Holdings). Holdings paid a special cash dividend to Windstream in an amount of $40.0 million, issued additional shares of Holdings common stock to Windstream, and distributed to Windstream certain debt securities of Holdings having an aggregate principal amount of $210.5 million. Windstream exchanged

the Holdings debt securities for outstanding Windstream debt securities with an equivalent fair market value, and then retired those securities.

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Windstream used the proceeds of the special dividend to repurchase approximately three million shares of Windstream common stock during the fourth quarter. Windstream exchanged all of the outstanding equity of Holdings (the Holdings Shares) for an aggregate of 19,574,422 shares of Windstream common stock (the Exchanged WIN Shares) owned by WCAS, which were then retired. Based on the price of Windstream common stock of $12.95 at November 30, 2007, the Exchanged WIN Shares had a value of $253.5 million. The total value of the transaction was $506.7 million, including an adjustment for net working capital of approximately $2.7 million. As a result of completing this transaction, Windstream recorded a gain on the sale of its publishing business of $451.3 million in the fourth quarter of 2007 after substantially all performance obligations had been fulfilled.

In connection with the consummation of the transactions, the parties and their affiliates entered into a publishing agreement whereby Windstream granted Local Insight Yellow Pages, Inc. (Local Insight Yellow Pages), the successor to the Windstream subsidiary that operated the publishing business, an exclusive license to publish Windstream directories in each of its markets other than the newly acquired CTC markets. Local Insight Yellow Pages will, at no charge to Windstream or its affiliates or subscribers, publish directories with respect to each Windstream service area covered under the agreement in which Windstream or its affiliates are required to publish such directories by applicable law, tariff or contract. Subject to the termination provisions in the agreement, the publishing agreement will remain in effect for a term of fifty years. As part of this agreement, Windstream agreed to forego future royalty payments from Local Insight Yellow Pages on advertising revenues generated from covered directories for the duration of the publishing agreement.

MANAGEMENT

The Company s staff at its headquarters and regional offices supervise, coordinate and assist subsidiaries in management activities including investor relations, acquisitions and dispositions, corporate planning, tax planning, cash and debt management, insurance, sales and marketing support, government affairs, legal matters, and engineering services.

EMPLOYEES

At December 31, 2008, Windstream had 7,349 employees. Within Windstream s work force, approximately 1,813 employees are part of collective bargaining units. During 2008, Windstream had no material work stoppages due to labor disputes with its unionized employees (see Risk Factors).

ORGANIZATIONAL STRUCTURE AND OPERATING SEGMENTS

Windstream has focused its communications business strategy on enhancing the value of its customer relationships by offering additional products and services and providing superior customer service. As of December 31, 2008, Windstream served more than 3.0 million communications customers in 16 states. Additionally, Windstream provides data services to more than 978,000 high-speed Internet customers. Windstream delivers one-stop shopping to customers with a full range of communications products and services that include voice and related features, high-speed Internet, long distance, network access and video.

Windstream is organized based on the products and services that it offers. Under this organizational structure, its operations consist of its wireline and product distribution segments. Previously, its other operations consisted of directory publishing, wireless and telecommunications information services operations.

WIRELINE OPERATIONS

The Company s wireline segment consists of Windstream s retail and wholesale telecommunications services, whose primary revenue streams include voice and related features, high-speed Internet service, long distance, data and special access, switched access and interconnection, and video services.

The following table is a summary of the wireline segment operations for the years ended December 31:

Wireline Segment	2008	2007	2006
Percent of wireline revenues to total operating revenues	91%	87%	85%
Operating revenues from external customers	$ 3,058.8	$ 3,016.6	$ 2,635.3
Segment income	$ 1,140.1	$ 1,154.2	$ 920.3
Total assets	$ 7,972.0	$ 8,119.8	$ 7,897.1

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Windstream s wireline subsidiaries provide facilities-based services in 16 states and are primarily focused on rural America providing local telephone service to customers located in Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, Missouri, Nebraska, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina and Texas.

In addition, certain of Windstream s wireline subsidiaries serve as a competitive service provider in four states on both a facilities-based and resale basis, and, where necessary, have negotiated interconnection agreements with the appropriate incumbent local exchange carriers. Windstream s strategy is to provide voice and data service in combination with other services provided by subsidiaries of Windstream, including long distance and Internet services. Windstream s primary focus for marketing and selling these competitive services is directed toward business customers through the offering of competitively priced and reliable services.

PRODUCTS AND OFFERINGS

Voice services consist of traditional telephone services provided from telephone exchange offices to customer premises of both residential and business customers. Voice revenues include monthly recurring charges for basic services such as local dial-tone, and enhanced services that include call waiting, call forwarding, caller identification, three-way calling, no-answer transfer, voicemail, and other enhanced services.

Long distance services are offered through wholesale arrangements with various interexchange carriers and include switched interstate, intrastate, and international long distance as well as operator services. These services are primarily marketed as flat-rate calling plans or part of product bundles, which may include voice, high-speed Internet, long distance and video. Long distance plans that bill on a per minute basis are also offered.

Data and special access services primarily consist of retail high-speed Internet services and the provision of special access dedicated circuits. We provide high-speed Internet access using digital subscriber line technology for a monthly fee. Windstream s Greenstreak product offers high-speed Internet along with measured local phone service that allows unlimited incoming calls, 911 access, and outgoing local calls for 10 cents a minute. Windstream s Internet Security Suite offers a comprehensive service package that stops viruses, blocks spyware, prevents hacking, improves PC health, secures user identity and protects children from objectionable web sites. We also provide Internet access services to dial up Internet subscribers and data transmission services over special circuits, Ethernet based access and private lines. The Company s Internet access services also enable customers to establish an e-mail account and to send and receive e-mail. In addition, we offer enhanced Internet services to our business customers, which include obtaining Internet protocol addresses, web site design and hosting. Special access services provide business and wholesale customers dedicated point-to-point switching arrangements for voice and data traffic, and allows constant use at maximum capacity.

Switched access and interconnection services are provided by Windstream by connecting the equipment and facilities of its customers to the communications networks of long distance carriers, other competitive local service providers and wireless carriers. These companies pay access and network usage charges to Windstream s local exchange subsidiaries for the use of their local networks to originate and terminate their voice and data transmissions.

Miscellaneous service revenues primarily consist of charges for service fees, rentals and billing and collections services. Miscellaneous revenues also include commissions from activating digital satellite television service through our relationship with DISH Network LLC. These services are offered to virtually all households in our service areas through a co-branded DISH Network satellite television agreement. In addition, Windstream provides cable television service to approximately 31,000 customers in Georgia and Missouri. The cable television properties are not significant to Windstream s wireline operating results.

Product sales represent equipment sales to customers, including computer sales to residential high-speed Internet customers, Internet modems and customer premise equipment.

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MARKETING

At Windstream, our marketing approach is simple. Our mission, vision and values are what guide us as we remain focused on serving the communities of rural America. We offer fresh, innovative thinking and embrace new technology. As a brand, we are neighborly, dynamic and provide simplicity in our products and services. What s more, we strive to deliver it all through teamwork that is responsive, enthusiastic, accountable and motivated to serve our customers. We market our products through multiple channels, including customer service representatives and technicians, local retail stores, e-commerce, and telemarketing, supported by direct mail, mass media advertising (newspaper, television, and radio), bill inserts, community events and click through advertising on targeted websites. We continue to exercise door-to-door sales techniques and partnerships with mover agents to reach customers on a local and one-on-one basis.

Windstream operates 61 local retail stores and 2 call centers focused on selling and servicing our customers. Both sales channels offer an excellent opportunity to connect with our customers by providing superior customer service in person or over the phone. Direct calls are made to business customers in order to accommodate their specific needs and to improve their way of conducting business in the most efficient way possible. Our customer service and sales representatives earn incentives to promote sales of services that meet the distinctive needs of our customers, while our technicians survey customer premises to assess building requirements and coordinate delivery, installation and testing of equipment.

Our marketing goal for residential and small business customers is to win new customers while selling additional communication services to existing customers. Our message consistently emphasizes our competitively priced product bundles that integrate voice, data and entertainment services onto one easy to understand bill.

Our large business and enterprise customer marketing approach focuses on end-to-end customer communications solutions. Our direct sales force calls on prospective and existing business customers to provide a reliable and complete communications solution that best fits the needs of our customers based on our communications knowledge and the information we gain about the customers needs. In addition, we operate a separate call center focused on servicing and selling additional products and services that meet the unique needs of our business customers.

TECHNOLOGY

Our network consists of host and remote central office digital switches and loop carriers interconnected with copper, microwaved and fiber facilities. The outside plant infrastructure connecting the customer with the core network consists of a mix of fiber optic and copper facilities. At the end of 2008, we maintained over 235,200 route miles of copper plant and approximately 23,500 route miles of local and long-haul fiber optic plant. In addition, our fully integrated communications network consists of IP routers, Ethernet switches, Asynchronous Transport Mode (ATM) switches and frame relay switches capable of handling voice, data and dedicated circuits.

COMPETITION

Windstream experiences competition in many of its local service areas. Sources of competition to Windstream s local exchange business include, but are not limited to, wireless communications providers, cable television companies, resellers of local exchange services, interexchange carriers, satellite transmission service providers, electric utilities, competitive access service providers, including, without limitation, those utilizing an Unbundled Network Elements-Platform or UNE-P, voice-over-Internet protocol (VoIP) providers, and providers using other emerging technologies resellers. During 2008, this competition adversely affected Windstream s access line losses and revenue growth rates. Windstream lost approximately 165,000 access lines in its wireline business during 2008, primarily as a result of the effects of fixed line competition and wireless substitution for Windstream s wireline services. Windstream expects the number of access lines served by its wireline operations to continue to be adversely affected by fixed line competition and wireless substitution in 2009.

To address competition, Windstream remains focused on providing improved customer service, increasing operating efficiencies and maintaining the quality of its network. In an effort to further develop enhanced services and bundled product offerings, the Company will continue to invest in its network to offer faster speeds in its high-speed Internet

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offerings. As of December 31, 2008, the Company could deliver speeds of 3Mb to 97 percent of its addressable lines. Additionally, speeds of 6Mb and 12Mb are available to 61 percent and 32 percent of its high-speed Internet addressable lines, respectively.

During 2008, the Company added approximately 107,000 high-speed Internet customers. This increased the Company s high-speed Internet customer base to over 978,000 customers at December 31, 2008, which represents a penetration rate of 32 percent of total access lines in service, and 44 percent of residential access lines in service.

Although high-speed Internet services have been a source of revenue and customer growth for Windstream, that service offering experiences competition primarily from high-speed Internet offerings of cable competitors. In addition, we could experience some increased competition from high-speed Internet offerings of wireless competitors.

SEASONALITY

Our business is not subject to significant seasonal fluctuations.

REGULATION

Our incumbent local exchange carrier subsidiaries (collectively the ILECs) are regulated by both federal and state agencies. Our interstate products and services and the related earnings are subject to federal regulation by the Federal Communications Commission (FCC) and our local and intrastate products and services and the related earnings are subject to regulation by state Public Service Commissions (PSCs). The FCC has principal jurisdiction over matters including, but not limited to, interstate switched and special access rates, as well as high-speed Internet service offerings. It also regulates the rates that ILECs may charge for the use of their local networks in originating or terminating interstate and international transmissions. The PSCs have jurisdiction over matters including local service rates, intrastate access rates, quality of service, the disposition of public utility property and the issuance of securities or debt by the local operating companies. As a regulated entity, the Company is required to comply with various federal and state regulations.

Communications services providers are regulated differently depending primarily upon the network technology used to deliver the service. This patchwork regulatory approach advantages certain companies and disadvantages others. It impedes market-based competition where service providers using different technologies exchange telecommunications traffic and compete for customers.

From time to time federal legislation is introduced dealing with various matters that could affect our business. Most proposed legislation of this type never becomes law. It is difficult to predict what kind of reform efforts, if any, may be introduced in Congress and ultimately become law. Windstream strongly supports the modernization of the nation s telecommunications laws, but at this time, cannot predict the timing and the resulting financial impact of any possible federal legislative efforts.

FEDERAL REGULATION

Price Cap Petition Granted by FCC

On March 18, 2008, the FCC granted a petition filed by Windstream on August 7, 2007, to convert the majority of its remaining interstate rate-of-return regulated operations to price cap regulation effective July 1, 2008. Price cap regulation better aligns with the Company s continued efforts to improve its cost structure. Under price cap regulation, rates for interstate wholesale services are not required to be periodically adjusted based on the Company s cost structure, and high-speed Internet services can be deregulated resulting in lower USF assessments for our customers. The Company deregulated its high-speed Internet services on July 1, 2008. Prior to July 1, 2008, many of our interstate ILEC operations, consisting primarily of network access services, were subject to rate-of-return regulation by the FCC. Only our Nebraska and New Mexico operations, and a portion of our Kentucky, Oklahoma and Texas operations, were subject to price cap regulation prior to that date. However, as a result of the FCC s March 18 order, the vast majority of the Company s remaining ILEC operations converted to price cap

regulation on July 1, 2008.

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Inter-carrier Compensation

The Company s local exchange subsidiaries currently receive compensation from other telecommunications providers, including long distance companies, for origination and termination of interexchange traffic through network access charges that are established in accordance with state and federal laws.

In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the FCC proposed a bill and keep compensation methodology under which each telecommunications carrier would be required to recover all of its costs to originate and terminate telecommunications traffic from its end-user customers rather than charging other carriers. The proposed bill and keep method would significantly overhaul the existing rules governing inter-carrier compensation. On March 3, 2005, the FCC released a further notice of proposed rulemaking addressing inter-carrier compensation. Under this proposed rulemaking, the FCC requested comment on several alternative inter-carrier compensation proposals, including bill and keep.

In July 2006 the National Association of Regulatory Utility Commissioners Task Force on Inter-carrier Compensation filed an industry-sponsored reform plan called the Missoula Plan which proposes a comprehensive reform to inter-carrier compensation that is different than bill and keep . In summary, the Missoula plan seeks to reduce rates carriers charge one another to originate and terminate calls between networks, increase end user retail rates and create additional funding through an expanded universal service program. The Company supports the proposed Missoula plan, because the plan would bring stability and certainty to the marketplace and encourage continued network investment for the benefit of customers and carriers.

On November 5, 2008, the FCC issued a further notice of proposed rulemaking (FNPRM) that sought comment on proposals that would change the rules governing inter-carrier compensation. Proposals considered by the FNPRM would significantly reduce inter-carrier compensation revenues over a ten-year period, classify VoIP/public switch telephone network (PSTN) traffic as an information service, and adopt measures to ensure proper billing of phantom traffic . Windstream strongly supports regulatory reform, but with the exception of the phantom traffic reforms, Windstream is opposed to the inter-carrier compensation proposals under consideration by the FNPRM. We have submitted an alternative proposal that includes a measured reduction in access rates, increases in subscriber line charges, and additional federal universal service support.

The FCC has received other proposals to reform inter-carrier compensation mechanisms. If the Commission acts, the outcome is likely to change the way the Company receives compensation from, and remits compensation to, other carriers and its end-user customers, as well as the federal universal service fund. Until these proceedings conclude and any changes to the existing rules are established, however, the Company cannot estimate the impact of any changes on its ILEC revenues or expenses or when such changes would occur.

Universal Service

The federal universal service program is under legislative, regulatory and industry scrutiny as a result of the growth in the fund and structural changes within the telecommunications industry. The primary structural change is the increase in the number of Eligible Telecommunications Carriers (ETCs) receiving money from the Universal Service Fund (USF). There are several FCC proceedings underway that are likely to change the way the universal service programs are funded and the way universal service funds are disbursed to program recipients. The specific proceedings are discussed below.

On May 1, 2008, the FCC released an order adopting an interim, emergency cap on the amount of high-cost support that competitive ETCs may receive. Competitive ETC support will be capped in each state at the amount competitive ETCs were eligible to receive in such state during March 2008 on an annualized basis. The Company s high-cost support was not affected by the FCC s order.

On November 20, 2007, the Joint Board issued a subsequent recommended decision for consideration by the FCC. In this decision, the Joint Board recommended establishing a provider of last resort fund, a mobility fund and a broadband fund. Each fund would have separate distribution and allocation mechanisms. The Joint Board also recommended an overall cap in the size of the fund. Under the Joint Board s recommendation, the broadband and mobility funds would be allocated on a state-by-state basis and the states would be responsible for

distributing support. On November 5, 2008, the FCC issued an order declining to adopt the Joint Board recommendations described above.

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On November 5, 2008, the FCC issued a FNPRM seeking comment on proposals that would cap high-cost receipts based on the support each carrier is eligible to receive at December 2008 levels on an annualized basis. To continue receiving this support, high-cost recipients would have to certify that they would deploy specified high-speed Internet services throughout their supported areas over a five-year period. Areas for which high-cost recipients decline to make such certification would be subject to a reverse auction. The reserve price for the auction would be the amount the ILEC would be entitled to receive if it would have agreed to deploy high-speed Internet services throughout its service area. Bidders would need to be certified as an ETC by the respective state commission. The winning bidder would accept all carrier of last resort obligations. If the auction produced no winner, the area subject to the auction would be deemed a truly high-cost area and the FCC would determine what further actions would need to be taken to ensure the study area is served by a company willing to meet the broadband commitment and carrier of last resort requirements.

Proposals under consideration by the FNPRM also would eliminate the identical support rule, which allows competitive ETCs to receive the same per line support as the ILEC. Competitive ETCs, instead, would be required to file cost information to qualify for high-cost support.

In addition, the proposals under consideration would base the federal universal service contribution methodology on residential telephone numbers and business revenues. The FCC then would seek comment on whether it should begin using business connections, rather than revenues, to determine contributions from providers of business services. Without more specificity regarding the likely outcome of the proceeding, we cannot provide a meaningful estimate of the impact a change in carrier contribution obligations would have on our operations.

The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company (USAC) would begin accounting for the USF program in accordance with generally accepted accounting principles for federal agencies, rather than the accounting rules that USAC formerly used. This accounting method change subjected USAC to the Anti-Deficiency Act (ADA), the effect of which could have caused delays in payments to USF program recipients and significantly increased the amount of USF regulatory fees charged to consumers. In April 2005, the FCC tentatively concluded that the high-cost and low-income universal service programs of the universal service fund were compliant with ADA requirements, and asked the Office of Management and Budget (OMB) to make a final determination on this issue, which has not yet occurred. In September 2008, Congress passed legislation to exempt the USF from ADA requirements until March 6, 2009.

High-Speed Internet Services

On March 15, 2002, the FCC issued a declaratory ruling concluding that cable modem service was an interstate information service, rather than a cable service or a telecommunications service. This ruling was upheld by the United States Supreme Court. In addition, on September 23, 2005, the FCC released an order declaring Digital Subscriber Line (DSL) offerings, as well as other high-speed Internet access services offered over wireline technologies, information services functionally integrated with a telecommunications component and no longer subject to a higher level of regulation as compared to cable modem service. The order further provides price cap companies the option to deregulate high-speed Internet and rate-of-return companies the option to de-tariff high-speed Internet. The Company elected to deregulate its high-speed Internet services in its price cap properties effective October 2006 for companies subject to price cap regulation at that time, and effective July 2008 for companies affected by the price cap conversion in 2008. Consequently the Company now benefits from the decreased regulation of its high-speed Internet services, providing the Company with additional retail pricing flexibility and relief from federal universal service fund contributions.

On November 20, 2007, the FCC released a Notice of Proposed Rule Making (NPRM) that tentatively concluded that all high-speed Internet providers should pay the same pole attachment rate for all attachments used for high-speed Internet services. Windstream pays approximately $23.0 million annually to rent space on utility poles it does not own. The NPRM suggests that this rate should be higher than the current cable rate but no greater than the current rate paid by competitive local exchange carriers. If the NPRM s tentative conclusion is adopted, Windstream would likely see a reduction in the amounts that it pays to rent space on utility poles it does not own and would be able to better compete with other companies offering high-speed Internet services.

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Communications Assistance for Law Enforcement Act

In 1994, Congress enacted the Communications Assistance for Law Enforcement Act (CALEA) to preserve the ability of law enforcement officials to conduct electronic surveillance effectively and efficiently in the face of rapid advances in telecommunications technology. The FCC has adopted rules that implement the requirements set forth in CALEA. Under CALEA, the Company is required to provide law enforcement officials with call content and call identifying information upon receipt of a valid electronic surveillance warrant. The Company is compliant in all material respects with all CALEA requirements.

Customer Proprietary Network Information

Customer Proprietary Network Information (CPNI) includes information such as the phone numbers dialed, frequency of calls, duration of calls and retail services purchased by a customer. The Telecommunications Act of 1996 requires service providers to ensure the confidentiality of CPNI and provides that CPNI may be used, disclosed or shared only if required by law, the customer has given consent, or CPNI is necessary for the provision of services from which CPNI was derived. The FCC has implemented rules that require service providers to establish safeguards to prevent the unauthorized disclosure of CPNI.

On April 2, 2007, the FCC released an order and further notice of proposed rulemaking to alter the requirements to safeguard customers CPNI. The order prohibits carriers from disclosing call detail information based on customer-initiated telephone contact except when the customer provides a password or, if the customer does not provide a password, the carrier may only disclose the requested call detail records by sending them to the customer s address of record. The order further requires carriers to obtain explicit consent from customers when releasing CPNI to third parties for the purposes of marketing retail services to that customer. The order also establishes a notification process for law enforcement and customers in the event of a CPNI breach, requires that carriers provide notice to customers immediately following certain account changes and requires carriers to file annual certifications of CPNI compliance with the FCC. Some parties have filed petitions for reconsideration with the FCC asserting that, in enforcement proceedings, the order improperly shifts the burden of proof from the FCC to the carriers. These rules became effective during the fourth quarter of 2007.

Exclusive Access to Multiple Tenant Environments

On November 13, 2007, the FCC released an order that prohibits cable operators from: (i) enforcing existing exclusive video service agreements with multi-dwelling unit owners; and (ii) entering new agreements containing exclusive video service rights for multi-dwelling units. Currently this order is being challenged in court, but assuming it goes into effect, the order expands Windstream s potential customer base for video, voice, and high-speed internet services in the near term.

Other Federal Regulations

On September 6, 2008, the FCC released an NPRM tentatively concluding that the agency should require all facilities-based providers of broadband and/or telecommunications to collect and produce infrastructure, service quality, and customer satisfaction data that previously were required only from a subset of ILECs. Expanding the data collection as proposed could require Windstream to devote new resources to gathering data and producing reports. But without more specificity regarding the likely outcome of the proceeding, we cannot provide an estimate of the financial impact of a change in our data collection and reporting obligations.

On July 26, 2007, the Company received an inquiry from the FCC s Enforcement Bureau questioning certain details surrounding the Company s compliance with FCC reporting requirements related to network outages. The specific outage that prompted the inquiry occurred on November 30, 2006 in Georgia. The Company submitted its response within the timeframe requested by the Enforcement Bureau and continues to work with members of the Enforcement Bureau to satisfy their inquiry. Under its authority the FCC could levy a fine if it were to find that the Company did not comply with its network outage reporting requirements. The Company does not believe that the amount of the potential fine, if any, would be significant.

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STATE REGULATION

Local and Intrastate Rate Regulation

Most states in which our ILEC subsidiaries operate provide alternatives to rate-of-return regulation for local and intrastate services, either by law or PSC rules. We have elected alternative regulation for our ILEC subsidiaries in all states except New York. We continue to evaluate alternative regulation options in New York where our ILEC subsidiary remains subject to rate-of-return regulation.

The following summary sets forth a description of the alternative regulation plan for each of the states in which alternative regulation options exist:

Our regulated Alabama wireline subsidiary has operated since 2005 under the price flexibility plan established by the PSC. Under this plan basic residential local service rates are capped for two years. In 2005, the legislature passed the Alabama Communications Reform Act of 2005. Under this Reform Act, only stand-alone basic service, network access services and certain calling features remain regulated after February 1, 2007. We have elected to be regulated under the Reform Act, effective February 1, 2007.

Windstream Arkansas has operated since 1997 under an alternative regulation plan established by Arkansas statute. Under this plan, basic local rates and access rates may be adjusted annually by up to 75 percent of the annual change in the Gross Domestic Product-Price Index (GDP-PI). Other local rates may be changed without PSC approval and become effective upon the filing of revised tariffs. Windstream Communications Southwest, a separate subsidiary with operations in Texas, has a reciprocity agreement with the Arkansas PSC that provides that rates approved by the Texas PSC for Texarkana, TX, are deemed approved in Texarkana, AR. This reciprocity agreement ensures that all customers in Texarkana are charged the same rates.

Our regulated Florida wireline subsidiary operates under alternative regulation established by Florida statute. Under this plan, basic local rates may be increased once in any twelve-month period by an amount not to exceed the twelve-month change in the GDP-PI less 1 percent. Non-basic services are grouped by type into categories in accordance with PSC rules. We may increase rates for non-basic services as long as the annual increase for any such category does not exceed 6 percent in any twelve-month period. Non-basic rates can be increased by up to 20 percent annually in exchanges where another local provider is providing services.

Our regulated Georgia wireline subsidiaries operate under an alternative regulation plan established by Georgia statute. Under this plan, basic local rates may be increased annually based on the annual change in GDP-PI. Other local rates may be increased by filing revised tariffs.

We have two regulated operating subsidiaries in Kentucky. On July 12, 2006, both elected a new form of alternative regulation approved by the Kentucky General Assembly during the 2006 legislative session. The new law freezes basic rates for electing companies for five years and then gives the PSC jurisdiction over rate adjustments for basic services thereafter. Rates for non-basic services may be adjusted without PSC approval either by filing revised tariffs or de-tariffing non-basic services and providing customer service agreements to end-users. The new law caps rates for intrastate switched access services and deems an electing utility s rates, charges, earnings, and revenues to be just and reasonable. Wholesale interconnection arrangements between or among companies, as well as complaints for basic service and service quality metrics remain under the jurisdiction of the PSC.

On February 23, 2006, the Governor of Mississippi signed into law HB 1252, which substantially reduced state PSC regulation of wireline telecommunications services in Mississippi. The law became effective July 1, 2006. Under the new law, only stand-alone basic service and intrastate network access services remain regulated by the Mississippi Public Service Commission. Additionally, the PSC approved a rural ILEC price regulation plan as an alternative form of regulation for rural companies. Effective June 13, 2007, Windstream elected to be regulated under the rural ILEC price regulation plan. Under this plan, Windstream is required to meet certain service quality metrics and to be able to offer high-speed Internet services to at least 80 percent of its customers by June 13, 2009. At December 31, 2008 we exceeded the above broadband requirement.

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Our regulated Missouri wireline subsidiary is subject to an alternative regulation election established by statute. Under Missouri s alternative regulation as well as legislation enacted in 2008, basic local service and intrastate network access rates may be adjusted annually based on changes to the urban consumers component of the Consumer Price Index. There is total pricing flexibility for non-basic services, and revenue neutral rate re-balancing is permitted on an annual basis.

Our regulated Nebraska operations are subject to alternative regulation established by Nebraska statute. In exchanges where local competition exists, companies can change rates upon ten days notice to the PSC. In exchanges where the PSC determines that local competition does not exist, companies can change rates for all services except basic local service with ten days notice to the PSC. In these exchanges, basic local rates may be increased upon ninety days notice to affected subscribers. Basic local rate increases are reviewed by the PSC only if rates are increased more than 10 percent in twelve consecutive months or in response to a formal complaint signed by at least 3 percent of affected subscribers.

On April 1, 2006, the New Mexico PSC began regulating Windstream pursuant to rules that govern retail prices and service quality. These rules, adopted in January 2006, allow Windstream pricing flexibility on retail services. The rules also streamline the introduction and withdrawal of tariffs and the packaging and bundling of services. The PSC also adopted rules in late 2005 pertaining to intrastate network access rate reform. The rules generally required: 1) the reduction of intrastate access rates to interstate levels according to prescribed criteria; 2) the establishment of the initial benchmark rates to be used to determine support from the state USF; and 3) the creation of a state USF to ensure revenue neutrality in connection with (1). On April 1, 2006, these rules were implemented and all ILECs, including Windstream, reduced their intrastate network access rates to interstate levels and began receiving support from the newly created state USF. Windstream expects to receive approximately $8.4 million annually from the New Mexico state USF.

We have two regulated operating subsidiaries in North Carolina. The subsidiaries separately implemented PSC approved alternative regulation plans in 1997 and 1998, respectively. Local rates are adjusted annually by the annual change in GDP-PI. Rate changes are effective upon 14 days notice. In September 2005 and March 2006, the Commission approved requested changes to the price regulation plans.

Our regulated Ohio wireline subsidiaries began in 2004 to operate under an alternative regulation plan established by the Public Utilities Commission (PUC). Under this plan, basic service rates have been capped. Non-basic service rates are subject to limited pricing flexibility. As of August 2006, new rules for alternative regulatory treatment of basic service have been adopted. Windstream is evaluating the residential basic local exchange rate flexibility rules at an exchange level.

We have three operating subsidiaries in Oklahoma, each of which operate under an alternative regulation plan established by Oklahoma statute. Under this plan, basic service rates can be increased annually as long as the increase does not exceed $2.00. Legislation was enacted in May 2004 that regulates Windstream Communications Southwest (approximately 72 percent of access lines in Oklahoma) as a rural telephone company, thereby allowing this property significant pricing freedom for its basic services and reducing its costs of regulation.

In July 2005, our regulated Pennsylvania subsidiary began operating under an alternative regulation plan passed by the Pennsylvania General Assembly in 2004. Under this plan, we are required to make high-speed Internet access available for purchase to 100 percent of our customer base by 2013. The plan also limits rate increases to the GDP-PI less 2 percent, annually. Rates for services the PSC has deemed to be competitive based on demonstrated availability of like or substitute services offered by alternative service providers are not

regulated, but the public utility commission retains authority over the quality of these services. Revenue neutral rate rebalancing is also permitted for services not deemed competitive by the PSC.

Our regulated South Carolina operations are subject to alternative regulation established by South Carolina statute. Local rates can be adjusted pursuant to an inflation-based index. All other service rates may be increased subject to a complaint process for abuse of market position. The PSC has determined that any allegations of abuse of market position will be investigated on a case-by-case basis. Rate increases become effective 14 days after filing.

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We have four operating subsidiaries in Texas. These subsidiaries are subject to alternative regulation established by Texas statute. Under the statute, basic local rates and intrastate network access rates are capped. In 2008 the Texas Public Utility Commission (Texas PUC) conducted a review of the Texas Universal Service Fund (Texas USF). As described below in the Universal Service section, the review resulted in a unanimous settlement which reduced the total amount of support from the Texas USF but also established a higher affordable rate for basic service.

Inter-carrier Compensation

On October 5, 2007, Verizon filed a complaint with the Ohio PUC alleging that the Company s intrastate access rates are excessive and should be reduced to the same levels charged by the largest ILECs in Ohio, or in the alternative, to the Company s interstate access rate levels. If the Ohio PUC were to grant Verizon s request and require the Company to implement the large ILEC rate structure, the Company would incur a reduction in annual revenues of up to $7.0 million. This estimate assumes the Company would be allowed to implement retail rate increases simultaneously with the access rate reductions similar to the plan adopted by the PUC for the larger Ohio ILEC access rate reductions. The Ohio PUC has not acted upon requests by other parties for the Company and other similar sized ILECs in Ohio to reduce their intrastate access rates.

On December 5, 2007 and February 22, 2008, Verizon filed complaints with the Kentucky PSC and the Georgia PSC very similar to the complaint filed in Ohio. In these cases, Verizon also alleges that the Company s intrastate access rates are excessive and should be reduced to the level currently charged by AT&T (formerly BellSouth).

The Company requested that the Ohio PUC, the Kentucky PSC and the Georgia PSC deny Verizon s requested relief based in part on the fact that the Company s intrastate access rates are just and reasonable and on the current efforts to reform inter-carrier compensation comprehensively at the federal level, as previously explained. At this time, the Company cannot estimate the financial impact of any PSC decision due to the various options the PSC could consider if it ruled in Verizon s favor that would affect the financial impact of the rate reductions, if any.

Universal Service

We recognize revenue from state universal service funds in a limited number of states in which we operate. In 2008, Windstream recognized $140.1 million in state universal service revenue. These payments are intended to provide additional support, beyond the federal universal service receipts, for the high cost of operating in rural markets. For the year ended December 31, 2008, Windstream received approximately $103.2 million from the Texas USF. There are two high-cost programs of the Texas USF, one for large companies and another for small companies. In 2008, Windstream received $90.5 million from the large company program and $12.7 million from the small company program. The purpose of the Texas USF is to assist telecommunications providers in providing basic local telecommunications services at reasonable rates to customers in high cost rural areas and to qualifying low-income and disabled customers. By order of the Texas PUC, the Texas USF distributes support to eligible carriers serving areas identified as high cost, on a per-line basis. Texas USF support payments are based on the number of actual lines in service and therefore are subject to reductions when customers discontinue service or migrate to a competitive carrier. All customers of telecommunications services in Texas contribute to the Texas USF through the payment of a monthly surcharge by their customers.

The rules governing the Texas USF provide for a review of the Texas USF every three years. In the third quarter of 2007, the Texas Public Utility Commission Staff (PUC Staff) filed a petition to review the Texas USF amounts received by the large company participants. In March 2008, Windstream, along with PUC Staff and all the other parties in this proceeding, reached agreement on a framework that will determine the amount of support each company will receive from the Texas USF beginning January 1, 2009. As a result of this agreement, the Company s annual support from the Texas USF will decline by approximately $5.0 million. However, the Company expects to recover at least that amount from its end user customers through modest rate increases allowed as part of the agreement. Such rate increases will be phased in over three years beginning January 1, 2009. The Texas PUC approved the settlement on April 25, 2008.

During the third quarter of 2007, the staff of a state PUC notified the Company that the PUC Staff believed the Company had been over-compensated from its state universal service fund dating back to 2000 by the amount of $6.1 million plus interest in the amount of $1.2 million (for a total $7.3 million). On October 18, 2007, the PUC Staff issued

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a Notice of Violation and recommended that the Company be assessed a penalty in the amount of $5.2 million (which was later revised to $8.2 million) in addition to the initial refund request for failure to refund the requested amount. The case was docketed and a hearing was conducted in September 2008. The Company s position was that its universal service receipts in question were in compliance with all applicable regulatory requirements, that it was not over-compensated and that there should be no refund or penalty. On December 11, 2008, the Administrative Law Judge (ALJ) recommended that the Company reimburse $8.0 million (including interest) to the fund to account for the alleged overpayments, but that no administrative penalties should be imposed. The recommendation of the ALJ was approved by the commission on January 29, 2009. A liability of $8.0 million is included in other current liabilities of the accompanying consolidated balance sheet related to this issue, which we expect to pay in the first quarter of 2009.

Pennsylvania is currently conducting a review of its universal service fund. This review is expected to conclude no later than June 2009. The review is focused on various aspects of the fund as it pertains to basic rates of eligible companies and the impact of a participating company s alternative regulation plan. The Company receives $10.7 million annually from the fund. The Company cannot estimate at this time the financial impact that would result from changes, if any, to the Pennsylvania universal service fund.

Other Regulations

Under applicable state regulations, some of our subsidiaries are required to obtain the applicable state commission approval for, or are subject to limitations on, any issuance of stock, incurrence of long-term debt, payment of dividends, acquisition or sale of material utility asset or any change in control of these subsidiaries or their parent companies. None of these limitations have had any material impact on the Company.

Additionally, if we seek to acquire control of other local exchange carriers, Windstream could be required to obtain the approval of PSCs in the states where the target companies have operations, and such approvals could be conditioned on Windstream agreeing to restrictions on its operations to which it would not otherwise be subject. Examples of conditions of approval include restrictions on the amount of Windstream s indebtedness, its dividend practice, or requirements to meet specific service levels or technology deployments.

PRODUCT DISTRIBUTION

Windstream s product distribution subsidiary, Windstream Supply LLC (Windstream Supply), is a nationwide provider of telecommunications equipment and logistics services to Windstream affiliates and contractors, as well as to non-affiliated customers. Non-affiliated customers include other local exchange carriers and communications providers, voice and data resellers, colleges and universities, governments, retail and industrial companies. Windstream Supply operates four warehouses across the United States which house a wide variety of products used to support voice, high-speed data and video applications. Windstream Supply offers a large variety of telecommunications-related products for sale. Certain of these products are inventoried including switch modules, wired and wireless voice and data transport equipment, outside plant products and pole-line hardware, high-speed Internet modems, in-building wiring and jacks, VoIP telephone systems and local area networking products. Windstream Supply experiences substantial competition throughout its non-affiliate customer base from other distribution companies and from direct sales by manufacturers. Competition is based primarily on quality of service, product availability and price. To differentiate its offerings, Windstream Supply also offers other services to its customers including expert technical assistance, product configuration, specialized logistics services and a web tool used by customers to place orders and track order status. Windstream periodically evaluates its product and service offerings to meet customer expectations and to position Windstream Supply in the market as a quality, customer-focused distributor.

The following table is a summary of the product distribution operations for the years ended December 31:

Product Distribution Segment	2008	2007	2006
Percent of sales to affiliated companies	64%	65%	58%
Operating revenues from external customers	$ 112.7	$ 118.0	$ 141.0

Segment income	$	(1.5)	$	(1.4)	$	4.7
Total assets	$	37.3	$	35.7	$	53.8

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OTHER OPERATIONS

Formerly, Windstream s other operations consisted of its wireless, directory publishing and telecommunications information services businesses.

On November 21, 2008, Windstream completed the sale of its wireless business to AT&T Mobility II, LLC and accordingly, the related results are presented as discontinued operations. On November 30, 2007, Windstream completed the split off of its directory publishing business. Effective with the completion of the sale of its wireless business and split off of its directory publishing business as discussed above in Material Dispositions Completed During the Last Five Years , the Company s wireless and publishing services have ceased.

Windstream s telecommunications information services operations consisted solely of providing data processing and outsourcing services to Valor. At the time of the merger with Valor in 2006, the Company ceased providing these services.

The following table is a summary of other operations for the years ended December 31:

Other Segment	2008	2007	2006
Operating revenues from external customers	$ -	$ 111.3	$ 150.8
Segment income	$ -	$ 5.3	$ 12.6
Total assets	$ -	$ 85.7	$ 79.8

FORWARD-LOOKING STATEMENTS

Windstream claims the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this annual report on Form 10-K. 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. 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 our 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 access line loss; the impact of new, emerging or competing technologies; the adoption of inter-carrier 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; 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; unexpected results of litigation; unexpected rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier 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 our expected long term rate of return for plan assets; and those additional factors under the caption Risk Factors in Item 1A of this annual report. 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 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations in this annual report and in other filings by Windstream with the Securities and Exchange Commission at www.sec.gov.

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Item 1A. Risk Factors

Risks Relating to Windstream s Business

We face intense competition in our businesses from many sources that could reduce our market share or adversely affect our financial performance.

Substantial and increasing competition exists in the wireline communications industry. Our ILEC operations have experienced, and will continue to experience, competition in their local service areas. Sources of competition to our local service business include, but are not limited to, wireless communications providers, cable television companies, resellers of local exchange services, interexchange carriers, satellite transmission service providers, electric utilities, competitive access service providers, including, without limitation, those utilizing an Unbundled Network Elements-Platform or UNE-P, VoIP providers, and providers using other emerging technologies.

Many of Windstream s current and potential competitors (a) have substantially larger operational and financial resources, (b) own larger and more diverse networks, (c) are subject to less regulation and (d) have superior brand recognition.

Competition could adversely affect us in several ways, including (1) the loss of customers and resulting revenue and market share, (2) the possibility of customers reducing their usage of our services or shifting to less profitable services, (3) our need to lower prices or increase marketing expenses to remain competitive and (4) our inability to diversify by successfully offering new products or services.

We may not be able to compete successfully with cable operators that are subject to less stringent industry regulations.

We face competition from cable television companies providing voice service offerings. Voice offerings of cable operators are offered mainly under Competitive Local Exchange Carrier certificates obtained in states where they offer services and therefore are subject to fewer service quality or service reporting requirements. In addition, the rates or prices of the voice service offerings of cable companies are not subject to regulation. In contrast, our voice service rates or prices, in our capacity as an ILEC, are subject to regulation by various state public service commissions. Unlike cable operators, we are also subject to carrier of last resort obligations, which generally obligates us to provide basic voice services to any person regardless of the profitability of such customer. As a result of these disadvantages, we may not be able to compete successfully with cable companies in the offering of voice services.

Competition from wireless carriers is likely to continue to cause access line losses, which could adversely affect our operating results and financial performance.

Wireless competition has contributed to a reduction in our access lines, and generally has caused pricing pressure in the industry. As wireless carriers continue to expand and improve their network coverage while lowering their prices, some customers choose to stop using traditional wireline phone service and instead rely solely on wireless service. We anticipate that this trend toward solely using wireless services will continue, particularly if wireless prices continue to decline and the quality of wireless services improves. In the future, it is expected that the number of access lines served by us will continue to be adversely affected by wireless substitution and that industry-wide pricing pressure will continue. We may not be able to compete successfully with these wireless carriers.

We could be harmed by rapid changes in technology.

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data transmission and wireless communications. Rapid technological developments in wireless, personal communications services, digital microwave, satellite, high-speed Internet radio services, local multipoint distribution services, meshed wireless fidelity, or WiFi, and other wireless technologies could result in the development of products or services that compete with or displace those offered by traditional local exchange carriers (LECs). For example, wireless companies are developing the next generation of wireless networks, including networks using long-term evolution (or LTE) and Worldwide Interoperability for Microwave Access (or WIMAX) technologies, that purport to support greater data transmission speeds over wireless networks. These new wireless technologies could result in greater competition and product substitution for Windstream s high-speed

Internet services. Furthermore, the proliferation of replacement

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technologies impacting our wireline business could require us to make significant additional capital investment in order to compete with other service providers that may enjoy network advantages that will enable them to provide services more efficiently or at a lower cost. Alternatively, we may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into our systems in a cost effective manner, or at all. If we cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by our customers, our results of operations could be adversely impacted.

We provide services to our customers over access lines, and if we continue to lose access lines like we have historically, our revenues, earnings and cash flows from operations could be adversely affected.

Our business generates revenue by delivering voice and data services over access lines. We have experienced net access line loss over the past few years. During 2008, the number of access lines we served declined by approximately 5.2 percent due to a number of factors, including increased competition and wireless and high-speed Internet substitution. We expect to continue to experience net access line loss in our markets. Our inability to retain access lines could adversely affect our revenues, earnings and cash flow from operations.

We are subject to various forms of regulation from the Federal Communications Commission (FCC) and state regulatory commissions in the 16 states in which we operate, which limits our pricing flexibility for regulated voice and high-speed Internet products, subjects us to service quality, service reporting and other obligations, and exposes us to the reduction of revenue from changes to the universal service fund or the inter-carrier compensation system.

As a provider of wireline communication services, we have operating authority from each of the 16 states in which we conduct local service operations, and we are subject to various forms of regulation from the regulatory commissions in each of these 16 states as well as from the FCC. State regulatory commissions have jurisdiction over local and intrastate services including, to some extent, the rates that we charge customers and other telecommunications companies, and service quality standards. The FCC has primary jurisdiction over interstate services including the rates that we charge other telecommunications companies that use our network and other issues related to interstate service. These regulations restrict our ability to adjust rates to reflect market conditions and affect our ability to compete and respond to changing industry conditions.

Future revenues, costs, and capital investment in our wireline business could be adversely affected by material changes to these regulations, including, but not limited to, changes in rules governing inter-carrier compensation, state and federal USF support, UNE and UNE-P pricing and requirements, and VoIP regulation. Federal and state communications laws may be amended in the future, and other laws may affect our business. In addition, certain laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts and could be changed at any time. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes would have.

In addition, these regulations could create significant compliance costs for us. Delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and conditions imposed in connection with such approvals could adversely affect the rates that we are able to charge our customers. Our business also may be affected by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. Our compliance costs could increase if future legislation, regulations or orders continue to increase our obligations.

Changes to regulations could materially reduce the Company s revenues from inter-carrier compensation.

The Company s local exchange subsidiaries currently receive compensation from other telecommunications providers, including long distance companies, for origination and termination of interexchange traffic through network access charges that are established in accordance with state and federal laws. In 2008 the Company recognized $315.9 million in inter-carrier compensation, an 3.0 percent reduction from 2007 levels. This reduction in inter-carrier compensation revenue is primarily the result of decreases in minutes of use associated with wireless and cable voice

competition and

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efforts by carriers to mask traffic to avail their traffic of lower inter-carrier compensation rates. Absent any changes to existing inter-carrier compensation regulations, the Company expects to experience a similar rate of reduction in inter-carrier revenue in 2009 as experienced in 2008.

On November 5, 2008, the FCC issued a further notice of proposed rulemaking (FNPRM) that sought comment on proposals that would change the rules governing inter-carrier compensation (see Management s Discussion and Analysis of Financial Condition and Results of Operations, Financial Condition, Regulatory Matters Wireline Operations in the Financial Supplement to this annual report on Form 10-K). Proposals considered by the FNPRM would significantly reduce inter-carrier compensation revenues over a ten-year period, classify VoIP/PSTN traffic as an information service, and adopt measures to ensure proper billing of phantom traffic . Adoption of the FCC s proposed plan could materially reduce the Company s inter-carrier compensation revenue. We do not know whether the FCC s proposed plan, or a substantially similar plan, will be adopted.

In 2008, we received approximately 8% of our revenues from state and federal Universal Service Funds, and any adverse regulatory developments with respect to these funds could adversely affect our profitability.

We receive state and federal USF revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted approximately 8 percent of our revenues for the year ended December 31, 2008. A portion of such fees are based on relative cost and access line counts, and we expect receipt of such fees to decline as we continue to reduce costs and lose access lines. Pending regulatory proceedings could, depending on the outcome, materially reduce our USF revenues.

The FNPRM issued by the FCC on inter-carrier compensation also sought comment on proposals that would cap high-cost receipts based on the support each carrier is eligible to receive at December 2008 levels on an annualized basis. To continue receiving this support under this proposal, high-cost recipients would have to certify that they would deploy specified high-speed Internet services throughout their supported areas over a five-year period. Areas for which high-cost recipients decline to make such certification would be subject to a reverse auction. Adoption of this proposal, or a substantially similar proposal, could materially reduce the Company s universal service revenues or increase its operating costs.

We are required to make contributions to state and federal USF programs each year. Current state and federal regulations allow us to recover these contributions by including a surcharge on our customers bills. If state and/or federal regulations change, and we become ineligible to receive support, such support is reduced, or we become unable to recover the amounts we contribute to the state and federal USF programs from our customers, our earnings and cash flows from operations would be directly and adversely affected.

Windstream s substantial debt could adversely affect our cash flow and impair our ability to raise additional capital on favorable terms.

As of December 31, 2008, we had approximately $5.4 billion in long-term debt outstanding. We may also obtain additional long-term debt to meet future financing needs or to fund potential acquisitions, subject to certain restrictions under our existing indebtedness, which would increase our total debt. Our substantial amount of debt could have negative consequences to our business. For example, it could:

- Increase our vulnerability to general adverse economic and industry conditions;
- Require us to dedicate a substantial portion of cash flows from operations to interest and principal payments on outstanding debt, thereby limiting the availability of cash flow to fund future capital expenditures, working capital and other general corporate requirements;
- Limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry;

Place us at a competitive disadvantage compared with competitors that have less debt; and

Limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

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Item 1A. Risk Factors

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities and its other debt agreements. If we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness.

We may not generate sufficient cash flows from operations, or have future borrowings available under our credit facilities or from other sources sufficient to enable us to make our debt payments or to fund dividends and other liquidity needs. We may not be able to refinance any of our debt, including our credit facilities, on commercially reasonable terms or at all. If we are unable to make payments or refinance our debt, or obtain new financing under these circumstances, we would have to consider other options, such as selling assets, issuing additional equity or debt, or negotiating with our lenders to restructure the applicable debt. Our credit agreement and the indentures governing our senior notes may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

As of December 31, 2008, Moody s Investors Service (Moody s), Standard & Poor s Corporation (S&P) and Fitch Ratings (Fitch) had granted Windstream the following senior secured and senior unsecured credit ratings:

Description	Moody s	S&P	Fitch
Senior secured credit rating	Baa3	BBB	BBB-
Senior unsecured credit rating	Ba3	BB	BB+
Outlook	Stable	Stable	Stable

Factors that could affect Windstream s short and long-term credit ratings would include, but are not limited to, a material decline in the Company s operating results, increased debt levels relative to operating cash flows resulting from future acquisitions, increased capital expenditure requirements, or changes to our dividend policy. If Windstream s credit ratings were to be downgraded from current levels, the Company would incur higher interest costs on its borrowings, and the Company s access to the public capital markets could be adversely affected.

Our operations require substantial capital expenditures.

We require substantial capital to maintain, upgrade and enhance our network facilities and operations. During 2008, we incurred $317.5 million in capital expenditures. In addition, our current dividend practice utilizes a significant portion of our cash generated from operations and therefore limits our operating and financial flexibility and our ability to significantly increase capital expenditures. While we have historically been able to fund capital expenditures from cash generated from operations, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause capital to not be available when needed. This could adversely affect our business.

Unfavorable changes in financial markets could adversely affect our pension plan investments resulting in material funding requirements to meet pension obligations.

The Company s pension plan invests in marketable equity securities, including marketable debt and equity securities denominated in foreign currencies, which are exposed to changes in the financial markets. As of December 31, 2008, the fair market value of these investments, totaling $654.0 million, declined 34.7 percent from approximately $1,001.0 million at December 31, 2007, primarily due to declines in the market value of assets held. As a result of the decline in fair market value of these investments, the Company will be required by the U.S. Pension Protection Act of 2006, as corrected by the Worker, Retiree, and Employer Recovery Act to make a cash contribution in 2010 for the January 1, 2009 valuation period to meet minimum funding requirements. Returns generated on plan assets have historically funded a large portion of the benefits paid under the Company s pension plan. Continued returns below our currently estimated long term rate of return of 8.0 percent could significantly increase our contribution requirements, which could adversely affect our cash flows from operations.

We may not realize the anticipated synergies, cost savings and growth opportunities from acquisitions.

As part of our business strategy, we may pursue mergers and acquisitions from time to time with other companies as opportunities may arise. The success of potential transactions will depend, in part, on our ability to realize the

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Windstream Corporation

Form 10-K, Part I

Item 1A. Risk Factors

anticipated synergies, cost savings and growth opportunities through the successful integration of the businesses of acquired companies with those of Windstream. Even if we are successful integrating the businesses of acquired companies, there can be no assurance that these integrations will result in the realization of the full benefit of the anticipated synergies, cost savings or growth opportunities or that these benefits will be realized within the expected time frames. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, benefits from the transaction may be offset by costs incurred in integrating the companies, and regulatory authorities may impose adverse conditions on the combined business in connection with granting approval for the merger.

Windstream s relationships with other communications companies are material to its operations and their financial difficulties may adversely affect Windstream.

Windstream originates and terminates calls for long distance carriers and other interexchange carriers over Windstream s network in exchange for access charges that represent a significant portion of Windstream s revenues. Should these carriers go bankrupt or experience substantial financial difficulties, Windstream s inability to timely collect access charges from them could have a negative effect on Windstream s business and results of operation.

Disruption in our networks and infrastructure may cause us to lose customers and incur additional expenses.

To be successful, we will need to continue to provide our customers with reliable service over our networks. Some of the risks to our networks and infrastructure include: physical damage to access lines, breaches of security, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we will experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third party service providers. We could experience more significant disruptions in the future. We could also face disruptions due to capacity limitations if changes in our customers usage patterns for our high-speed Internet services result in a significant increase in capacity utilization, such as through increased usage of video or peer-to-peer file sharing applications. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, and thereby adversely affect our business, revenue and cash flows.

Weak economic conditions may decrease demand for our services.

We could be sensitive to economic conditions and downturns in the economy. Downturns in the economy and vendor concentration in the markets we serve could cause our existing customers to reduce their purchases of our basic and enhanced services and make it difficult for us to obtain new customers.

Key suppliers may experience financial difficulties that may impact Windstream s operations.

Windstream purchases a significant amount of equipment from key suppliers to maintain, upgrade and enhance our network facilities and operations. Should these suppliers experience financial difficulties, it could adversely affect our business through increased prices to source purchases through alternative vendors or unanticipated delays in the delivery of equipment and services purchased.

Adverse developments in our relationship with our employees could adversely affect our business, financial condition or results of operations.

As of December 31, 2008, approximately 1,813 of our employees, or 25 percent of all of our employees, at various sites were covered by collective bargaining agreements. Our relationship with these unions generally has been satisfactory, but occasional work stoppages have occurred. Within the last five years, one work stoppage occurred at our facility in Lexington, Kentucky, which involved approximately 350 employees and lasted approximately 120 days. Any work stoppages in the future could have a material adverse effect on our business, financial condition or results of operations.

We are currently party to 21 collective bargaining agreements with several unions, which expire at various times. In addition, the proposed Employee Free Choice Act (EFCA), if enacted, could increase organizational activity at locations where employees are currently not represented by a labor organization. Of our existing collective bargaining agreements, 2 agreements covering a total of approximately 361 employees as of December 31, 2008 are due to expire

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Windstream Corporation

Form 10-K, Part I

Item 1A. Risk Factors

in 2009, including one contract covering approximately 300 employees in Lexington, Kentucky, and remain subject to continuing renewal negotiations. Historically, we have succeeded in negotiating new collective bargaining agreements without work stoppages; however, no assurances can be given that we will succeed in negotiating new collective bargaining agreements to replace the expiring ones without work stoppages. Increases in organizational activity or any future work stoppages could have a material adverse effect on our business, financial condition or results of operations.

Windstream cannot assure you that it will continue paying dividends at the current rate.

Windstream s board of directors has adopted a current dividend practice for the payment of quarterly cash dividends at a rate of $0.25 per share of the Company s common stock. This practice can be changed at any time at the discretion of the board of directors, and Windstream s common stockholders should be aware that they have no contractual or other legal right to dividends. In addition, the other risk factors described in this section could materially reduce the cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause capital to not be available when needed in an amount sufficient to support our current dividend practice. The amount of dividends that Windstream may distribute is also limited by restricted payment and leverage covenants in Windstream s credit facilities and indentures, and, potentially, the terms of any future indebtedness that Windstream may incur. The amount of dividends that Windstream may distribute is also subject to restrictions under Delaware law. If Windstream s board of directors were to adopt a change in its current dividend practice that resulted in a reduction in the amount of dividends, such change could have a material and adverse effect on the market price of Windstream s common stock.

In addition, the American Jobs and Growth Tax Relief Reconciliation Act of 2003 designated qualifying dividend payments on capital stock as long term capital gains, which capped the federal tax rate on these payments at 15 percent. The provisions of this act are set to expire in 2010, and if not renewed, dividends will become taxable as ordinary income to the shareholder at their current federal tax rate. This could adversely effect the market price of Windstream s common stock by decreasing the after tax yield of holding the stock.

Item 1B. Unresolved Staff Comments

No reportable information under this item.

Item 2. Properties

The Company s properties do not provide a basis for description by character or location of principal units. Certain Windstream properties are pledged as collateral as discussed further in Note 15 to the consolidated financial statements. The obligations under our senior secured credit facilities are secured by liens on substantially all of the personal property assets of Windstream and its subsidiaries who are guarantors of our senior secured credit facilities. A summary of the Company s investment in property, plant and equipment segregated between the Company s regulated wireline and product distribution operations is presented below.

WIRELINE PROPERTY

The Company s wireline subsidiaries own property in their respective operating territories which consists primarily of land and buildings, central office equipment, outside plant and related equipment. Outside communications plant includes aerial and underground cable, conduit, poles and wires. Central office equipment includes digital switches and peripheral equipment. The gross investment by category in wireline property as of December 31, 2008, was as follows:

	(Millions)
Land	$ 24.2

Building and improvements	433.6
Central office equipment	3,834.0
Outside communications plant	4,614.8
Furniture, vehicles and other equipment	439.3
Total	$ 9,345.9

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Windstream Corporation

Form 10-K, Part I

Item 2. Properties

PRODUCT DISTRIBUTION PROPERTY

Properties of the product distribution operations consist primarily of office and warehouse facilities and software to support the business units in the distribution of telecommunications products. The total gross investment by category for the product distribution operations of the Company as of December 31, 2008, was as follows:

	(Millions)
Land	$ -
Building and improvements	0.3
Software, including internally developed	6.5
Furniture, vehicles and other equipment	4.8
Total	$ 11.6

Item 3. Legal Proceedings

On August 14, 2008, Windstream Corporation, Windstream Nebraska, Inc., Windstream Systems of the Midwest, Inc., and Windstream Benefits Committee filed a class action complaint for declaratory judgment in the United States District Court for the District of Nebraska against the local bargaining unit for the Communication Workers of America and several former Aliant retirees individually and as representatives of persons similarly situated requesting the court to declare that the Company had a unilateral right to make certain amendments to its postretirement, medical and life insurance plans (see Note 8). On December 3, 2008, the Court entered the Company s Notice of Agreed Dismissal dismissing the Company s claims against the local bargaining unit for the Communication Workers of America. On November 26, 2008, the individual defendants moved for a preliminary injunction that sought to prevent the Company from implementing the amendments to its postretirement, medical and life insurance plans on December 30, 2008. The Court entered an order denying the individual defendants motion for a preliminary injunction on December 30, 2008. Trial in this matter has been tentatively scheduled for the third quarter of 2009. The Company intends to vigorously assert and defend its position in this matter.

The Company is party to various other legal proceedings. Although the ultimate resolution of these various proceedings cannot be determined at this time, management of the Company does not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on the future consolidated results of income, cash flows or financial condition of the Company.

In addition, management of the Company is currently not aware of any environmental matters that, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to the security holders for a vote during the fourth quarter of 2008.

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Windstream Corporation

Form 10-K, Part II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The outstanding shares of Windstream s common stock are listed and traded on the New York Stock Exchange and trade under the symbol WIN. The following table reflects the range of high, low and closing prices of Windstream s common stock as reported by Dow Jones & Company, Inc. for each quarter in 2008 and 2007.

Year	Quarter	High	Low	Close	Dividend Declared
2008	4th	$11.13	$ 6.37	$ 9.20	$0.25
	3rd	$12.94	$10.70	$10.94	$0.25
	2nd	$15.00	$11.31	$12.34	$0.25
	1st	$13.10	$10.40	$11.95	$0.25
2007	4th	$14.40	$12.38	$13.02	$0.25
	3rd	$15.10	$12.46	$14.12	$0.25
	2nd	$15.30	$14.47	$14.76	$0.25
	1st	$15.63	$13.75	$14.69	$0.25

As of February 12, 2009, the approximate number of holders of common stock, including an estimate for those holding shares in brokers accounts, was 158,000.

For a discussion of certain restrictions on the ability of Windstream to pay dividends under its debt instruments, see Management s Discussion and Analysis of Financial Condition and Results of Operations, Financial Condition, Liquidity and Capital Resources in the Financial Supplement to this annual report on Form 10-K.

(b) Not applicable.

(c) Information pertaining to the repurchase of Windstream shares is included below.

(1) In February 2008, the Windstream Board of Directors approved a stock repurchase program for up to $400 million of the Company s common stock continuing until December 31, 2009. No repurchases were made under this program during the fourth quarter of 2008; however, as of December 31, 2008, the Company had repurchased 16.0 million shares for $200.3 million, and had sufficient restricted payments capacity under its indentures to complete the share repurchase program. The Company builds additional capacity through cash generated from operations while dividend payments, share repurchases and other strategic investments reduce the available restricted payments capacity. Given the current economic and credit environment, the Company plans to continue preserving liquidity and may opportunistically consider free cash flow accretive initiatives with a bias toward debt repurchases. Achievement of the share repurchase plan will depend on such factors as the overall credit environment and liquidity needs of the business.

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Windstream Corporation

Form 10-K, Part II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Set forth below is a line graph showing a quarterly comparison since February 9, 2005, the initial day of public trading of Valor shares, of total cumulative stockholder returns on Windstream common stock, along with the returns on the Standards & Poor s (S&P) 500 Stock Index and the S&P Telcom Index. The S&P Telcom Index consists of the following companies: American Tower Corporation, AT&T Inc., CenturyTel Inc., Embarq Corporation, Frontier Communications Corp., Qwest Communications International Inc., Sprint Nextel Corp., Verizon Communications Inc. and Windstream Corporation.

Total Cumulative Shareholder Returns					
	2/9/05	**2005**	**2006**	**2007**	**2008**
Windstream	$100.00	$81.87	$112.46	$110.50	$85.48
S&P 500	$100.00	$106.46	$123.27	$130.04	$81.92
S&P Telecom[1]	$100.00	$100.56	$137.51	$153.84	$106.95

(1) S&P Telecom Index includes: AMT, T, CTL, EQ, FTR, Q, S, VZ, WIN

The graph and table above provides the cumulative change of $100.00 invested on February 9, 2005, including reinvestment of dividends, for the periods indicated.

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Windstream Corporation

Form 10-K, Part II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Set forth below is a line graph showing quarterly comparisons of stockholder returns since July 18, 2006, the initial day of trading following the spin off from Alltel and merger with Valor. The graph includes the total cumulative stockholder returns on Windstream common stock, and comparative returns on the S&P 500 Stock Index and the S&P Telcom Index.

Total Cumulative Shareholder Returns

	7/18/06	2006	2007	2008
Windstream	$100.00	$127.83	$125.61	$97.17
S&P 500	$100.00	$115.92	$122.28	$77.04
S&P Telecom[1]	$100.00	$123.96	$138.69	$96.41

(1) S&P Telecom Index includes: AMT, T, CTL, EQ, FTR, Q, ,S, VZ, WIN

The graph and table above provides the cumulative change of $100.00 invested on July 18, 2006, including reinvestment of dividends, for the periods indicated.

The foregoing performance graphs contained in Item 5 shall not be deemed to be soliciting material or be filed with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

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Windstream Corporation

Form 10-K, Part II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Under the Company s stocked-based compensation plans, Windstream may issue restricted stock and other equity securities to directors, officers and other key employees. The maximum number of shares available for issuance under the Windstream 2006 Equity Incentive Plan is 10.0 million shares.

The following table sets forth information about Windstream s equity compensation plans as of February 12, 2009:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights [a]	Weighted-average exercise price of outstanding options, warrants and rights [b]	Number of securities remaining available for future issuance under equity compensation plans [c] (excluding securities reflected in column [a])
Equity compensation plans not approved by security holders	-	-	-
Equity compensation plans approved by security holders	-	-	3,554,111 (1)
Total	-	-	3,554,111

(1) The Windstream Corporation 2006 Equity Incentive Plan.

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Windstream Corporation

Form 10-K, Part II

Item 6. Selected Financial Data

For information pertaining to Selected Financial Data of Windstream, refer to pages F-33 through F-34 of the Financial Supplement, which is incorporated by reference herein.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

For information pertaining to Management s Discussion and Analysis of Financial Condition and Results of Operations of Windstream, refer to pages F-2 to F-32 of the Financial Supplement, which is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information pertaining to the Company s market risk disclosures, refer to pages F-26 through F-27 of the Financial Supplement, which is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

For information pertaining to Financial Statements and Supplementary Data of Windstream, refer to pages F-35 to F-87 of the Financial Supplement, which is incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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Windstream Corporation

Form 10-K, Part II

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.
The term disclosure controls and procedures (defined in Exchange Act Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including the company s principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. Windstream s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this annual report (the Evaluation Date). Based on that evaluation, Windstream s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such disclosure controls and procedures were effective.

(b) Management s report on internal control over financial reporting.
Management s Report on Internal Control Over Financial Reporting, which appears on page F-36 of the Financial Supplement, is incorporated by reference herein.

(c) Changes in internal control over financial reporting.
The term internal control over financial reporting (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Windstream s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated any changes in the Company s internal control over financial reporting that occurred during the period covered by this annual report, and they have concluded that there were no changes to Windstream s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Windstream s internal control over financial reporting.

Item 9B. Other Information

No reportable information under this item.

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Windstream Corporation

Form 10-K, Part III

Item 10. Directors, Executive Officers, and Corporate Governance

For information pertaining to Directors of Windstream Corporation refer to Proposal No. 1 Election of Directors in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the audit committee financial expert and corporate governance refer to Board and Board Committee Matters in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the Audit Committee, refer to Audit Committee Report in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which is incorporated herein by reference.

Executive officers of the Company as of December 31, 2008, were as follows:

Name	Business Experience	Age
Jeffery R. Gardner	President and Chief Executive Officer of Windstream since July 17, 2006 and of Alltel Holding Corp. from December 2005 to July 2006; Executive Vice President and Chief Financial Officer of Alltel Corporation from 1998 to 2005.	49
Brent K. Whittington	Executive Vice President and Chief Financial Officer of Windstream since July 17, 2006 and of Alltel Holding Corp. from December 2005 to July 2006; Vice President of Finance and Accounting of Alltel Corporation from 2002 to 2005.	38
John P. Fletcher	Executive Vice President, General Counsel and Secretary of Windstream since July 17, 2006 and of Alltel Holding Corp. from February 2006 to July 2006; Partner at Kutak Rock LLP from 2000 to 2006.	43
Michael D. Rhoda	Senior Vice President Government Affairs of Windstream since July 17, 2006 and of Alltel Holding Corp. from December 2005 to July 2006; Various positions with Alltel Corporation from 2002 to 2005 including Vice President of Business Development, and Vice President - Wireline Regulatory & Wholesale Services.	48
Robert G. Clancy, Jr.	Senior Vice President and Treasurer of Windstream since July 17, 2006 and of Alltel Holding Corp. from December 2005 to July 2006; Various positions with Alltel Corporation from 1998 to 2005 including Vice President of Sales and Distribution, Vice President of Internal Audit, and Vice President of Investor Relations.	44
Susan Bradley	Senior Vice President Human Resources of Windstream since July 17, 2006 and of Alltel Holding Corp. from December 2005 to July 2006; Various positions with Alltel Corporation from 1990 to 2005 including Vice President Human Resources, Compensation and Staffing.	57
Richard J. Crane	Executive Vice President and Chief Marketing Officer of Windstream since May 2007, and Senior Vice President Marketing of Windstream from July 2006 to May 2007. Senior Vice President Marketing of Alltel Holding Corp. from December 2005 to July 2006. Various positions with Alltel Corporation from 2000 to 2005 including Vice President Southeast Region and Vice President Strategic Marketing.	54
Anthony W. Thomas	Controller of Windstream since July 17, 2006 and of Alltel Holding Corp. from June 2006 to July 2006; Various positions with Alltel Corporation from 1998 to 2006 including Vice President of Investor Relations and Vice President of Southeast Regional Finance.	37

Windstream has a code of ethics that applies to all employees and members of the Board of Directors. Windstream s code of ethics, referred to as the Working with Integrity guidelines, is posted on the Investor Relations page of the Company s web site (**www.windstream.com**) under corporate governance . Windstream will disclose in the corporate governance section of the Investor Relations page on its web site amendments and waivers with respect to the code of ethics that would otherwise be required to be disclosed under Item 5.05 of Form 8-K. Windstream will provide to any stockholder a copy of the foregoing information, without charge, upon written request to Senior Vice President-Investor Relations, Windstream Corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

For information regarding compliance with Section 16(a) of the Exchange Act, refer to Section 16 (a) Beneficial Ownership Reporting Compliance in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which is incorporated herein by reference.

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Windstream Corporation

Form 10-K, Part III

Item 11. Executive Compensation

For information pertaining to Executive Compensation, refer to Compensation Committee Report on Executive Compensation and Management Compensation in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information pertaining to beneficial ownership of Windstream securities and director independence, refer to Security Ownership of Directors and Executive Officers , Security Ownership of Certain Beneficial Owners and Board and Board Committee Matters in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information pertaining to Certain Relationships and Related Transactions, refer to Certain Transactions in Windstream s Proxy Statement for its 2009 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

For information pertaining to fees paid to the Company s principal accountant and the Audit Committee s pre-approval policy and procedures with respect to such fees, refer to Audit and Non-Audit Fees in Windstream s Proxy Statement for its 2009 Meeting of Stockholders, which is incorporated herein by reference.

Form 10 K, Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

1. Financial Statements:

The following Consolidated Financial Statements of Windstream Corporation are included in the Financial Supplement, which is incorporated by reference herein:

	Financial Supplement Page Number
Report of Independent Registered Public Accounting Firm	F-37
Consolidated Statements of Income - for the years ended December 31, 2008, 2007 and 2006	F-38
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-39
Consolidated Statements of Cash Flows - for the years ended December 31, 2008, 2007 and 2006	F-40
	F-41

	Consolidated Statements of Shareholders Equity - for the years ended December 31, 2008, 2007 and 2006	
	Notes to Consolidated Financial Statements	F-42 F-87
		Form 10-K
2.	Financial Statement Schedules:	Page Number
	Report of Independent Registered Public Accounting Firm	32
	Schedule II. Valuation and Qualifying Accounts	33-34
3.	Exhibits:	
	Exhibit Index	35-38

Separate condensed financial statements of Windstream Corporation have been omitted since the Company meets the tests set forth in Regulation S-X Rule 4-08(e)(3). All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Windstream Corporation

Registrant

By /s/ Jeffery R. Gardner Date: February 19, 2009
Jeffery R. Gardner, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Brent K. Whittington Date: February 19, 2009
Brent K. Whittington, Executive Vice President
Chief Financial Officer
(Principal Financial Officer)

By /s/ Jeffery R. Gardner
Jeffery R. Gardner, President, Chief Executive Officer and Director

By /s/ Anthony W. Thomas
Anthony W. Thomas, Controller
(Principal Accounting Officer)

By /s/ Francis X. Frantz
Francis X. Frantz, Chairman and Director

*Dennis E. Foster, Lead Director

*Carol B. Armitage, Director

*Samuel E. Beall, III, Director

*Jeffrey T. Hinson, Director

*Judy K. Jones, Director

*William A. Montgomery, Director

*Frank E. Reed, Director

By /s/ John P. Fletcher
* (John P. Fletcher,
Attorney-in-fact)
Date: February 19, 2009

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Report of Independent Registered Public Accounting Firm on

Financial Statement Schedule

To the Board of Directors and Shareholders of Windstream Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 19, 2009 appearing in this 2008 Annual Report on Form 10-K of the Company also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Little Rock, Arkansas
February 19, 2009

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WINDSTREAM CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(Dollars in Millions)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts, customers and others:					
For the years ended:					
December 31, 2008	$ 13.1	$ 38.7	$ -	$ 35.5 (A)	$ 16.3
December 31, 2007	$ 10.4	$ 28.5	$ -	$ 25.6 (A)	$ 13.1
December 31, 2006	$ 9.7	$ 18.4	$ -	$ 17.7 (A)	$ 10.4
Valuation allowance for deferred tax assets:					
For the years ended:					
December 31, 2008	$ 11.3	$ -	$ -	$ 8.7 (B)	$ 2.6
December 31, 2007	$ 10.6	$ -	$ 3.5 (C)	$ 2.8 (D)	$ 11.3
December 31, 2006	$ -	$ -	$ 10.6 (E)	$ -	$ 10.6
Accrued liabilities related to merger, integration and restructuring charges:					
For the years ended:					
December 31, 2008	$ 14.7	$ 10.1 (F)	$ -	$ 16.5 (G)	$ 8.3
December 31, 2007	$ 28.9	$ 13.9 (H)	$ 25.3 (I)	$ 53.4 (J)	$ 14.7
December 31, 2006	$ -	$ 48.6 (K)	$ 17.8 (L)	$ 37.5 (M)	$ 28.9

Notes:

(A) Accounts charged off net of recoveries of amounts previously written off.

(B) Net valuation allowance adjustment through goodwill in 2008 primarily due to a purchase accounting adjustment for a revision in the limitation associated with the federal net operating loss carry forward acquired from the merger with Valor.

(C) Valuation allowance for deferred taxes was established through goodwill related to expected realization of net operating losses assumed from the acquisition of CTC.

(D) Adjustment through goodwill to the net operating loss carry forwards acquired from Valor.

(E) Valuation allowance for deferred taxes was established through goodwill related to expected realization of net operating losses assumed from Valor in the merger.

(F) The Company incurred merger and integration costs of $6.2 million related to the acquisition of CTC wireline operations during the twelve months ended December 31, 2008, primarily related to system conversion costs. During the second quarter of 2008, the Company determined not to use certain software acquired in the CTC acquisition; therefore, we recognized a $5.4 million non-cash

charge to abandon this asset, of which $0.8 million was related to the wireless business. Additionally in 2008, the Company incurred $8.5 million in restructuring costs primarily related to the announced workforce reduction in the fourth quarter of 2008 to control expenses in a challenging economy and to realign certain information technology, network operations and business sales functions.

(G) Includes cash outlays of $5.0 million for merger, integration and restructuring costs charged to expense, and $11.5 million in cash outlays for CTC and Valor transaction costs charged to goodwill.

(H) During 2007, the Company incurred total merger and integration costs of $5.6 million to complete the acquisition of CTC, and incurred $3.7 million in transaction costs to complete the split off of its directory publishing business. Additionally in 2007, the Company incurred $4.6 million in restructuring costs from a workforce reduction plan and the announced realignment of its business operations and customer service functions intended to improve overall support to its customers.

(I) CTC transaction charges included in goodwill in the amount of $25.3 million consisted primarily of capitalized transaction and employee-related costs.

(J) Includes cash outlays of $32.4 million for merger, integration and restructuring costs charged to expense, and $21.0 million in cash outlays for CTC and Valor transaction costs charged to goodwill.

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(K) During 2006, the Company incurred $26.8 million of incremental costs, principally consisting of rebranding costs, consulting and legal fees, and system conversion costs related to the spin off of the Alltel wireline telecommunication business and merger with Valor. These costs do not include a $0.8 million non-cash charge related to the accelerated vesting of employees Alltel restricted stock, which was recorded against paid-in capital. Windstream also incurred $10.6 million in restructuring charges, which consisted of severance and employee benefit costs related to a workforce reduction, and $11.2 million in investment banker, audit and legal fees associated with the announced split off of its directory publishing business.

(L) Valor integration charges included in goodwill in the amount of $17.8 million consisted primarily of severance and lease termination penalties.

(M) Includes cash outlays of $28.4 million for merger, integration and restructuring costs charged to expense, and $9.1 million in cash outlays for Valor integration charged to goodwill.

See Note 10, Merger, Integration and Restructuring Charges , to the consolidated financial statements on pages F-71 to F-72 in the Financial Supplement, which is incorporated herein by reference, for additional information regarding the merger, integration and restructuring charges recorded by the Company in 2008, 2007 and 2006.

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EXHIBIT INDEX

Number and Name		
2.1	Amended and Restated Share Exchange Agreement, dated as of August 16, 2007, by and among Windstream Corporation, Welsh, Carson, Anderson & Stowe VIII, L.P., Welsh, Carson, Anderson & Stowe IX, L.P., WCAS Capital Partners III, L.P., Regatta Holding I, L.P., Regatta Holding II, L.P. and Regatta Holding III, L.P.	*
3.1	Amended and Restated Certificate of Incorporation of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to Amendment No. 3 to the Corporation s Registration Statement on Form S-4 filed May 23, 2006).	*
3.2	Amended and Restated Bylaws of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to the Corporation s Current Report on Form 8-K dated February 6, 2009).	*
4.1	Indenture dated July 17, 2006 among Windstream Corporation (as successor to Alltel Holding Corp.), certain subsidiaries of Windstream as guarantors thereto and SunTrust Bank, as trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
4.2	First Supplemental Indenture dated as of July 17, 2006 among Windstream Corporation, certain subsidiaries of Windstream as guarantors thereto and SunTrust Bank, as trustee (incorporated herein by reference to Exhibit 4.4 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
4.3	Second Supplemental Indenture dated August 31, 2007 to the Indenture dated as of July 17, 2006 between the Company, certain of its subsidiaries named therein, as guarantors, and U.S. Bank National Association (as successor to SunTrust Bank), as trustee (incorporated herein by reference to Exhibit 4.2 to the Corporation s Current Report on Form 8-K dated August 31, 2007).	*
4.4	Third Supplemental Indenture dated December 12, 2007 to the Indenture dated as of July 17, 2006 between the Company, certain of its subsidiaries named therein, as guarantors, and U.S. Bank National Association (as successor to SunTrust Bank), as trustee.	*
4.5	Indenture dated February 27, 2007 among Windstream Corporation, certain subsidiaries of Windstream as guarantors thereto and U.S. Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated March 1, 2007).	*
4.6	First Supplemental Indenture dated August 31, 2007 to the Indenture dated as of February 27, 2007 between the Company, certain of its subsidiaries named therein, as guarantors, and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.3 to the Corporation s Current Report on Form 8-K dated August 31, 2007).	*
4.7	Second Supplemental Indenture dated December 12, 2007 to the Indenture dated as of February 27, 2007 between the Company, certain of its subsidiaries named therein, as guarantors, and U.S. Bank National Association, as trustee.	*
4.8	Indenture, dated February 14, 2005, among Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp., as Issuers, Valor Communications Group, Inc. and the other guarantors thereto, and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.1 to Quarterly Report of Valor Communications Group, Inc. on Form 10-Q for the quarter ended March 31, 2005).	*

* Incorporated herein by reference as indicated.
(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name		
4.9	First Supplemental Indenture dated as of July 17, 2006 among Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp., as Issuers, certain subsidiaries of Windstream as guarantors thereto and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.6 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
4.10	Second Supplemental Indenture dated August 31, 2007 to the Indenture dated as of February 14, 2005 among Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp., as Issuers, certain subsidiaries of Windstream, as guarantors, and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated August 31, 2007).	*
4.11	Third Supplemental Indenture dated December 12, 2007 to the Indenture dated as of February 14, 2005 among Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp., as Issuers, certain subsidiaries of Windstream, as guarantors, and The Bank of New York, as trustee.	*
4.12	Form of 8 1/8% Senior Note due 2013 of Windstream Corporation (as successor to Alltel Holding Corp.) (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
4.13	Form of 8 5/8% Senior Note due 2016 of Windstream Corporation (as successor to Alltel Holding Corp.) (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
4.14	Form of 7.0% Senior Note due 2019 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated March 1, 2007).	*
4.15	Form of 7 3/4% Senior Note due 2015 of Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp. (incorporated herein by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q of Valor Communications Group, Inc for the quarter ended March 31, 2005).	*
10.1	Amended and Restated Credit Agreement dated February 27, 2007 among Windstream Corporation, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Bank of America, N.A., Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, and J.P. Morgan Securities Inc., as Sole Bookrunner and Lead Arranger (incorporated herein by reference to Exhibit 10.1 to Windstream s Current Report on Form 8-K dated March 1, 2007).	*
10.2	Amendment No. 1, dated November 15, 2007, to the Amended and Restated Credit Agreement dated February 27, 2007 among Windstream Corporation, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Bank of America, N.A., Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents.	*
10.3	Amendment No. 2, dated September 30, 2007, to the Amended and Restated Credit Agreement dated February 27, 2007 among Windstream Corporation, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Bank of America, N.A., Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents.	*

* Incorporated herein by reference as indicated.
(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name		
10.4	Director Compensation Program (incorporated by reference to Exhibit 10.6 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006).	*
10.5	Form of Restricted Shares Agreement (Non-Employee Directors) entered into between Windstream Corporation and non-employee directors (incorporated herein by reference to Exhibit 10.3 to the Corporation s Current Report on Form 8-K dated February 6, 2007).	*
10.6	Windstream Corporation Performance Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.8 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
10.7	Amendment No. 1 to Windstream Corporation Performance Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation s Current Report on Form 8-K dated January 4, 2008)	*
10.8	Windstream Corporation Benefit Restoration Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.2 to the Corporation s Current Report on Form 8-K dated January 4, 2008).	*
10.9	Windstream Corporation 2007 Deferred Compensation Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.1 to the Corporation s Current Report on Form 8-K dated January 4, 2008).	*
10.10	Form of Indemnification Agreement entered into between Windstream Corporation and its directors and executive officers (incorporated herein by reference to Exhibit 10.13 to the Corporation s Current Report on Form 8-K dated July 17, 2006).	*
10.11	Form of Restricted Shares Agreement (Officers: Restricted Stock) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation s Current Report on Form 8-K dated February 6, 2007).	*
10.12	Form of Restricted Shares Agreement (Officers: Performance-Based Restricted Stock) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.2 to the Corporation s Current Report on Form 8-K dated February 6, 2007).	*
10.13	Amended and Restated Employment Agreement, dated as of January 1, 2008, between Windstream Corporation and Jeffery R. Gardner (incorporated herein by reference to Exhibit 10.6 to the Corporation s Current Report on Form 8-K dated January 4, 2008).	*
10.14	Form of Amended and Restated Change-In-Control Agreement, dated as of January 1, 2008, entered into between the Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.5 to the Corporation s Current Report on Form 8-K dated January 4, 2008).	*
10.15	Letter Agreement, dated as of November 7, 2006, between the Windstream Corporation and Francis X. Frantz (incorporated herein by reference to Exhibit 10.3 to the Corporation s Current Report on Form 8-K dated November 13, 2006).	*
10.16	Windstream 2006 Equity Incentive Plan (incorporated by reference to Annex G to the Corporation s Proxy Statement/Prospectus-Information Statement dated May 26, 2006)	*

* Incorporated herein by reference as indicated.
(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name		
10.17	Amendment No. 1 to Windstream 2006 Equity Incentive plan, dated January 1, 2008 (incorporated by reference to Exhibit 10.3 to the Corporation s Current Report on Form 8-K dated January 4, 2008)	*
14.1	Code of Ethics (Working with Integrity) of Windstream Corporation	(a)
21	Listing of Subsidiaries.	(a)
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.	(a)
24	Power of Attorney.	(a)
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(a)
31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(a)
32(a)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(a)
32(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(a)

* Incorporated herein by reference as indicated.
(a) Filed herewith.

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WINDSTREAM CORPORATION

FINANCIAL SUPPLEMENT

TO ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2008

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WINDSTREAM CORPORATION

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of Presentation

The following is a discussion and analysis of the historical results of operations and financial condition of Windstream Corporation (Windstream , we , or the Company). Windstream was formed on July 17, 2006 through the spin off of Alltel Holding Corp., the holding company for the wireline, product distribution and other operating subsidiaries of Alltel Corporation (Alltel), in a pro rata distribution to Alltel shareholders. Results of operations prior to the spin off are for Alltel Holding Corp. This discussion should be read in conjunction with the Company s consolidated financial statements, including the related notes thereto, on pages F-38 to F-87 of this Financial Supplement.

Management believes that the assumptions underlying the Company s financial statements are reasonable. These financial statements, however, may not be necessarily indicative of future results of operations, financial position or cash flows, and may not reflect what the Company s results of operations, financial position and cash flows would have been had it been a separate, stand-alone company during the periods prior to the spin off from Alltel. Certain statements set forth below under this caption constitute forward-looking statements. See Forward-Looking Statements at the end of this discussion for additional factors relating to such statements, and see Risk Factors in Item 1A of Part I of this annual report for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

Executive Summary of 2008 Results

Windstream is a customer-focused telecommunications company that provides local telephone, high-speed Internet, long distance, network access, and video services to approximately 3.0 million customers primarily located in rural areas in 16 states. Among the highlights in 2008:

- In the twelve month period ended December 31, 2008, the Company added approximately 107,000 net high-speed Internet customers in its wireline business, increasing its high-speed Internet customer base to over 978,000. During the same period, the Company lost approximately 165,000 access lines in its wireline business, or approximately 5.2 percent of its total access lines.

- Revenues and sales decreased $74.4 million, as compared to 2007, primarily due to the split off of the Company s directory publishing business in the fourth quarter of 2007. Offsetting these decreases was a $98.6 million increase in revenues due to the acquisition of CT Communications, Inc. (CTC).

- Operating income decreased $17.5 million primarily due to the gain recognized in 2007 on the split off of the directory publishing business, partially offset by the acquisition of CTC, which accounted for an increase of $21.2 million, as well as the favorable effects of reduced depreciation rates discussed below.

- The Company generated cash flows from operations of $1,080.4 million for the twelve months ended December 31, 2008, which was used in part to fund capital expenditures of $317.5 million, pay $445.2 million in dividends to shareholders in 2008 and repurchase 16.0 million shares of common stock at a price of $200.3 million.

- Effective July 1, 2008 the Company converted the majority of its remaining interstate rate-of-return regulated operations to price-cap regulation. Price-cap regulation better aligns the Company s continued efforts to improve its cost structure for interstate wholesale services and allows high-speed Internet services to be deregulated.

During 2009, the Company will continue to face significant challenges resulting from competition in the telecommunications industry. In addressing competition, the Company will continue to focus its efforts on improving customer service, increasing high-speed Internet penetration and aggressively marketing and bundling its service offerings.

Business Trends

The following risk factors and material non-recurring events and transactions could cause the Company s reported financial information to be not necessarily indicative of future operating results or future financial conditions.

As discussed in detail below, the Company s revenues and sales and operating income in future periods will continue to be positively impacted by two recent acquisitions. The Company added approximately 501,000 access lines through the acquisition of Valor Communications Group Inc. (Valor) in the third quarter of 2006, and approximately 132,000 access lines through the acquisition of CTC in the third quarter of 2007.

The split off of the Company s directory publishing business in the fourth quarter of 2007 resulted in a reduction in wireline segment revenues due to the elimination of royalties received on sales of advertising in Windstream telephone directories. The Company agreed to forego these royalty payments for a period of 50 years as part of the split off agreement, and received $506.7 million in up-front consideration for the publishing business (see Note 3). The split off of the directory publishing business also resulted in the loss of directory publishing revenues, as discussed below in Other Operations .

On November 21, 2008, Windstream completed the sale of its wireless business to AT&T Mobility II, LLC for approximately $56.7 million and have reported the related results as discontinued operations (see Note 16).

Wireline revenues and sales are expected to continue to be adversely impacted by future declines in access lines due to increasing competition in the telecommunications industry from cable television providers, wireless communications providers, and providers using other emerging technologies.

The Company is also exposed to regulatory uncertainty in state and federal Universal Service Fund (USF) programs and inter-carrier compensation. Pending regulatory proceedings and other legislative actions could materially reduce the Company s inter-carrier compensation and/or USF revenues.

The fair market value of the Company s pension investments declined 34.7 percent in 2008 from approximately $1,001.0 million to $654.0 million, due to benefit payments as well as declines in the market value of assets held. As a result, we expect the Company will recognize non-cash pension expense of $90.4 million in 2009 as compared to a benefit of $1.6 million in 2008. No contributions to the plan are expected in 2009, but in 2010 we will be required to contribute approximately $24.0 million, net of tax benefit.

The Company recognized significant increases in interest expense following the spin off from Alltel and merger with Valor in the third quarter of 2006 pursuant to the issuance of debt used to finance the transactions.

The Company has incurred significant non-recurring transaction-related expenses in 2008, 2007 and 2006 as discussed further below in Merger and Integration Costs .

Economic trends in the markets served by the Company could generate increases in bad debt expense, accelerated access line losses and slower high-speed Internet customer growth.

The foregoing risk factors and material transactions, as well as other risks and events that could cause Windstream s reported financial information to be not necessarily indicative of future operating results or financial condition, are discussed in more detail under Risk Factors in Item 1A and in the notes to the consolidated financial statements.

STRATEGIC TRANSACTIONS

Spin off from Alltel

On July 17, 2006, Alltel completed the spin off of Alltel Holding Corp., its wireline telecommunications division and related businesses, and the subsequent merger of that business with Valor (as further discussed below under Acquisitions). Pursuant to the spin off, Alltel contributed all of its wireline assets to the newly formed company in exchange for: (i) newly issued Company common stock, (ii) the payment of a special dividend to Alltel in the amount of $2.3 billion and (iii) the distribution by the Company to Alltel of certain debt securities (the Contribution). In connection with the Contribution, the Company assumed approximately $261.0 million of long-term debt that had been issued by its wireline subsidiaries. Following the Contribution, Alltel distributed 100 percent of the common shares of the Company to its shareholders as a tax-free dividend. Alltel also exchanged the Company s securities for certain Alltel debt held by certain investment banking firms. The investment banking firms subsequently sold the Company s securities in the private placement market. On November 28, 2006, the Company replaced these securities with registered senior notes in the same amount with the same maturity.

For periods prior to the spin off from Alltel, the Company s consolidated financial statements were derived from the accounting records of Alltel, principally representing Alltel s historical wireline, product distribution and other segments. The Company has used the historical results of operations, and the historical basis of assets and liabilities of the subsidiaries it owns after completion of the spin off, to prepare the consolidated financial statements for periods prior to the spin off. For the periods through July 17, 2006, certain services such as information technology, accounting, legal, tax, marketing, engineering, and risk and treasury management were provided to the Company by Alltel. These expenses were allocated based on actual direct costs incurred. Where specific identification of expenses was not practicable, the cost of such services was allocated based on the most relevant allocation method to the service

provided: either net sales of the Company as a percentage of net sales of Alltel, total assets of the Company as a percentage of total assets of Alltel, or headcount of the Company as a percentage of headcount of Alltel. Management of both the Company and Alltel considered these allocations to be a reasonable reflection of the utilization of services provided.

Acquisitions

Immediately after the consummation of the spin off, the Company merged with and into Valor, with Valor continuing as the surviving corporation and Alltel Holding Corp. serving as the accounting acquirer. The resulting company was renamed Windstream Corporation. As a result of the merger, all of the issued and outstanding shares of the Company s common stock were converted into the right to receive an aggregate number of shares of common stock of Valor. Valor issued in the aggregate approximately 403 million shares of its common stock to Alltel shareholders pursuant to the merger, or 1.0339267 shares of Valor common stock for each share of the Company s common stock outstanding as of the effective date of the merger. Upon completion of the merger, Alltel s shareholders owned approximately 85 percent of the outstanding equity interests of Windstream, and the shareholders of Valor owned the remaining approximately 15 percent of such equity interests. In addition, Windstream assumed Valor debt valued at $1,195.6 million.

On August 31, 2007, Windstream completed the acquisition of CTC in a transaction valued at $584.3 million. Under the terms of the agreement the shareholders of CTC received $31.50 in cash for each of their shares with a total cash payout of $652.2 million. The transaction value also includes a payment of $37.5 million made by Windstream to satisfy CTC s debt obligations, offset by $105.4 million in cash and cash equivalents held by CTC. Including $25.3 million in severance and other transaction-related expenses, the total net consideration paid in the acquisition was $609.6 million. Windstream financed the transaction using the cash acquired from CTC, $250.0 million in borrowings available under its revolving line of credit, and additional cash on hand. The accompanying financial statements reflect the combined operations of Windstream and CTC following the acquisition.

The premium paid by Windstream in this transaction is attributable to the strategic importance of the CTC acquisition. The access lines and high-speed Internet customers added through the acquisition will significantly increase Windstream s presence in North Carolina and provide the opportunity to generate significant operating efficiencies with contiguous Windstream markets. The transaction has increased Windstream s position in these markets where it can leverage its brand and bring significant value to customers by offering competitive bundled services.

Disposition

On November 21, 2008, Windstream completed the sale of its wireless business to AT&T Mobility II, LLC for approximately $56.7 million. Windstream recognized a pre-tax loss of $21.3 million to reduce the carrying value of the assets sold to the transaction price less costs to sell. The completion of the transaction allowed management to divest of a non-core asset. The transaction includes approximately 52,000 wireless customers, spectrum licenses and cell sites covering a four-county area of North Carolina with a population of approximately 450,000, and six retail locations.

On November 30, 2007, Windstream completed the split off of its directory publishing business (the publishing business) in a tax-free transaction with entities affiliated with Welsh, Carson, Anderson & Stowe (WCAS), a private equity investment firm and Windstream shareholder.

To facilitate the split off transaction, Windstream contributed the publishing business to a newly formed subsidiary (Holdings). Holdings paid a special cash dividend to Windstream in an amount of $40.0 million, issued additional shares of Holdings common stock to Windstream, and distributed to Windstream certain debt securities of Holdings having an aggregate principal amount of $210.5 million. Windstream exchanged the Holdings debt securities for outstanding Windstream debt securities with an equivalent fair market value, and then retired those securities. Windstream used the proceeds of the special dividend to repurchase approximately three million shares of Windstream common stock during the fourth quarter of 2007. Windstream exchanged all of the outstanding equity of Holdings (the Holdings Shares) for an aggregate of 19,574,422 shares of Windstream common stock (the Exchanged WIN Shares) owned by WCAS, which were then retired. Based on the price of Windstream common stock of $12.95 at November 30, 2007, the Exchanged WIN Shares had a value of $253.5 million. The total value of the transaction was $506.7 million, including an adjustment for net working capital of approximately $2.7 million. As a result of completing this transaction, Windstream recorded a gain on the sale of its publishing business of $451.3 million in the fourth quarter of 2007, after substantially all performance obligations had been fulfilled.

In connection with the consummation of the transaction, the parties and their affiliates entered into a publishing agreement whereby Windstream granted Local Insight Yellow Pages, Inc. (Local Insight Yellow Pages), the successor to the Windstream subsidiary that once operated the publishing business, an exclusive license to publish Windstream directories in each of its markets other than the newly acquired CTC markets. Local Insight Yellow Pages

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will, at no charge to Windstream or its affiliates or subscribers, publish directories with respect to each Windstream service area covered under the agreement in which Windstream or its affiliates are required to publish such directories by applicable law, tariff or contract. Subject to the termination provisions in the agreement, the publishing agreement will remain in effect for a term of fifty years. As part of this agreement, Windstream agreed to forego future royalty payments from Local Insight Yellow Pages on advertising revenues generated from covered directories for the duration of the publishing agreement. The wireline segment recognized approximately $56.0 million in royalty revenues during the eleven months ended November 30, 2007.

ORGANIZATION AND RESULTS OF OPERATIONS

The Company is organized based on the products and services that it offers. Under this organizational structure, its operations consist of its wireline and product distribution segments, and other operations. The Company s wireline segment consists of its retail and wholesale telecommunications services, including local telephone, high-speed Internet, long distance, network access and video services. The product distribution segment consists of warehouse and logistics operations, and it procures and sells telecommunications infrastructure equipment to both affiliated and non-affiliated businesses. The Company s other operations include results from the Company s directory publishing and telecommunications information services businesses. Effective with the completion of the split off of its directory publishing business, as discussed above, the Company s publishing operations have ceased. Following the merger with Valor, telecommunications information services are no longer offered as Valor was the only external customer. As a result of completing the sale of the wireless transaction, operating results of the wireless business have been separately presented as discontinued operations for all periods.

Consolidated Results of Operations

(Millions)	2008	2007