

WINDSTREAM CORP  
Form S-4/A  
September 15, 2011  
Table of Contents

Index to Financial Statements

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 15, 2011

REGISTRATION NO. 333-176565

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**AMENDMENT NO. 1**  
**TO**  
**FORM S-4**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

**WINDSTREAM CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: WINDSTREAM CORP - Form S-4/A

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>4813</b> (Primary Standard Industrial Classification Code Number) 4001 Rodney Parham Road Little Rock, Arkansas 72212-2442 (501) 748-7000	<b>20-0792300</b> (I.R.S. Employer Identification Number)
--	---	---

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**John P. Fletcher, Esq.**

**Executive Vice President and General Counsel**

**Windstream Corporation**

**4001 Rodney Parham Road**

**Little Rock, Arkansas 72212-2442**

**Tel. (501) 748-7000**

**Fax (501) 748-7400**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

**Robert B. Pincus, Esq.**

**Mary K. O'Connell, Esq.**

**Richard J. Parrino, Esq.**

**Steven J. Daniels, Esq.**

**Executive Vice President and General Counsel**

**Joseph E. Gilligan, Esq.**

**Skadden, Arps, Slate, Meagher &**

**PAETEC Holding Corp.**

**Paul D. Manca, Esq.**

Edgar Filing: WINDSTREAM CORP - Form S-4/A

<b>Flom LLP</b>	<b>One PAETEC Plaza</b>	<b>Hogan Lovells US LLP</b>
<b>One Rodney Square, 7<sup>th</sup> Floor</b>	<b>600 Willowbrook Office Park</b>	<b>555 Thirteenth Street, NW</b>
<b>Wilmington, Delaware 19801</b>	<b>Fairport, New York 14450</b>	<b>Washington, D.C. 20004</b>
<b>Telephone: (302) 651-3000</b>	<b>Telephone: (585) 340-2500</b>	<b>Telephone: (202) 637-5600</b>
<b>Fax: (302) 651-3001</b>	<b>Fax: (585) 340-2563</b>	<b>Fax: (202) 637-5910</b>

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement is declared effective and all other conditions to the merger as described in the enclosed proxy statement/prospectus are satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

*The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.*

**Table of Contents**

**Index to Financial Statements**

**THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WINDSTREAM CORPORATION MAY NOT DISTRIBUTE AND ISSUE THE SHARES OF WINDSTREAM CORPORATION COMMON STOCK BEING REGISTERED PURSUANT TO THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, OF WHICH THIS DOCUMENT IS A PART, UNTIL THE REGISTRATION STATEMENT IS DECLARED EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND NEITHER WINDSTREAM CORPORATION NOR PAETEC HOLDING CORP. IS SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER, SOLICITATION OR SALE IS NOT PERMITTED.**

**SUBJECT TO COMPLETION**

**SEPTEMBER 15, 2011**

**PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT**

Dear fellow stockholders:

The board of directors of PAETEC Holding Corp. ( "PAETEC" ) has unanimously approved and adopted an agreement and plan of merger, dated as of July 31, 2011, among Windstream Corporation ( "Windstream" ), Peach Merger Sub, Inc., a wholly-owned subsidiary of Windstream ( "Merger Sub" ), and PAETEC pursuant to which Merger Sub will merge with and into PAETEC. As a result of the merger, Windstream will acquire PAETEC. We are sending you the accompanying proxy statement/prospectus to ask you to attend a special meeting of the stockholders of PAETEC or to vote your shares by proxy on the proposal to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement. Information about the PAETEC special meeting is contained in the proxy statement/prospectus.

If the merger is completed, at the effective time of the merger, each outstanding share of PAETEC common stock will be converted into the right to receive 0.460 shares of Windstream common stock. Windstream common stock is listed on the NASDAQ Global Select Market under the trading symbol WIN. Based on the closing price of Windstream common stock on September 14, 2011, the latest practicable trading date before the filing of the accompanying proxy statement/prospectus, the 0.460 shares of Windstream common stock represented approximately \$5.85 in value for each share of PAETEC common stock. Because the exchange ratio of the merger consideration will not be adjusted for changes in the market price of Windstream common stock, the value of the merger consideration at the time of the merger may be significantly different. Based on the number of shares of PAETEC common stock outstanding as of September 12, 2011, the aggregate number of shares of Windstream common stock to be issued by Windstream in the merger is estimated to be approximately 67,227,000 shares.

**Your board of directors has unanimously determined that the merger agreement and the merger are advisable, fair to and in the best interests of PAETEC and its stockholders and unanimously recommends that you vote FOR adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.** The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of PAETEC common stock. No vote of Windstream stockholders is required to complete the merger.

The accompanying proxy statement/prospectus provides you with detailed information about Windstream, PAETEC and the proposed merger. You may obtain additional information about Windstream from documents Windstream has filed with the Securities and Exchange Commission as described under "Where You Can Find More Information" on page 203 of the proxy statement/prospectus. We strongly encourage you to read the proxy statement/prospectus carefully. **Before deciding how to vote on the merger agreement, you should consider the Risk Factors beginning on page 29 of the proxy statement/prospectus.**

Very truly yours,

Arunas A. Chesonis

Chairman, President and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of common stock to be issued by Windstream under the proxy statement/prospectus or passed upon the adequacy or accuracy of the proxy**

**statement/prospectus. Any representation to the contrary is a criminal offense.**

The proxy statement/prospectus is dated September , 2011, and is being first mailed to stockholders of PAETEC on or about September , 2011.

**Table of Contents**

**Index to Financial Statements**

**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates by reference important business and financial information about Windstream Corporation from documents previously filed with the Securities and Exchange Commission that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing, by telephone or by e-mail using the following contact information:

**Windstream Corporation**

Investor Relations

4001 Rodney Parham Road

Little Rock, Arkansas 72212

(866) 320-7922

windstream.investor.relations@windstream.com

**If you would like to request any documents, please do so by October 20, 2011 in order to receive them before the special meeting.**

See **Where You Can Find More Information** on page 203 for more information about the documents referred to in this proxy statement/prospectus.

In addition, if you have questions about the merger, you may contact PAETEC's proxy solicitor, Morrow & Co., LLC, at (203) 658-9400 or toll free at (800) 276-3011.

**ABOUT THIS DOCUMENT**

This proxy statement/prospectus forms a part of a registration statement on Form S-4 (Registration No. 333-176565) filed by Windstream with the Securities and Exchange Commission. It constitutes a prospectus of Windstream under Section 5 of the Securities Act of 1933, as amended, and the rules thereunder, with respect to the shares of Windstream common stock to be issued to PAETEC stockholders in the merger. In addition, it constitutes a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules thereunder, and a notice of meeting with respect to the PAETEC special meeting of stockholders at which PAETEC stockholders will consider and vote on the proposal to adopt the merger agreement and the other proposals described in this proxy statement/prospectus.

You should rely only on the information contained in or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in or incorporated by reference into this document. This document is dated September 14, 2011. You should not assume that the information contained in this document is accurate as of any date other than that date. You should not assume that the information incorporated by reference into this document is accurate as of any date other than the date of the incorporated document containing such information. Neither the mailing of this document to PAETEC stockholders nor the issuance by Windstream of common stock in connection with the merger will create any implication to the contrary.

INFORMATION INCLUDED IN THE PROXY STATEMENT/PROSPECTUS REGARDING WINDSTREAM AND PAETEC WAS PROVIDED BY WINDSTREAM AND PAETEC, RESPECTIVELY. NEITHER COMPANY WARRANTS THE ACCURACY OF INFORMATION PROVIDED BY THE OTHER COMPANY.

Table of Contents

Index to Financial Statements

# PAETEC Holding Corp.

One PAETEC Plaza

600 Willowbrook Office Park

Fairport, New York 14450

## NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON October 27, 2011

TO THE STOCKHOLDERS OF PAETEC HOLDING CORP.:

Notice is hereby given that a special meeting of stockholders of PAETEC Holding Corp. will be held at the Hilton Manhattan East, 304 East 42nd Street, New York, New York 10017, on October 27, 2011, at 10:00 a.m., local time, to consider and act upon the following matters:

1. to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of July 31, 2011 and as it may be amended (referred to in the accompanying proxy statement/prospectus as the merger agreement), by and among Windstream Corporation, a Delaware corporation (Windstream), Peach Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Windstream (Merger Sub), and PAETEC Holding Corp., a Delaware corporation (PAETEC), pursuant to which Merger Sub will merge with and into PAETEC (referred to in the accompanying proxy statement/prospectus as the merger), after which PAETEC will survive the transaction as a wholly-owned subsidiary of Windstream and the separate corporate existence of Merger Sub will cease, and to approve the merger and the other transactions contemplated by the merger agreement;
2. to cast an advisory (nonbinding) vote to approve compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and
3. to consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of proposal 1.

PAETEC's board of directors has fixed the close of business on September 12, 2011 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting or any adjournments, postponements or continuations thereof.

The merger agreement and the compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger, which is commonly referred to as golden parachute compensation, are more fully described in the accompanying proxy statement/prospectus, which we encourage you to read carefully in its entirety before voting. A copy of the merger agreement is included as Annex A to the accompanying proxy statement/prospectus. The accompanying proxy statement/prospectus is a part of this notice.

You are cordially invited to attend the special meeting. Your proxy is being solicited by PAETEC's board of directors. **Even if you plan to attend the special meeting, we urge you to submit a valid proxy promptly.** If your shares of PAETEC common stock are registered in your own name, you may submit your proxy (1) by filling out and signing the proxy card, and then mailing your signed proxy card in the enclosed postage-paid reply envelope, (2) by authorizing the voting of your shares over the Internet at [www.proxyvote.com](http://www.proxyvote.com), or (3) by calling 1-800-690-6903 and by following the instructions on the enclosed proxy card. If your shares are held in street name, you should follow the directions your broker or other intermediary provides.

**Your vote is very important. We cannot complete the merger unless the merger agreement is adopted by the affirmative vote of the holders of a majority of our outstanding common stock. Accordingly, we urge you to review the enclosed materials and request that you complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying postage-paid reply envelope or submit your proxy over the Internet or by telephone.**

**Table of Contents**

**Index to Financial Statements**

Our board of directors unanimously recommends that you vote **FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement as described in proposal 1, **FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation described in proposal 2 and **FOR** approval of one or more adjournments of the special meeting in accordance with proposal 3. Adoption of the merger agreement and approval of the golden parachute compensation are subject to separate votes by PAETEC stockholders, and approval of the golden parachute compensation is not a condition to completion of the merger. If you fail to vote, if you fail to authorize your broker to vote on your behalf, or if you abstain from voting, the effect will be the same as if you had voted against the approval of the merger proposal.

By Order of the Board of Directors,

Mary K. O'Connell

Executive Vice President, General Counsel and

Secretary

Fairport, New York

September 1, 2011



**Table of Contents**

**Index to Financial Statements**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>QUESTIONS AND ANSWERS ABOUT THE PAETEC SPECIAL MEETING PROPOSALS</u></b>	<b>1</b>
<b><u>SUMMARY</u></b>	<b>5</b>
<u>The Companies</u>	5
<u>The Merger</u>	6
<u>The Merger Agreement</u>	6
<u>Merger Consideration</u>	6
<u>Stock Options, Restricted Stock Units and Warrants</u>	6
<u>Record Date</u>	6
<u>The Special Meeting</u>	7
<u>Required Vote</u>	7
<u>PAETEC Security Ownership of Management and Certain Beneficial Owners</u>	7
<u>Voting Agreement</u>	7
<u>Recommendation of the PAETEC Board: PAETEC's Reasons for the Merger</u>	8
<u>Opinion of Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated</u>	8
<u>Opinion of Deutsche Bank Securities Inc.</u>	8
<u>Opinion of Houlihan Lokey Financial Advisors, Inc.</u>	9
<u>Interests of PAETEC's Directors and Executive Officers in the Merger</u>	9
<u>Windstream's Reasons for the Merger</u>	10
<u>Conditions to the Merger</u>	10
<u>Restrictions on Solicitation</u>	10
<u>Termination</u>	11
<u>Termination Fee</u>	11
<u>Material United States Federal Income Tax Consequences</u>	11
<u>Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC</u>	12
<u>Appraisal Rights</u>	12
<u>Litigation</u>	12
<u>Comparative Market Price Information</u>	12
<u>Listing and Trading of Windstream Common Stock</u>	13
<u>Regulatory Matters</u>	13
<u>Dividend Practices</u>	13
<u>Selected Summary Historical Financial Data</u>	14
<u>Selected Summary Historical Consolidated Financial Data of Windstream</u>	14
<u>Selected Summary Historical Consolidated Financial and Operating Data of PAETEC</u>	16
<u>Unaudited Pro Forma Condensed Combined Financial Information of PAETEC</u>	20
<u>Comparative Historical and Pro Forma Per Share Data</u>	25
<u>Comparative Stock Prices and Dividends</u>	27
<b><u>RISK FACTORS</u></b>	<b>29</b>
<b><u>SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS</u></b>	<b>41</b>
<b><u>THE COMPANIES</u></b>	<b>43</b>
<b><u>THE SPECIAL MEETING</u></b>	<b>45</b>
<u>General</u>	45
<u>Date, Time and Place of the Special Meeting</u>	45
<u>Purpose of the Special Meeting</u>	45
<u>Recommendations of the PAETEC Board of Directors</u>	45
<u>Required Vote for Adoption of Merger Agreement</u>	45

**Table of Contents**

**Index to Financial Statements**

	<b>Page</b>
<u>Required Vote on Other Proposals</u>	46
<u>PAETEC Security Ownership of Management and Certain Beneficial Owners</u>	46
<u>Voting by Directors and Executive Officers</u>	50
<u>Voting Agreement</u>	50
<u>Record Date: Outstanding Shares; Shares Entitled to Vote</u>	50
<u>Quorum</u>	50
<u>Voting of Proxies</u>	51
<u>How to Vote</u>	51
<u>Revoking Your Proxy</u>	52
<u>Voting in Person at the Special Meeting</u>	52
<u>Proxy Solicitation</u>	52
<u>Other Business</u>	53
<u>Assistance</u>	53
<b><u>THE MERGER</u></b>	<b>54</b>
<u>General</u>	54
<u>Background of the Merger</u>	54
<u>Recommendation of the PAETEC Board: PAETEC's Reasons for the Merger</u>	63
<u>Opinion of Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated</u>	68
<u>Opinion of Deutsche Bank Securities Inc.</u>	78
<u>Opinion of Houlihan Lokey Financial Advisors, Inc.</u>	88
<u>Interests of PAETEC's Directors and Executive Officers in the Merger</u>	98
<u>No Change of Control Payments to Windstream Named Executive Officers</u>	106
<u>Windstream's Reasons for the Merger</u>	106
<u>Litigation</u>	107
<u>Accounting Treatment</u>	107
<u>Financial Forecasts of PAETEC's Management</u>	107
<u>Material United States Federal Income Tax Consequences</u>	113
<u>Regulatory Matters</u>	115
<u>Windstream Stock Exchange Listing</u>	115
<u>Delisting and Deregistration of PAETEC Common Stock</u>	116
<u>Financing Arrangements</u>	116
<b><u>THE MERGER AGREEMENT</u></b>	<b>117</b>
<u>Form of the Merger</u>	117
<u>Merger Consideration</u>	117
<u>Potential Adjustment to Merger Consideration</u>	118
<u>Conversion of Shares; Exchange Agent; Exchange Procedures; Fractional Shares</u>	118
<u>Stock Options, Restricted Stock Units and Warrants</u>	119
<u>Effective Time of the Merger</u>	119
<u>Management and Organizational Documents after the Merger</u>	120
<u>Representations and Warranties</u>	120
<u>Covenants</u>	123
<u>Conditions to the Merger</u>	131
<u>Termination</u>	132
<u>Termination Fee</u>	133
<u>Amendment or Supplement; Waiver</u>	133
<u>Fees and Expenses</u>	134
<b><u>ADVISORY VOTE ON GOLDEN PARACHUTE COMPENSATION</u></b>	<b>135</b>
<b><u>ADJOURNMENT PROPOSAL</u></b>	<b>136</b>

---

**Table of Contents**

**Index to Financial Statements**

	<b>Page</b>
<u>DESCRIPTION OF WINDSTREAM CAPITAL STOCK</u>	137
<u>COMPARISON OF RIGHTS OF COMMON STOCKHOLDERS OF WINDSTREAM AND COMMON STOCKHOLDERS OF PAETEC</u>	141
<u>INFORMATION ABOUT PAETEC</u>	148
<u>PAETEC's Business</u>	148
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	175
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	202
<u>EXPERTS</u>	203
<u>LEGAL MATTERS</u>	203
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	203
<u>INCORPORATION BY REFERENCE</u>	204
<u>CONSOLIDATED FINANCIAL STATEMENTS OF PAETEC</u>	F-1
<u>ANNEX A AGREEMENT AND PLAN OF MERGER</u>	A-1
<u>ANNEX B VOTING AGREEMENT</u>	B-1
<u>ANNEX C OPINION OF MERRILL LYNCH, PIERCE, FENNER &amp; SMITH INCORPORATED</u>	C-1
<u>ANNEX D OPINION OF DEUTSCHE BANK SECURITIES INC.</u>	D-1
<u>ANNEX E OPINION OF HOULIHAN LOKEY FINANCIAL ADVISORS, INC.</u>	E-1

---

**Table of Contents**

**Index to Financial Statements**

**QUESTIONS AND ANSWERS ABOUT THE PAETEC SPECIAL MEETING PROPOSALS**

*The following are some questions that you, as a stockholder of PAETEC, may have regarding the proposals to be voted on at the special meeting of PAETEC stockholders, and the answers to those questions. PAETEC urges you to read carefully the remainder of this document because the information in this section does not provide all the information that might be important to you with respect to the merger and the golden parachute compensation. Additional important information is also contained in the annexes to, and the documents incorporated by reference into, this document.*

**Q: What is the purpose of the special meeting?**

A: At the special meeting, PAETEC stockholders will act upon the matters described in the notice of special meeting at the beginning of this proxy statement/prospectus, including a proposal to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement, an advisory (nonbinding) vote to approve compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger, and a proposal to approve one or more adjournments of the special meeting, if necessary or appropriate, including to solicit additional proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

**Q: What is the proposed transaction?**

A: You are being asked to vote to adopt an agreement and plan of merger, dated as of July 31, 2011, among Windstream, Merger Sub and PAETEC and thereby approve the merger and the other transactions contemplated by the agreement and plan of merger. In this proxy statement/prospectus, we refer to the agreement and plan of merger as the merger agreement. In the merger, Merger Sub, a newly formed corporation and wholly-owned subsidiary of Windstream, will merge with and into PAETEC. PAETEC will survive the merger as a wholly-owned subsidiary of Windstream, the separate corporate existence of Merger Sub will cease, and PAETEC stockholders will be entitled to receive Windstream common stock as merger consideration.

**Q: Why is PAETEC merging with a subsidiary of Windstream?**

A: PAETEC is merging with a subsidiary of Windstream because PAETEC believes that the combination will provide substantial strategic and financial benefits to PAETEC's stockholders, including:

participation in the future growth potential of a combined company with approximately \$6 billion in annual revenues and more extensive nationwide operations, service offerings and revenue opportunities than PAETEC as a stand-alone company;

improved operational efficiencies and significant anticipated cost savings;

increased financial strength and flexibility; and

ownership of capital stock currently offering a quarterly cash dividend and benefiting from a highly liquid trading market.

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

For a detailed discussion of the background of and reasons for the proposed merger, see The Merger Background of the Merger, The Merger Recommendation of the PAETEC Board; PAETEC's Reasons for the Merger and The Merger Windstream's Reasons for the Merger.

**Q: What will I be entitled to receive for my shares of PAETEC common stock?**

A: In the merger, you will be entitled to receive 0.460 shares of Windstream common stock for each share of PAETEC common stock outstanding immediately before the effective time of the merger. The Windstream common stock is listed on the NASDAQ Global Select Market ( NASDAQ ) under the trading symbol

**Table of Contents**

**Index to Financial Statements**

WIN.

You will not be entitled to receive any fractional shares of Windstream common stock. Instead, you will be entitled to receive cash, without interest, for any fractional share of Windstream common stock you might otherwise have been entitled to receive. The amount of cash that you will be entitled to receive in lieu of fractional shares will be equal to the product obtained by multiplying the fractional share interest you would otherwise be entitled to receive by the closing price for a share of Windstream common stock as reported on NASDAQ on the day of the effective time of the merger.

**Q: What does the PAETEC board of directors recommend?**

A: The PAETEC board of directors unanimously recommends that you vote:

**FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

**FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

**FOR** approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

**Q: Who is entitled to vote at the special meeting?**

A: Holders of record of PAETEC common stock as of the close of business on September 12, 2011, which is the date the PAETEC board of directors has fixed as the record date for the special meeting, are entitled to vote at the special meeting.

**Q: What vote is required to adopt the merger agreement?**

A: The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of PAETEC common stock outstanding as of the record date for the special meeting.

No vote of the stockholders of Windstream is required.

**Q: What if I don't vote on the proposal to adopt the merger agreement?**

If you fail to vote, if you fail to authorize your broker to vote on your behalf, or if you abstain from voting, the effect will be the same as if you had voted against adoption of the merger agreement.

**Q: Do I have appraisal rights?**

A: No. PAETEC stockholders have no appraisal or dissenters' rights under the General Corporation Law of the State of Delaware (the "DGCL") in connection with the merger. For additional information regarding appraisal rights, see "Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC - Appraisal Rights" on page 146.

**Q: What are the material United States federal income tax consequences of the merger to me?**

A: It is expected that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the completion of the merger is conditioned on the receipt by each of Windstream and PAETEC of opinions from their respective counsel to the effect that the merger will qualify as such a reorganization. Assuming that the merger qualifies as such a

**Table of Contents**

**Index to Financial Statements**

reorganization, United States holders of PAETEC common stock generally will not be subject to United States federal income taxes as a result of the exchange of their shares of PAETEC common stock for Windstream common stock except with respect to any cash received in lieu of fractional shares of Windstream common stock. For additional information about material United States federal income tax consequences of the merger, see *The Merger Material United States Federal Income Tax Consequences* beginning on page 113.

**Q: When do you expect the merger to be completed?**

A: We currently expect the merger to be completed by December 31, 2011, following the satisfaction or waiver of all conditions to the merger, including PAETEC stockholder approval and the receipt of all regulatory approvals that are required to be obtained pursuant to the merger agreement.

**Q: What do I need to do to vote my shares at the special meeting?**

A: After carefully reading and considering the information contained and incorporated by reference into this proxy statement/prospectus, please submit your proxy as soon as possible so that your shares may be voted at the special meeting. If your shares of PAETEC common stock are registered in your own name you may submit your proxy by:

filling out and signing the proxy card, and then mailing your signed proxy card in the enclosed postage-paid reply envelope;

submitting your proxy over the Internet at [www.proxyvote.com](http://www.proxyvote.com); or

calling 1-800-690-6903 and following the instructions on the enclosed proxy card.

Proxies submitted over the Internet or by telephone must be received by 11:59 p.m., Eastern time, on October 26, 2011.

You also may attend the special meeting and vote your shares in person by written ballot.

If your shares are held in street name, you should follow the directions your broker or other intermediary provides in order to ensure that your shares are voted at the special meeting.

Your proxy will instruct the persons named on the proxy card to vote your shares at the special meeting as you direct. If you submit a properly executed proxy and do not indicate how you want to vote, your proxy will be voted:

**FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

**FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

**FOR** approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions



contemplated by the merger agreement.

**Q: May I change my vote after I have submitted my proxy?**

A: You may change your vote at any time before your proxy is voted at the special meeting. If your shares of PAETEC common stock are registered in your own name, you may revoke your proxy in one of the following ways:

by delivering to PAETEC Holding Corp., 600 Willowbrook Office Park, Fairport, New York 14450, Attn: Mary K. O'Connell, Secretary, a written notice revoking your proxy that bears a date later than the date of the proxy that you are revoking and that is received before the special meeting;

**Table of Contents**

**Index to Financial Statements**

by submitting another proxy card bearing a later date and mailing it so that it is received before the special meeting;

by submitting another proxy using the Internet or telephone voting procedures; or

by attending the special meeting and voting in person, although simply attending the meeting will not revoke your proxy, as you must deliver a notice of revocation or vote at the special meeting in order to revoke a prior proxy.

Your last vote is the vote that will be counted.

If you have instructed a broker or other intermediary to vote your shares, you must follow the directions you receive from your broker or other intermediary to change your vote.

**Q: Should I send in my stock certificates with my proxy card?**

A: No. After the merger is completed, you will receive a letter of transmittal with instructions for the surrender of your PAETEC common stock certificates. **Please do not send in your stock certificates with your proxy card.**

**Q: Why am I being asked to cast an advisory (nonbinding) vote to approve compensation that certain PAETEC executive officers may receive in connection with the merger?**

A: The Securities and Exchange Commission (the SEC) recently adopted rules that require some public companies to seek an advisory (nonbinding) vote with respect to certain payments, which are commonly referred to as golden parachute compensation, that will be made in transactions such as the merger. These rules require us to seek such an advisory vote regarding certain payments PAETEC's named executive officers may receive in connection with the merger.

**Q: Under what arrangements would golden parachute compensation be payable?**

A: Such compensation would be payable under PAETEC's existing confidentiality, non-solicitation, non-competition and severance agreements with its executive officers as well as under PAETEC's stockholder-approved equity compensation plans.

**Q: What will happen if stockholders do not approve the golden parachute compensation at the special meeting?**

A: Approval of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger is not a condition to completion of the merger. The vote with respect to such compensation is an advisory vote and will not be binding on PAETEC. Therefore, if the merger agreement is adopted by the stockholders and the merger is completed, the golden parachute compensation payable to PAETEC's named executive officers will still be paid regardless of the outcome of this advisory vote.

**Q: Who can help answer my questions?**

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

A: If you have any questions about the merger or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, you should contact PAETEC's proxy solicitor, Morrow & Co., LLC, at (203) 658-9400 or toll free at (800) 276-3011.

**Q: Where can I find more information about PAETEC and Windstream?**

A: You can find more information about PAETEC and Windstream from various sources described under the heading "Where You Can Find More Information" on page 203.

---

**Table of Contents**

**Index to Financial Statements**

**SUMMARY**

*This summary highlights certain information from this proxy statement/prospectus. It does not contain all of the information that is important to you. You should read carefully the entire proxy statement/prospectus and the additional documents referred to in it to understand fully the merger agreement and the merger. See *Where You Can Find More Information* on page 203 for information on how you can view documents incorporated by reference into this proxy statement/prospectus. The parenthetical page references included below direct you to a more complete description of the topics presented in this summary.*

**The Companies (See Page 43)**

***Windstream (See Page 43)***

Windstream Corporation

4001 Rodney Parham Road

Little Rock, Arkansas 72212

Telephone: (501) 748-7000

Windstream, a Delaware corporation, is a leading communications and technology solutions provider, delivering complex data, high-speed Internet, voice and transport services to customers with operations throughout the United States and the District of Columbia. Windstream's business solutions include IP-based voice and data services, multiprotocol label switching networking, data center and managed services, hosting services and communications systems. Windstream provides high-speed Internet, voice, and digital television services to residential customers in 29 states. Windstream delivers its services over an extensive local and long-haul fiber network, which it also uses to provide wholesale services to other carriers.

As of June 30, 2011, Windstream served approximately 3.3 million access lines and 1.3 million high-speed Internet customers, and operated approximately 60,000 fiber route miles.

Windstream's telecommunications services are offered in the following 29 states: Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

***Merger Sub (See Page 44)***

Peach Merger Sub, Inc.

4001 Rodney Parham Road

Little Rock, Arkansas 72212

Telephone: (501) 748-7000

Merger Sub is a Delaware corporation and a direct, wholly-owned subsidiary of Windstream. Merger Sub was organized on July 27, 2011 solely for the purpose of effecting the merger with PAETEC. It has not carried on any activities other than in connection with the merger agreement.

***PAETEC (See Page 44)***

PAETEC Holding Corp.

One PAETEC Plaza

Edgar Filing: WINDSTREAM CORP - Form S-4/A

600 Willowbrook Office Park

Fairport, New York 14450

Telephone: (585) 340-2500

**Table of Contents**

**Index to Financial Statements**

PAETEC, a Delaware corporation, is a competitive broadband communications services and solutions provider guided by the principle that delivering superior customer service is the key to competing successfully with other communications services providers. PAETEC's primary business is providing business end-user customers in metropolitan areas with a package of integrated broadband communications services that encompasses data services, including Internet access services and virtual private network services, and voice services, including local telephone services and domestic and international long distance services. As of June 30, 2011, PAETEC provided services in 48 states and the District of Columbia for approximately 53,000 business customers in a service area encompassing 86 of the country's top 100 metropolitan statistical areas.

**The Merger (See Page 54)**

Subject to the terms and conditions of the merger agreement, at the effective time of the merger, Merger Sub will be merged with and into PAETEC. PAETEC will survive the merger as a direct, wholly-owned subsidiary of Windstream.

**The Merger Agreement (See Page 117)**

A copy of the merger agreement, which is incorporated by reference herein in its entirety, is attached to this proxy statement/prospectus as Annex A. Windstream and PAETEC urge you to read the merger agreement in its entirety.

**Merger Consideration (See Page 117)**

In the merger, each PAETEC stockholder will be entitled to receive 0.460 shares of Windstream common stock for each share of PAETEC common stock outstanding immediately before the effective time of the merger (the exchange ratio), with cash paid in lieu of fractional shares of Windstream common stock. The Windstream common stock payable in the merger is referred to as the merger consideration in this proxy statement/prospectus.

The exchange ratio is fixed and will not be adjusted for changes in the market value of the common stock of Windstream or PAETEC. Accordingly, the value of the consideration payable to PAETEC stockholders in the merger will fluctuate between the date of this proxy statement/prospectus and the completion of the merger in accordance with changes in the market value of Windstream's common stock. Based on the closing price of Windstream common stock as reported on NASDAQ on September 14, 2011, the latest practicable trading date before the filing of this proxy statement/prospectus, the merger consideration represented approximately \$5.85 in value for each share of PAETEC common stock.

**Stock Options, Restricted Stock Units and Warrants (See Page 119)**

The merger agreement provides for the assumption and conversion of outstanding PAETEC equity compensation awards (which consist of stock options, restricted stock units and warrants) and certain PAETEC non-compensatory warrants into Windstream stock options, restricted stock units and warrants. The number of Windstream restricted stock units into which each PAETEC restricted stock unit will be converted and the number of shares of Windstream common stock issuable upon the exercise of each converted stock option and warrant will, in each case, be based on the same 0.460 exchange ratio used in calculating the merger consideration.

**Record Date (See Page 50)**

The close of business on September 12, 2011 is the record date for determining if you are entitled to vote at the PAETEC special meeting. On that date, there were 146,145,461 shares of PAETEC common stock outstanding.

## **Table of Contents**

### **Index to Financial Statements**

#### **The Special Meeting (See Page 45)**

The PAETEC special meeting will take place at the Hilton Manhattan East, 304 East 42nd Street, New York, New York 10017, on October 27, 2011, at 10:00 a.m., local time. At the special meeting, the holders of PAETEC common stock will be asked to vote upon the following three proposals:

adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

#### **Required Vote (See Page 45)**

Each share of PAETEC common stock is entitled to one vote at the special meeting. The holders of a majority of the shares of PAETEC common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, will constitute a quorum at the special meeting. Abstentions and any broker non-votes will be counted for purposes of determining the presence of a quorum at the special meeting.

Adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock outstanding as of the record date for the special meeting.

Approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal.

Approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement, will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal.

An abstention from voting on any proposal will have the same effect as a vote against the proposal. Broker non-votes will have the same effect as a vote against adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement, but will not affect the outcome of the vote on the other two proposals.

#### **PAETEC Security Ownership of Management and Certain Beneficial Owners (See Page 46)**

On the record date for the PAETEC special meeting, directors and executive officers of PAETEC collectively beneficially owned and had the right to vote 19,942,754 shares of PAETEC common stock, entitling them to cast approximately 13.4% of the number of votes entitled to be cast at the special meeting.

#### **Voting Agreement (See Page 50)**

Certain directors and executive officers of PAETEC, who collectively beneficially owned approximately 7.2% of the outstanding PAETEC common stock as of the record date for the PAETEC special meeting, have





---

**Table of Contents**

**Index to Financial Statements**

signed a voting agreement committing them to vote any shares held by them in favor of adoption of the merger agreement and against any alternative proposal or any other action which is reasonably likely to adversely affect or interfere with the consummation of the transactions contemplated by the merger agreement. A copy of the voting agreement is attached to this proxy statement/prospectus as Annex B.

**Recommendation of the PAETEC Board; PAETEC's Reasons for the Merger (See Page 63)**

PAETEC's board of directors unanimously recommends that you vote:

**FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

**FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

**FOR** approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

In connection with its decision to recommend that you vote **FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement, the PAETEC board of directors unanimously approved the merger agreement and unanimously determined that the merger agreement and the merger are advisable, fair to and in the best interests of PAETEC and its stockholders. PAETEC's board of directors considered a number of factors that are described in *The Merger Recommendation of the PAETEC Board; PAETEC's Reasons for the Merger* beginning on page 63.

**Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated (See Page 68)**

In connection with the merger, Merrill Lynch, Pierce, Fenner & Smith Incorporated (BofA Merrill Lynch), one of PAETEC's financial advisors, delivered to PAETEC's board of directors a written opinion, dated July 31, 2011, as to the fairness, from a financial point of view and as of the date of the opinion, of the exchange ratio to the holders of PAETEC common stock. The full text of the written opinion, dated July 31, 2011, of BofA Merrill Lynch, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex C to this proxy statement/prospectus and is incorporated by reference herein in its entirety. PAETEC encourages its stockholders to read the full text of the BofA Merrill Lynch opinion. **BofA Merrill Lynch provided its opinion to PAETEC's board of directors (in its capacity as such) for the benefit and use of PAETEC's board of directors in connection with and for purposes of its evaluation of the exchange ratio from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the merger and no opinion or view was expressed as to the relative merits of the merger in comparison to other strategies or transactions that might be available to PAETEC or in which PAETEC might engage or as to the underlying business decision of PAETEC to proceed with or effect the merger. BofA Merrill Lynch's opinion does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed merger or any related matter.**

**Opinion of Deutsche Bank Securities Inc. (See Page 78)**

Deutsche Bank Securities Inc. (Deutsche Bank) also acted as a financial advisor to the PAETEC board of directors in connection with the merger. The PAETEC board of directors requested that Deutsche Bank, in its role as financial advisor, evaluate the fairness, from a financial point of view, of the exchange ratio to the holders of PAETEC common stock. On July 31, 2011, Deutsche Bank delivered its opinion to the PAETEC board of directors to the effect that, as of such date and based upon and subject to the assumptions made, matters considered and limitations, qualifications and conditions of the review undertaken as set forth in the opinion, the exchange ratio was fair, from a financial point of view, to the holders of PAETEC common stock.



---

**Table of Contents**

**Index to Financial Statements**

The full text of Deutsche Bank's opinion, dated July 31, 2011, which sets forth the assumptions made, matters considered and limitations, qualifications and conditions of the review undertaken by Deutsche Bank in rendering its opinion, is attached as Annex D to this proxy statement/prospectus. PAETEC encourages the holders of PAETEC common stock to read the Deutsche Bank opinion in its entirety. **Deutsche Bank provided its opinion for the information and assistance of the PAETEC board of directors in connection with its consideration of the merger. The Deutsche Bank opinion did not address any other aspect of the merger and Deutsche Bank expressed no opinion as to the merits of the underlying decision by PAETEC to engage in the merger or the relative merits of the merger as compared to any alternative business strategies or other transactions that may be available to PAETEC, and Deutsche Bank expressed no opinion or recommendation as to how any holder of PAETEC common stock should vote with respect to the merger. All summaries of the opinion of Deutsche Bank set forth in this proxy statement/prospectus are qualified in their entirety by reference to the full text of such opinion.**

**Opinion of Houlihan Lokey Financial Advisors, Inc. (See Page 88)**

On July 31, 2011, Houlihan Lokey Financial Advisors, Inc. ( Houlihan Lokey ) rendered an oral opinion to the PAETEC board of directors (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated July 31, 2011) as to the fairness, from a financial point of view, of the consideration to be received by the holders of PAETEC common stock in the merger, as of July 31, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion.

**Houlihan Lokey's opinion was directed to the PAETEC board of directors and only addressed the fairness from a financial point of view of the consideration to be received by the holders of PAETEC common stock in the merger and does not address any other aspect or implication of the merger. The summary of Houlihan Lokey's opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex E to this proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. PAETEC encourages its stockholders to carefully read the full text of Houlihan Lokey's written opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this proxy statement/prospectus are intended to be, and do not constitute, advice or a recommendation to the PAETEC board of directors, any PAETEC stockholders or any other party as to how to act or vote with respect to the merger agreement or related matters.**

**Interests of PAETEC's Directors and Executive Officers in the Merger (See Page 98)**

PAETEC's directors and executive officers have interests in the merger that are different from, or in addition to, the interests generally of PAETEC's stockholders. Such interests include receipt of the following types of payments and benefits that are triggered by or otherwise relate to the merger:

cash payments and other benefits under executive officer severance agreements;

accelerated vesting of executive officer and director equity awards;

the assumption by Windstream of a non-compensatory warrant to purchase common stock;

the provision of indemnification and insurance arrangements pursuant to the merger agreement; and

related benefits.

For information about these and other interests, see The Merger Interests of PAETEC's Directors and Executive Officers in the Merger beginning on page 98.



**Table of Contents**

**Index to Financial Statements**

**Windstream's Reasons for the Merger (See Page 106)**

Windstream's board of directors has unanimously approved and adopted the merger agreement. In evaluating the merger, Windstream's board of directors consulted with Windstream's management, as well as with Windstream's legal and financial advisors, and, in reaching its conclusions, Windstream's board of directors considered several material factors that are described in "The Merger" Windstream's Reasons for the Merger beginning on page 106.

**Conditions to the Merger (See Page 131)**

As more fully described in this document and in the merger agreement, the completion of the merger is conditioned on the satisfaction or, where legally permissible, waiver of a number of conditions, including, among others:

receipt of the requisite approval of PAETEC stockholders;

the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act");

the receipt of required regulatory approvals from the Federal Communications Commission (the "FCC") and from the public service commissions in the states of Arizona, California, Colorado, Delaware, Georgia, Hawaii, Indiana, Louisiana, Maryland, Minnesota, Mississippi, New Jersey, New York, Ohio, Pennsylvania, Texas, Utah, Virginia and West Virginia (collectively, the "PSCs"), including energy business-related approvals from PSCs in New York, Ohio and Pennsylvania;

the absence of any law, regulation, order or injunction prohibiting the merger; and

the receipt by each company of legal opinions regarding the qualification of the merger as a tax-free reorganization for United States federal income tax purposes.

Each party's obligation to complete the merger is subject to certain other conditions, including the accuracy of the representations and warranties of the other party (generally subject to a material adverse effect standard), material compliance by the other party with its obligations under the merger agreement, and the absence of a material adverse effect related to the other party.

Neither Windstream nor PAETEC can be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

The completion of the merger is not conditioned on Windstream obtaining financing of any kind. Approval of the golden parachute compensation in the advisory (nonbinding) vote described in this proxy statement/prospectus is not a condition to completion of the merger.

**Restrictions on Solicitation (See Page 126)**

The merger agreement contains restrictions on PAETEC's ability to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in PAETEC's equity or assets. Notwithstanding these restrictions, before PAETEC stockholders adopt the merger agreement, the merger agreement provides that, under specified circumstances, if PAETEC receives a proposal from a third party to acquire a significant interest in the company that PAETEC's board of directors determines in good faith is, or may reasonably be expected to lead to a proposal that is, superior to the merger, PAETEC may furnish information to, and engage in negotiations regarding a transaction with, such third party. PAETEC's board of directors may withdraw, modify or change its approval or recommendation of the merger agreement or the merger, and, as described below under "Termination," PAETEC may terminate the merger agreement if PAETEC has received a proposal that its board of directors determines in good faith to be superior to the merger and certain other conditions are met, including

PAETEC's provision to Windstream of notice of such a proposal and an opportunity to revise the terms of the merger agreement.

**Table of Contents**

**Index to Financial Statements**

**Termination (See Page 132)**

Windstream and PAETEC may mutually agree to terminate the merger agreement before completing the merger, even after PAETEC stockholders have adopted the merger agreement.

In addition, either Windstream or PAETEC may terminate the merger agreement if:

a governmental entity of competent jurisdiction has issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the merger, and such order, decree, ruling or other action shall have become final and non-appealable;

PAETEC stockholders fail to adopt the merger agreement at the special meeting or at any adjournment, postponement or continuation thereof;

subject to certain restrictions, the other party is in breach of the merger agreement; or

subject to certain restrictions, the merger is not completed by January 31, 2012 (which date will be automatically extended to March 30, 2012, if the merger has not occurred because of the failure to obtain approval from one or more regulatory authorities).

Windstream also may terminate the merger agreement at any time prior to the adoption of the merger agreement by PAETEC's stockholders if PAETEC, the PAETEC board of directors or any committee thereof, for any reason, shall have withdrawn or modified, or publicly proposed to withdraw or modify, the recommendation of the PAETEC board of directors that PAETEC's stockholders vote in favor of adoption of the merger agreement at the special meeting in a manner adverse to Windstream, or shall have approved, endorsed or recommended, or publicly proposed to approve or recommend, any alternative transaction. PAETEC also may terminate the merger agreement at any time prior to adoption of the merger agreement by PAETEC's stockholders if:

PAETEC receives an alternative transaction proposal that PAETEC's board of directors determines in accordance with the merger agreement constitutes a superior proposal;

PAETEC's board of directors authorizes PAETEC, subject to complying with the terms of the merger agreement, to enter into a binding written agreement concerning such superior proposal;

PAETEC has complied with its non-solicitation obligations under the merger agreement; and

prior to such termination, PAETEC pays to Windstream a termination fee of \$40 million.

**Termination Fee (See Page 133)**

The merger agreement provides that, upon termination of the merger agreement under certain circumstances, including the circumstances described in the immediately preceding paragraph under Termination, PAETEC will be obligated to pay Windstream a termination fee of \$40 million. Upon termination of the merger agreement under certain circumstances, PAETEC may be required to reimburse Windstream for up to \$15 million of Windstream's fees and expenses, whether or not the \$40 million termination fee later becomes payable. Any such payment by PAETEC of Windstream's fees and expenses will be credited towards any subsequent payment by PAETEC of the termination fee. See The Merger Agreement Termination Fee beginning on page 133 for a discussion of the circumstances under which a termination fee will be required

to be paid or PAETEC will be required to reimburse Windstream for its fees and expenses.

**Material United States Federal Income Tax Consequences (See Page 113)**

It is expected that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code, and the completion of the merger is conditioned on the receipt by each of Windstream and PAETEC of opinions from their respective counsel to the effect that the merger will qualify as such a tax-free reorganization. Assuming that the merger qualifies as such a reorganization, United States holders of PAETEC common stock



**Table of Contents**

**Index to Financial Statements**

generally will not be subject to United States federal income taxes as a result of the exchange of their shares of PAETEC common stock for Windstream common stock except with respect to any cash received in lieu of fractional shares of Windstream common stock.

**Tax matters are very complicated, and the tax consequences of the merger for a particular stockholder of PAETEC will depend on the facts and circumstances of the stockholder's own situation. For a description of certain material United States federal income tax consequences of the merger, see the information set forth in The Merger Material United States Federal Income Tax Consequences beginning on page 113. Windstream and PAETEC also urge each stockholder of PAETEC to consult the stockholder's tax advisor for a full understanding of the tax consequences of the merger.**

**Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC (See Page 141)**

After the merger, PAETEC stockholders will become Windstream stockholders and their rights as stockholders will be governed by the certificate of incorporation and bylaws of Windstream as well as by the DGCL. There are a number of differences between the certificate of incorporation and bylaws of Windstream and the certificate of incorporation and bylaws of PAETEC. These differences are summarized under the heading Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC.

**Appraisal Rights (See Page 146)**

Under Delaware law, record holders of PAETEC common stock are not entitled to appraisal rights or dissenters' rights in connection with the merger.

**Litigation (See Page 107)**

On August 8, 2011, a purported stockholder of PAETEC filed a complaint styled as a class action lawsuit in the Court of Chancery of the State of Delaware. On August 9, 2011, a purported stockholder of PAETEC filed a similarly styled complaint in the Supreme Court of the State of New York, Monroe County. These complaints allege, among other things, that the board of directors of PAETEC conducted an unfair sales process resulting in an unfair merger price. They assert that PAETEC's board members breached their fiduciary duties in agreeing to the merger and that Windstream aided and abetted in the breaches of fiduciary duties. The lawsuits seek to enjoin the merger and seek unspecified monetary damages. On September 10, 2011, the plaintiff in the August 8, 2011 Delaware action filed a motion for class certification seeking to certify a class of all disinterested PAETEC stockholders and appoint the plaintiff as lead plaintiff for the class and the plaintiff's counsel as lead counsel for the class. On September 14, 2011, the plaintiff in the New York action filed a complaint in the Court of Chancery of the State of Delaware (the Delaware Complaint). In addition to alleging the same items as in the earlier filed actions, the Delaware Complaint alleges that the board of directors of PAETEC breached their fiduciary duties by issuing a false and misleading proxy statement.

PAETEC and Windstream believe these lawsuits are without merit and plan to vigorously defend against such claims.

**Comparative Market Price Information (See Page 27)**

Windstream common stock is listed on the NASDAQ under the trading symbol WIN. PAETEC common stock is listed on the NASDAQ under the trading symbol PAET. On July 29, 2011, the last full trading day prior to the public announcement of the execution of the merger agreement, the closing price of PAETEC common stock was \$4.42 per share and the closing price of Windstream common stock was \$12.21 per share. On September 14, 2011, the latest practicable trading date prior to the filing of this proxy statement/prospectus, the

**Table of Contents**

**Index to Financial Statements**

closing price of PAETEC common stock was \$5.63 per share and the closing price of Windstream common stock was \$12.72 per share. Windstream and PAETEC urge you to obtain current market quotations for the Windstream common stock and the PAETEC common stock before making a decision with respect to the merger.

**Listing and Trading of Windstream Common Stock (See Page 115)**

Shares of Windstream common stock received by PAETEC stockholders pursuant to the merger will be listed on the NASDAQ. After completion of the merger, shares of Windstream common stock will continue to be traded on the NASDAQ, but shares of PAETEC common stock will no longer be listed or traded.

**Regulatory Matters (See Page 115)**

Completion of the merger is conditioned upon the receipt of approvals from the FCC and the PSCs. Pursuant to the merger agreement, Windstream and PAETEC filed the applications required for the transfer of control of the relevant franchises, licenses and similar instruments issued under the rules and regulations of the FCC on August 23, 2011 and jointly filed applications seeking requisite PSC approvals on or before August 19, 2011.

In addition, as a condition to the merger, the HSR Act requires PAETEC and Windstream to comply with the HSR Act's notification and waiting period. The HSR Act provides for an initial 30-calendar-day waiting period following the necessary filings by the parties to the merger, which were completed on August 11, 2011 by the filing of notification and report forms with the U.S. Department of Justice ( DOJ ) and the U.S. Federal Trade Commission ( FTC ). On August 29, 2011, the DOJ and the FTC granted early termination of the waiting period under the HSR Act.

**Dividend Practices (See Page 145)**

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 Windstream's common stock. This practice can be changed at any time at the discretion of Windstream's board of directors and Windstream's common stockholders have no contractual or other legal right to dividends.

PAETEC has not historically declared and paid regular dividends to its stockholders.

**Table of Contents****Index to Financial Statements****Selected Summary Historical Financial Data**

Windstream and PAETEC are providing the following financial information to aid you in your analysis of the financial aspects of the merger. This information is only a summary and you should read it in conjunction with the historical consolidated financial statements of Windstream and the related notes contained in the annual and quarterly reports and other information that Windstream has previously filed with the SEC and which are incorporated herein by reference and the historical consolidated financial statements of PAETEC and the related notes that are included in this proxy statement/prospectus under "Consolidated Financial Statements of PAETEC" beginning on page F-1. See "Where You Can Find More Information" on page 203 for information on how you can view copies of Windstream's incorporated information.

Historical results are not necessarily indicative of the results to be expected for any future period.

**Selected Summary Historical Consolidated Financial Data of Windstream**

The summary below sets forth historical financial data for Windstream. The data should be read in conjunction with Windstream's audited consolidated historical financial statements and related notes included in Windstream's Annual Report on Form 10-K for the year ended December 31, 2010 and Windstream's unaudited consolidated historical financial statements and related notes included in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2011. See "Where You Can Find More Information" beginning on page 203 for information on how you can view Windstream's incorporated reports. The summary financial data as of June 30, 2010 and June 30, 2011 and for the six months ended June 30, 2010 and 2011 are unaudited, but include, in the opinion of Windstream's management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of such data. Windstream's historical results are not necessarily indicative of its results for any future period.

(Millions, except per share amounts)	Six Months Ended June 30,		2010	Year Ended December 31,			2006
	2011 Unaudited	2010 Unaudited		2009	2008	2007	
<b>Revenues and sales</b>	\$ 2,053.5	\$ 1,765.2	\$ 3,712.0	\$ 2,996.6	\$ 3,171.5	\$ 3,245.9	\$ 3,033.3
<b>Operating income</b>	575.2	501.0	1,030.3	956.9	1,132.4	1,149.9	898.8
Other income (expense), net	(0.6)	(1.2)	(3.5)	(1.1)	2.1	11.1	8.7
Gain on sale of directory publishing business and other assets						451.3	
Loss on extinguishment of debt	(103.9)						(7.9)
Intercompany interest income							31.9
Interest expense	(282.9)	(246.6)	(521.7)	(410.2)	(416.4)	(444.4)	(209.6)
Income from continuing operations before income taxes	187.8	253.2	505.1	545.6	718.1	1,167.9	721.9
Income taxes	71.1	100.1	194.4	211.1	283.2	251.5	276.3
Income from continuing operations	116.7	153.1	310.7	334.5	434.9	916.4	445.6
Discontinued operations, including tax expense of \$10.6 and \$0.5, respectively					(22.2)	0.7	
Income before extraordinary item and cumulative effect of accounting change	116.7	153.1	310.7	334.5	412.7	917.1	445.6
Extraordinary item, net of income taxes							99.7
<b>Net income</b>	\$ 116.7	\$ 153.1	\$ 310.7	\$ 334.5	\$ 412.7	\$ 917.1	\$ 545.3
<b>Basic and diluted earnings (loss) per share:</b>							
Income from continuing operations	0.23	0.33	0.66	0.76	0.98	1.93	1.02
Loss from discontinued operations					(0.05)		
Extraordinary item							0.23
<b>Net income</b>	\$ 0.23	\$ 0.33	\$ 0.66	\$ 0.76	\$ 0.93	\$ 1.93	\$ 1.25

Edgar Filing: WINDSTREAM CORP - Form S-4/A

Dividends declared per common share	0.50	0.50	1.00	1.00	1.00	1.00	0.45
-------------------------------------	------	------	------	------	------	------	------

**Balance sheet data**

Total assets	\$ 11,329.2	\$ 10,087.2	\$ 11,353.7	\$ 9,145.4	\$ 8,009.3	8,241.2	8,030.7
Total long-term debt (including current maturities)	\$ 7,367.2	\$ 6,592.1	\$ 7,325.8	\$ 6,295.2	\$ 5,382.5	\$ 5,355.5	\$ 5,488.4
Total equity	\$ 800.4	\$ 641.8	\$ 830.6	\$ 260.7	\$ 252.3	\$ 699.8	\$ 469.8

**Table of Contents**

**Index to Financial Statements**

**Notes to Selected Summary Historical Consolidated Financial Information of Windstream**

Explanations for significant events affecting Windstream's historical operating trends during the periods January 1, 2008 through June 30, 2011 are provided in Management's Discussion and Analysis of Results of Operations and Financial Condition in Windstream's Annual Report on Form 10-K for the year ended December 31, 2010 and Windstream's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, which are incorporated herein by reference.

During 2007, Windstream 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. Of these charges, \$4.1 million was paid in cash during the year. In addition, Windstream incurred \$3.7 million in transaction costs to complete the split-off of its directory publishing business and incurred approximately \$1.3 million in rebranding costs associated with the acquisition of CT Communications, Inc.

During 2006, Windstream incurred \$27.6 million of incremental costs, principally consisting of rebranding costs, audit and legal fees, system conversion costs and employee related costs, related to the spin-off from Alltel Corporation and merger with Valor Communications Group, Inc. Windstream also incurred \$10.6 million in restructuring charges, which consisted of severance and employee benefit costs related to a planned workforce reduction. In addition, Windstream incurred \$11.2 million in investment banking, audit and legal fees associated with the announced split-off of its directory publishing business. These restructuring charges decreased net income by \$36.0 million, giving effect to items not deductible for tax purposes. Effective January 1, 2006, Windstream prospectively reduced depreciation rates for its operations in Pennsylvania. In the second quarter of 2006, Windstream prospectively reduced depreciation rates for its operations in Alabama and North Carolina, and in the fourth quarter of 2006 it prospectively reduced depreciation rates for its operations in Arkansas and in one of its operating subsidiaries in Texas. The depreciable lives were lengthened to reflect the estimated remaining useful lives of the wireline plant based on Windstream's expected future network utilization and capital expenditure levels required to provide service to its customers. The effects of this change during the year ended December 31, 2006 resulted in a decrease in depreciation expense of \$30.1 million and an increase in net income of \$18.6 million.

**Table of Contents**

**Index to Financial Statements**

**Selected Summary Historical Consolidated Financial and Operating Data of PAETEC**

The selected consolidated statements of operations data, consolidated balance sheet data, other financial data and operating data reflect the financial results of PAETEC Corp., as predecessor to PAETEC Holding Corp., and PAETEC Corp.'s wholly-owned subsidiaries. After February 28, 2007, the date of completion of the merger transaction with US LEC Corp. (US LEC), the accompanying selected data include the accounts of PAETEC Holding Corp. and its wholly-owned subsidiaries, including PAETEC Corp. and PAETEC Corp.'s wholly-owned subsidiaries and US LEC and US LEC's wholly-owned subsidiaries. After February 8, 2008, the date of completion of the merger transaction with McLeodUSA Incorporated (McLeodUSA), the accompanying selected data include the foregoing accounts as well as the accounts of McLeodUSA and McLeodUSA's wholly-owned subsidiaries. As of December 6, 2010, the date of completion of the merger transaction with Cavalier Telephone Corporation (Cavalier), the accompanying selected data include the foregoing accounts as well as the accounts of Cavalier and Cavalier's wholly-owned subsidiaries.

The following tables show the selected consolidated statements of operations data, consolidated balance sheet data, other financial data and operating data of PAETEC Corp. as of and for the year ended December 31, 2006 and of PAETEC Holding Corp. as of and for the years ended December 31, 2007, 2008, 2009 and 2010. The selected consolidated statements of operations data and other financial data for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated balance sheet data as of December 31, 2009 and 2010 are derived from PAETEC's audited consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), as included under Consolidated Financial Statements of PAETEC beginning on page F-1. The selected consolidated statements of operations data and other financial data for the years ended December 31, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2006, 2007 and 2008 are derived from PAETEC's audited consolidated financial statements prepared in accordance with GAAP, which are not included in this proxy statement/prospectus. The summary financial data as of June 30, 2010 and June 30, 2011 and for the six months ended June 30, 2010 and 2011 are unaudited, but include, in the opinion of PAETEC's management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of such data. PAETEC's historical results are not necessarily indicative of its results for any future period.

**Table of Contents****Index to Financial Statements**

You should read the data set forth below together with the section entitled "Information About PAETEC Management's Discussion and Analysis of Financial Condition and Results of Operations" and PAETEC's consolidated financial statements and the related notes thereto included under "Consolidated Financial Statements of PAETEC" beginning on page F-1.

	Six Months Ended June 30,		2010 <sup>(1)</sup>	Year Ended December 31,			2006
	2011 Unaudited	2010 Unaudited		2009	2008 <sup>(2)</sup>	2007 <sup>(3)</sup>	
(in thousands, except per share data)							
<b>Consolidated Statements of Operations Data:</b>							
Revenue:							
Network services revenue	\$ 753,275	\$ 620,716	\$ 1,245,157	\$ 1,258,489	\$ 1,237,668	\$ 855,833	\$ 460,347
Carrier services revenue	167,872	126,131	262,749	260,023	271,279	144,924	88,284
Integrated solutions revenue	81,421	39,304	115,910	61,675	61,433	40,256	37,671
Total revenue	1,002,568	786,151	1,623,816	1,580,187	1,570,380	1,041,013	586,302
Cost of sales (exclusive of operating items shown separately below)	471,989	389,533	808,892	782,389	781,347	491,684	282,169
Selling, general and administrative expenses (exclusive of operating items shown separately below and inclusive of stock-based compensation)	345,979	271,063	559,673	559,541	572,180	373,715	219,516
Leveraged recapitalization related costs							15,153
Litigation settlement							1,500
Acquisition, integration and separation costs	5,899		14,124		12,700	3,665	
Impairment charge					355,000		
Sales and use tax settlement				(7,221)			
Depreciation and amortization	129,071	94,612	196,543	184,588	174,251	75,237	34,618
Income (loss) from operations	49,630	30,943	44,584	60,890	(325,098)	96,712	33,346
Debt extinguishment and related costs		4,423	7,382	17,891		14,558	5,081
Other income, net	(222)	(262)	(392)	(1,107)	(663)	(4,784)	(4,509)
Interest expense	69,770	44,637	96,339	74,149	73,663	68,373	27,319
Change in fair value of Series A convertible redeemable preferred stock conversion right							(10,778)
(Loss) income before income taxes	(19,918)	(17,855)	(58,745)	(30,043)	(398,098)	18,565	16,233
Provision for (benefit from) income taxes	1,450	(789)	(1,004)	(1,354)	89,797	8,037	8,430
Net (Loss) income	\$ (21,368)	\$ (17,066)	\$ (57,741)	\$ (28,689)	\$ (487,895)	\$ 10,528	\$ 7,803
(Loss) income allocated to common stockholders <sup>(4)</sup>	\$ (21,368)	\$ (17,066)	\$ (57,741)	\$ (28,689)	\$ (487,895)	\$ 10,528	\$ (33,155)
Basic net (loss) income per common share <sup>(4)</sup>	\$ (0.15)	\$ (0.12)	\$ (0.40)	\$ (0.20)	\$ (3.48)	\$ 0.12	\$ (1.05)

Edgar Filing: WINDSTREAM CORP - Form S-4/A

Diluted net (loss) income per common share <sup>(4)(5)</sup>	\$	(0.15)	\$	(0.12)	\$	(0.40)	\$	(0.20)	\$	(3.48)	\$	0.10	\$	(1.05)
--	----	--------	----	--------	----	--------	----	--------	----	--------	----	------	----	--------



**Table of Contents****Index to Financial Statements**

	As of June 30, 2011 Unaudited	2010 <sup>(1)</sup>	2009	As of December 31, 2008 <sup>(2)</sup>	2007 <sup>(3)</sup>	2006
(in thousands)						
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 102,632	\$ 95,533	\$ 152,888	\$ 164,528	\$ 112,601	\$ 46,885
Property and equipment, net	876,081	860,782	619,048	638,941	312,032	167,566
Total assets	2,099,141	2,007,938	1,457,580	1,496,520	1,166,356	379,740
Long-term debt and capital lease obligations (including current portion and net of debt discount)	1,521,806	1,448,089	926,057	930,833	795,557	373,786

	Six Months Ended June 30,		2010 <sup>(1)</sup>	Year Ended December 31,			2006
	2011 Unaudited	2010 Unaudited		2009	2008 <sup>(2)</sup>	2007 <sup>(3)</sup>	
(in thousands)							
<b>Other Financial Data:</b>							
Net cash provided by (used in) financing activities	64,308	14,063	438,771	(44,061)	127,767	290,275	(8,202)
Net cash provided by operating activities	112,453	44,749	125,768	152,169	152,131	113,116	53,555
Net cash used in investing activities	(169,662)	(88,031)	(621,894)	(119,748)	(227,971)	(337,675)	(47,862)
Adjusted EBITDA <sup>(6)</sup>	189,945	130,652	264,931	256,933	237,725	196,178	91,798

	As of June 30,		2010 <sup>(1)</sup>	As of December 31,			2006
	2011	2010		2009	2008 <sup>(2)</sup>	2007 <sup>(3)</sup>	
<b>Operating Data:</b>							
Geographic markets served <sup>(7)</sup>	86	84	86	84	80	53	29
Number of switches deployed <sup>(8)</sup>	166	122	166	122	118	65	13
Total employees	4,919	3,762	4,639	3,693	3,685	2,432	1,312

- (1) Includes results of Cavalier as of the Cavalier merger closing date of December 6, 2010.
- (2) Includes results of McLeodUSA after the McLeodUSA merger closing date of February 8, 2008.
- (3) Includes results of US LEC after the US LEC merger closing date of February 28, 2007.
- (4) Basic and diluted net (loss) income per common share for the year ended December 31, 2006 was calculated using the two-class method in accordance with Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*, by dividing undistributed (loss) income allocated to common stockholders by the weighted average number of common shares and potential common shares outstanding during the period, after giving effect to the participating security, which was PAETEC Corp.'s convertible redeemable preferred stock that was outstanding during the period. During the second quarter of 2006, as part of a leveraged recapitalization, PAETEC Corp. converted or repurchased all of its outstanding preferred stock. At and after June 30, 2006, there were no participating securities outstanding and, therefore, the two-class method of calculating basic and diluted (loss) income per share does not apply to those periods.
- (5) Potential common shares, which under the treasury stock method consist of stock options, warrants, and restricted stock units, and preferred stock assuming the full conversion of such preferred stock, are excluded from the diluted net loss per common share calculations for the years ended December 31, 2006, 2008, 2009 and 2010 and for the six months ended June 30, 2010 and 2011 because the effect of their inclusion would have been anti-dilutive. At December 31, 2006, and thereafter, there were no shares of convertible redeemable preferred stock outstanding.

**Table of Contents****Index to Financial Statements**

- (6) Adjusted EBITDA is not a financial measurement prepared in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Adjusted EBITDA Presentation under Information About PAETEC for PAETEC's reasons for including adjusted EBITDA data in this proxy statement/prospectus and for material limitations with respect to the usefulness of this measurement. The following table sets forth, for the periods indicated, a reconciliation of adjusted EBITDA to net (loss) income, as net (loss) income is calculated in accordance with GAAP:

	Six Months Ended June 30,		2010 <sup>(1)</sup>	Year Ended December 31,			2006
	2011	2010		2009	2008 <sup>(2)</sup>	2007 <sup>(3)</sup>	
Net (loss) income	\$ (21,368)	\$ (17,066)	\$ (57,741)	\$ (28,689)	\$ (487,895)	\$ 10,528	\$ 7,803
Add back non-EBITDA items included in net (loss) income:							
Depreciation and amortization	129,071	94,612	196,543	184,588	174,251	75,237	34,618
Interest expense, net of interest income	69,657	44,417	95,911	73,188	71,857	63,607	24,995
Provision for (benefit from) income taxes	1,450	(789)	(1,004)	(1,354)	89,797	8,037	8,430
EBITDA	178,810	121,174	233,709	227,733	(151,990)	157,409	75,846
Stock-based compensation	5,318	5,055	9,716	18,772	22,015	20,546	6,496
Leveraged recapitalization related costs							15,153
Change in fair value of Series A convertible redeemable preferred stock conversion right							(10,778)
Debt extinguishment and related costs		4,423	7,382	17,891		14,558	5,081
Acquisition, integration and separation costs	5,899		14,124		12,700	3,665	
Impairment charge					355,000		
Sales and use tax settlement				(7,221)			
Gain on non-monetary transaction	(82)			(242)			
Adjusted EBITDA	\$ 189,945	\$ 130,652	\$ 264,931	\$ 256,933	\$ 237,725	\$ 196,178	\$ 91,798

- (7) Each market represents a geographic area within one of the top 100 U.S. metropolitan statistical areas in which PAETEC offers its network services.
- (8) Switches are computers that connect customers to PAETEC's network and transmit voice and data communications over the network.

---

**Table of Contents**

**Index to Financial Statements**

**Unaudited Pro Forma Condensed Combined Financial Information of PAETEC**

The following unaudited pro forma condensed combined statement of operations of PAETEC has been prepared to reflect:

the effect of PAETEC's \$300 million senior secured notes offering and related debt refinancing completed on January 12, 2010;

the effect of PAETEC's \$450 million senior notes offering completed on December 2, 2010 and the application of the proceeds therefrom, together with the cash on hand of PAETEC and Cavalier, to pay the merger consideration and other costs and expenses related to PAETEC's acquisition of Cavalier by merger on December 6, 2010, including repayment of substantially all outstanding Cavalier indebtedness; and

PAETEC's acquisition of Cavalier by merger on December 6, 2010.

You should read this unaudited pro forma condensed combined statement of operations in conjunction with the:

accompanying notes to the unaudited pro forma condensed combined statement of operations; and

separate audited historical consolidated financial statements of PAETEC as of and for the year ended December 31, 2010 and related notes included in this proxy statement/prospectus under Consolidated Financial Statements of PAETEC beginning on page F-1. The historical financial information of PAETEC for the year ended December 31, 2010 presented in the unaudited pro forma condensed combined statement of operations is derived from the audited consolidated financial statements of PAETEC and the unaudited historical consolidated financial information of Cavalier for the period from January 1, 2010 through December 6, 2010, respectively, but does not include all disclosures required by GAAP.

The unaudited pro forma condensed combined statement of operations is provided for informational purposes only. The pro forma information is not necessarily indicative of what the combined companies' results of operations actually would have been if the events set forth above had been completed at the date indicated. In addition, the unaudited pro forma condensed combined statement of operations does not purport to project the future financial position or operating results of PAETEC.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010 combines the historical consolidated statements of operations for PAETEC and Cavalier to give effect to PAETEC's acquisition of Cavalier, PAETEC's \$300 million senior secured notes offering completed on January 12, 2010, and PAETEC's \$450 million senior notes offering completed on December 2, 2010 and the application of the proceeds therefrom, together with PAETEC and Cavalier cash on hand, to pay the merger consideration and other costs and expenses related to PAETEC's acquisition of Cavalier, including repayment of substantially all outstanding Cavalier indebtedness, as if they had occurred on January 1, 2010.

*Issuance and Sale of 8<sup>7</sup>/<sub>8</sub>% Senior Secured Notes.* On January 12, 2010, PAETEC issued and sold \$300 million in aggregate principal amount of 8<sup>7</sup>/<sub>8</sub>% senior secured notes due 2017. PAETEC sold the senior secured notes at an offering price of 100.528% of their principal amount, plus accrued interest from December 31, 2009, and applied a portion of the proceeds of the offering to repay \$240.2 million principal amount of term loans and \$30.0 million principal amount of revolving loans outstanding under its senior secured credit facilities and to pay related fees and expenses. The \$300 million of senior secured notes accrue interest at a rate of 8<sup>7</sup>/<sub>8</sub>% per year. Interest is payable semi-annually in cash in arrears on June 30 and December 31 of each year. The 8<sup>7</sup>/<sub>8</sub>% senior secured notes will mature on June 30, 2017.

The January 12, 2010 offering of PAETEC's 8<sup>7</sup>/<sub>8</sub>% senior secured notes and the use of the proceeds of such offering was accounted for under the guidance in ASC Topic 470, *Debt*, as an extinguishment. The historical



---

**Table of Contents**

**Index to Financial Statements**

condensed consolidated statement of operations for the year ended December 31, 2010 reflects \$4.4 million of debt extinguishment and related costs recognized by PAETEC in connection with the January 12, 2010 issuance and sale of the \$300 million of 8<sup>7/8</sup>% senior secured notes and related repayment of loans outstanding under its senior secured credit facilities.

*Issuance and Sale of 9<sup>7/8</sup>% Senior Notes and Acquisition of Cavalier.* On December 2, 2010, PAETEC Escrow Corporation ( PAETEC Escrow ), a wholly-owned subsidiary of PAETEC Holding Corp., issued and sold \$450 million in aggregate principal amount of its 9<sup>7/8</sup>% senior notes due 2018. On December 2, 2010, the gross proceeds of approximately \$435 million received from the offering of the 9<sup>7/8</sup>% senior notes were deposited into a segregated escrow account.

On December 6, 2010, PAETEC Holding completed its acquisition of Cavalier by merger. Upon the effectiveness of the merger and the satisfaction of other conditions, PAETEC Holding Corp. assumed PAETEC Escrow's obligations and agreements in respect of the 9<sup>7/8</sup>% senior notes and under the indenture governing such notes, and the escrow arrangements were terminated and the proceeds of the offering of the 9<sup>7/8</sup>% senior notes were disbursed from the escrow account and used, together with cash on hand of PAETEC Holding and Cavalier, to pay the consideration and other costs and expenses related to the merger.

PAETEC's acquisition of Cavalier by merger on December 6, 2010 was accounted for using the acquisition method in accordance with ASC Topic 805, *Business Combinations* ( ASC 805 ). The purchase price allocation for the Cavalier merger is reflected in the historical consolidated balance sheet of PAETEC as of December 31, 2010, as included in this proxy statement/prospectus. In accordance with ASC 805, the purchase price of the Cavalier merger was allocated to the assets acquired and liabilities assumed based on their fair values as of the merger closing date, with the amounts exceeding the fair value of the assets acquired being recorded as goodwill.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010 has been adjusted for the decreased depreciation expense resulting from the acquired property and equipment, as well as the increased amortization expense resulting from the acquired intangible assets.

This unaudited pro forma financial information is based on PAETEC management's estimates of fair values of acquired property and equipment and intangible assets. Definitive allocations will be finalized based upon valuations and other studies that were performed following the closing date of the merger. Accordingly, the depreciation and amortization adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value. Final determinations of fair value may differ materially from those presented. The unaudited pro forma condensed combined statement of operations also includes certain purchase accounting adjustments, including items expected to have a continuing impact on the combined results, such as interest expense on PAETEC's \$450 million offering of the 9<sup>7/8</sup>% senior notes completed on December 2, 2010.

The unaudited pro forma condensed combined statement of operations does not include the effects of any revenue, cost or other operating efficiencies that may result from the Cavalier merger, nor does it reflect any other changes that might occur regarding the PAETEC and Cavalier combined portfolios of businesses.

The unaudited pro forma condensed consolidated statement of operations does not reflect any nonrecurring charges expected to result from the Cavalier merger, other than those actually realized and reflected in the historical consolidated statements of operations for PAETEC. The majority of nonrecurring charges resulting from the merger include employee termination, exit costs and other integration-related costs, as well as transaction costs such as investment banker, advisory, legal, and other professional fees.

**Table of Contents****Index to Financial Statements****Unaudited Pro Forma Condensed Consolidated Statement of Operations****of PAETEC for the Year Ended December 31, 2010****(in thousands, except share and per share data)**

	PAETEC Holding Historical <sup>(a)</sup>	8 7/8% Senior Secured Notes Pro Forma Adjustments	Subtotal	Cavalier Historical <sup>(b)</sup>	Cavalier Merger Pro Forma Adjustments and Pro Forma Adjustments for 9 7/8% Senior Notes	Pro Forma as Adjusted
Revenue	\$ 1,623,816	\$	\$ 1,623,816	\$ 354,959	\$ (12,962) <sup>(f)</sup>	\$ 1,965,813
Cost of sales (exclusive of operating items shown separately below)	808,892		808,892	159,673	(12,962) <sup>(f)</sup>	955,603
Selling, general and administrative expenses (exclusive of operating items shown separately below and inclusive of stock-based compensation)	559,673		559,673	112,901		672,574
Acquisition, integration and separation costs	14,124		14,124	12,683	(20,164) <sup>(g)</sup>	6,643
Depreciation and amortization	196,543		196,543	46,421	20,294 <sup>(h)</sup>	263,258
Income from operations	44,584		44,584	23,281	(130)	67,735
Debt extinguishment and related costs	7,382	(4,423) <sup>(c)</sup>	2,959			2,959
Other income, net	(392)		(392)	(74)		(466)
Interest expense	96,339	635 <sup>(d)</sup>	96,974	39,874	4,172 <sup>(i)</sup>	141,020
(Loss) income from continuing operations before income taxes	(58,745)	3,788	(54,957)	(16,519)	(4,302)	(75,778)
(Benefit from) provision for income taxes	(1,004)	<sup>(e)</sup>	(1,004)	319	(319) <sup>(j)</sup>	(1,004)
Loss from continuing operations	\$ (57,741)	\$ 3,788	\$ (53,953)	\$ (16,838)	\$ (3,983)	\$ (74,774)
Loss per common share from continuing operations basic and diluted	\$ (0.40)		\$ (0.37)			\$ (0.51)
Basic and diluted weighted average common shares outstanding	145,345,301		145,345,301			145,345,301

**Notes to Unaudited Pro Forma Condensed Combined Statement of Operations of PAETEC for the Year Ended December 31, 2010**

(a) Includes results of Cavalier as of the Cavalier merger closing date of December 6, 2010.

(b) Represents results from January 1, 2010 through the Cavalier merger closing date of December 6, 2010.

Edgar Filing: WINDSTREAM CORP - Form S-4/A

(c) The decrease in debt extinguishment and related costs of \$4.4 million represents the elimination of historical PAETEC costs recognized in connection with the January 12, 2010 issuance and sale of \$300 million in aggregate

**Table of Contents**

**Index to Financial Statements**

principal amount of 8<sup>7/8</sup>% senior secured notes and related repayment of loans outstanding under PAETEC's senior secured credit facilities. These historical costs are directly attributable to the issuance and sale of the 8<sup>7/8</sup>% senior secured notes, and are not expected to have a continuing impact.

(d) The increase in interest expense of \$0.6 million represents the following:

an increase of \$0.9 million related to the interest expense on the 8<sup>7/8</sup>% senior secured notes; and

a decrease of \$0.3 million related to the elimination of historical PAETEC interest expense on PAETEC's indebtedness repaid with the proceeds of the offering of the 8<sup>7/8</sup>% senior secured notes in January 2010.

(e) During the year ended December 31, 2010, PAETEC maintained a full valuation allowance for deferred tax assets. Accordingly, no pro forma adjustments to the provision for income taxes were recorded related to the adjustments in expenses described in notes (c) and (d) above.

(f) The decreases in both revenue and in cost of sales of \$13.0 million represent the following:

a decrease of approximately \$5.1 million in both revenue and in cost of sales to eliminate the impact of purchase and sales transactions during 2010 between PAETEC and Cavalier prior to the business combination; and

a decrease of approximately \$7.9 million in both revenue and in cost of sales to conform the historical results of Cavalier to the historical results of PAETEC with respect to the presentation of Universal Service Fund ( USF ) surcharges. Cavalier historically reported surcharges collected from customers for the USF on a gross basis as revenue, and included the amounts remitted to the tax authorities for the USF in cost of sales. PAETEC presents USF surcharges on a net basis.

(g) The decrease in acquisition, integration and separation costs of \$20.2 million represents the following:

a decrease of approximately \$8.0 million due to the elimination of historical PAETEC transaction costs directly related to the acquisition of Cavalier by PAETEC; and

a decrease of approximately \$12.2 million due to the elimination of historical Cavalier transaction costs directly related to the acquisition of Cavalier by PAETEC.

(h) The increase in depreciation and amortization expense of \$20.3 million represents the following:

an increase in amortization expense of approximately \$20.8 million for the year ended December 31, 2010 based on an acquired fair value of Cavalier's intangible assets of \$160.2 million with estimated useful lives of approximately 1-14 years, and utilizing an accelerated amortization method; and

a decrease in depreciation expense of approximately \$0.5 million for the year ended December 31, 2010 based on an acquired fair value of Cavalier's depreciable property and equipment of \$229.0 million with a weighted average expected useful life of approximately 6.7 years.



## Edgar Filing: WINDSTREAM CORP - Form S-4/A

As the fair values assigned to the property and equipment and intangible assets acquired from Cavalier are preliminary in nature, actual depreciation and amortization expense in future periods may differ materially from the depreciation and amortization expense presented.

A change of \$10 million in the fair value of the intangible assets acquired from Cavalier presented would result in a fluctuation of approximately \$1.6 million in amortization expense during the year ended December 31, 2010.

A change of \$10 million in the fair value of the property and equipment acquired from Cavalier presented would result in a fluctuation of approximately \$1.5 million in depreciation expense during the year ended December 31, 2010.

**Table of Contents**

**Index to Financial Statements**

(i) The increase in interest expense of \$4.2 million represents the following:

an increase of \$43.8 million (of which \$1.7 million represents amortization of debt discount and \$1.3 million represents amortization of debt issue costs) related to the interest expense on the \$450 million aggregate principal amount of 9<sup>7</sup>/<sub>8</sub>% senior notes issued and sold on December 2, 2010; and

a decrease of \$39.6 million (of which \$2.2 million represents amortization of debt issue costs) related to the elimination of substantially all historical Cavalier interest expense on Cavalier's pre-merger indebtedness.

Pro forma interest expense was calculated based on the stated interest rate of the 9<sup>7</sup>/<sub>8</sub>% senior notes due 2018.

(j) During the year ended December 31, 2010, PAETEC maintained a full valuation allowance for deferred tax assets. Accordingly, Cavalier's historical benefit from income taxes was eliminated on a pro forma basis. In addition, no pro forma adjustments to the provision of income taxes were recorded related to Cavalier's historical net loss from continuing operations or the adjustments in expenses described in notes (f), (g), (h) and (i) above.

**Table of Contents****Index to Financial Statements****Comparative Historical and Pro Forma Per Share Data**

The following table sets forth for the periods presented certain per share information for Windstream and PAETEC on a historical basis and unaudited pro forma combined per share information after giving effect to the merger between Windstream and PAETEC, under the acquisition method of accounting, assuming that 0.460 of a share of Windstream common stock had been issued in exchange for each outstanding share of PAETEC common stock. The acquisition method of accounting is based on ASC Topic 805, *Business Combinations*, and uses the fair value concepts defined in ASC Topic 820, *Fair Value Measurements*. ASC 805 requires among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The acquisition accounting is dependent upon certain valuations of PAETEC's assets and liabilities and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments reflect the assets and liabilities of PAETEC at their preliminary estimated fair values. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the unaudited pro forma combined per share information set forth in the following table. The historical per share information for Windstream has been derived from, and should be read in conjunction with, the historical consolidated financial statements of Windstream incorporated by reference into this proxy statement/prospectus. The historical per share information for PAETEC has been derived from, and should be read in conjunction with, the historical consolidated financial statements of PAETEC under Consolidated Financial Statements of PAETEC beginning on page F-1 of this proxy statement/prospectus. See *Where You Can Find More Information* on page 203 for information on how you can view Windstream's incorporated reports.

The unaudited pro forma PAETEC equivalent information was calculated by multiplying the corresponding Windstream unaudited pro forma combined information by the exchange ratio of 0.460. The data show how each share of PAETEC common stock would have participated in income from continuing operations, cash dividends and book value of Windstream if the two companies had been combined for accounting and financial reporting purposes for all periods presented. These amounts, however, are not intended to be indicative of the historical results that would have been achieved had the two companies been combined for all periods presented or of the future results of the combined company.

**Windstream**

	<b>Six Months Ended June 30, 2011</b>	<b>Year Ended December 31, 2010</b>
<b>Windstream Historical</b>		
Basic earnings per common share from continuing operations	\$ 0.23	\$ 0.66
Diluted earnings per common share from continuing operations	\$ 0.23	\$ 0.66
Cash dividends declared per share	\$ 0.50	\$ 1.00
Book value per share	\$ 1.57	\$ 1.65

**PAETEC**

	<b>Six Months Ended June 30, 2011</b>	<b>Year Ended December 31, 2010</b>
<b>PAETEC Historical</b>		
Basic net loss per common share	\$ (0.15)	\$ (0.40)
Diluted net loss per common share	\$ (0.15)	\$ (0.40)
Cash dividends declared per share	\$	\$
Book value per share	\$ 0.83	\$ 0.95

**Table of Contents****Index to Financial Statements****Windstream and PAETEC**

	<b>Six Months Ended June 30, 2011</b>	<b>Year Ended December 31, 2010</b>
<b>Pro Forma Combined</b>		
Basic earnings per common share from continuing operations	\$ 0.15	\$ 0.42
Diluted earnings per common share from continuing operations	\$ 0.15	\$ 0.42
Cash dividends declared per share <sup>(a)</sup>	\$ 0.50	\$ 1.00
Book value per share <sup>(b)</sup>	\$ 2.93	
<b>PAETEC Pro Forma Per Share Equivalents<sup>(c)</sup></b>		
Basic earnings per common share from continuing operations	\$ 0.07	\$ 0.19
Diluted earnings per common share from continuing operations	\$ 0.07	\$ 0.19
Cash dividends per share	\$ 0.23	\$ 0.46
Book value per share	\$ 1.35	

- (a) The pro forma combined cash dividends declared per share represent Windstream's historical cash dividends per common share.
- (b) The pro forma combined book value per share was calculated by dividing pro forma total combined Windstream by pro forma equivalent common shares as of June 30, 2011.
- (c) The PAETEC pro forma per share equivalent amounts are calculated by multiplying the pro forma combined per common share amounts by a fraction equal to 0.460. See The Merger Agreement Merger Consideration beginning on page 117 for additional information about the calculation of the merger consideration.

**Table of Contents****Index to Financial Statements****Comparative Stock Prices and Dividends**

Windstream common stock is traded on the NASDAQ Global Select Market under the symbol WIN. PAETEC common stock is traded on the NASDAQ Global Select Market under the symbol PAET. The following table sets forth the dividends declared on Windstream common stock and PAETEC common stock, respectively, and the high and low intra-day sales prices per share for Windstream common stock and PAETEC common stock, each as reported on the NASDAQ Global Select Market for the periods indicated.

Fiscal Year	Windstream Common Stock			PAETEC Common Stock		
	High	Low	Dividends	High	Low	Dividends
<b>2009</b>						
First Quarter	\$ 9.48	\$ 6.28	\$ 0.25	\$ 1.56	\$ 1.04	\$ 0.00
Second Quarter	\$ 9.13	\$ 7.85	\$ 0.25	\$ 3.55	\$ 1.37	\$ 0.00
Third Quarter	\$ 10.34	\$ 7.71	\$ 0.25	\$ 4.04	\$ 2.39	\$ 0.00
Fourth Quarter	\$ 11.65	\$ 9.62	\$ 0.25	\$ 4.52	\$ 3.19	\$ 0.00
<b>2010</b>						
First Quarter	\$ 11.40	\$ 9.87	\$ 0.25	\$ 4.95	\$ 2.93	\$ 0.00
Second Quarter	\$ 11.50	\$ 6.02	\$ 0.25	\$ 5.30	\$ 3.33	\$ 0.00
Third Quarter	\$ 13.05	\$ 10.34	\$ 0.25	\$ 4.42	\$ 3.37	\$ 0.00
Fourth Quarter	\$ 14.40	\$ 12.10	\$ 0.25	\$ 4.35	\$ 3.63	\$ 0.00
<b>2011</b>						
First Quarter	\$ 14.04	\$ 12.05	\$ 0.25	\$ 4.44	\$ 3.00	\$ 0.00
Second Quarter	\$ 13.57	\$ 12.38	\$ 0.25	\$ 4.95	\$ 3.21	\$ 0.00
Third Quarter (through September 14, 2011)	\$ 13.25	\$ 10.76	\$ 0.25	\$ 5.80	\$ 4.26	\$ 0.00

*Windstream Dividend Policy.* 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 Windstream's common stock. This practice can be changed at any time at the discretion of the board of directors, and is subject to Windstream's restricted payment capacity under its debt covenants.

*PAETEC Dividend Policy.* PAETEC has not declared or paid cash dividends on its common stock. Future declaration and payment of cash dividends, if any, on PAETEC's common stock are within the discretion of PAETEC's board of directors and will be determined in light of factors deemed relevant by the board of directors, including PAETEC's earnings, operations, capital requirements and financial condition and restrictions in its financing agreements. Under its credit facilities agreement and notes indentures, PAETEC may pay cash dividends on its common stock in excess of specified amounts only if it is not otherwise in default under those agreements and meets specified requirements relating to levels of its cash flows, total and secured indebtedness, interest obligations and other financial measures.

The following table sets forth the closing prices per share of Windstream common stock and PAETEC common stock as reported on the NASDAQ Global Select Market, and the market value of a share of PAETEC common stock on an equivalent value per share basis on July 29, 2011, the last full trading day prior to the public announcement of the merger, and September 14, 2011, the latest practicable trading date prior to the filing of this proxy statement/prospectus, as determined by multiplying the closing price per share of Windstream common stock by the exchange ratio of 0.460.

	Windstream Closing Share Price	PAETEC Closing Share Price	Equivalent Value per Share of PAETEC Common Stock
July 29, 2011	\$ 12.21	\$ 4.42	\$ 5.62
September 14, 2011	\$ 12.72	\$ 5.63	\$ 5.85

You are urged to obtain current market quotations for shares of Windstream common stock and PAETEC common stock before making a decision with respect to the merger.



**Table of Contents**

**Index to Financial Statements**

No assurance can be given as to the market prices of Windstream common stock or PAETEC common stock at the effective time of the merger. Because the exchange ratio will not be adjusted for changes in the market price of Windstream common stock, the market value of the shares of Windstream common stock that holders of PAETEC common stock will be entitled to receive at the effective time of the merger may vary significantly from the market value of the shares of Windstream common stock that holders of PAETEC common stock would have received if the merger had been completed on the date of the merger agreement or on the date of this proxy statement/prospectus.

Table of Contents

Index to Financial Statements

**RISK FACTORS**

*In addition to the other information contained and incorporated by reference into this document, including the matters addressed in the section entitled **Special Note Concerning Forward-Looking Statements**, you should carefully consider the following risks before deciding whether to vote for adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement. In addition, you should read and consider the risks associated with the businesses of Windstream and PAETEC because these risks will also affect the combined company. These risks can be found in Windstream's Annual Report on Form 10-K for the year ended December 31, 2010, as updated by Windstream's subsequent Quarterly Reports on Form 10-Q, all of which are filed with the SEC and incorporated by reference into this document, and in the section entitled **Information About PAETEC**, including the discussion in that section under **PAETEC's Business Risk Factors**. You should also read and consider the other information in this document and the other documents incorporated by reference into this document. See **Where You Can Find More Information** on page 203 for information on how you can view Windstream's incorporated documents.*

**Risks Related to the Merger**

**The exchange ratio will not be adjusted if the price of Windstream common stock declines before the merger is completed. As a result, the value of the shares of Windstream common stock at the time PAETEC stockholders receive them could be less than the value of those shares on the date of this proxy statement/prospectus.**

In the merger, PAETEC stockholders will be entitled to receive 0.460 shares of Windstream common stock for each share of PAETEC common stock owned by them. Windstream and PAETEC will not adjust the exchange ratio as a result of any change in the market price of Windstream common stock between the date of this proxy statement/prospectus and the date on which PAETEC stockholders receive shares of Windstream common stock in exchange for their shares of PAETEC common stock. The market price of Windstream common stock will likely be different, and may be lower, on the date on which PAETEC stockholders receive their shares of Windstream common stock than the market price of Windstream common stock on the date of this proxy statement/prospectus. Differences in the market price of Windstream common stock may be the result of changes in the business, operations or prospects of Windstream, market reactions to the proposed merger, regulatory considerations, general market and economic conditions or other factors.

**Regulators may impose conditions that could prevent completion of the merger or reduce the anticipated benefits from the merger. As a result, the price of Windstream common stock may be adversely affected.**

As a condition to their respective obligations to complete the merger, Windstream and PAETEC must obtain the approval of various regulatory authorities, including, without limitation, the FCC and certain PSCs. Any of these regulators could object to the merger and/or impose conditions or restrictions on their approvals that are materially adverse to Windstream and the combined company. Depending on their nature and extent, any objections, conditions or restrictions of regulatory authorities may jeopardize or delay completion of the merger or may lessen the anticipated potential benefits of the merger.

Under the merger agreement, Windstream and PAETEC are obligated to use all reasonable best efforts to resolve any such objections, conditions or restrictions to permit the merger but are not required to take any action that would be materially adverse to the business, financial condition or the expected benefits of the merger to Windstream and its subsidiaries, taken as a whole, or PAETEC and its subsidiaries, taken as a whole.

Windstream and/or PAETEC may waive its rights and take actions that it is not otherwise required to take in connection with receipt of the necessary regulatory approvals, in order to proceed with the completion of the merger. If Windstream and/or PAETEC were to proceed with the merger despite the imposition of regulatory conditions or restrictions, Windstream's business, operating and financial results and the price of its common stock following completion of the merger could be adversely affected.



---

**Table of Contents**

**Index to Financial Statements**

**Windstream may not realize the anticipated synergies and tax benefits from the merger.**

Windstream expects to achieve approximately \$100 million in annual pre-tax operating cost synergies and tax benefits as a result of the merger. However, Windstream's ability to realize the anticipated synergies and tax benefits will depend upon the successful integration of PAETEC's business with that of Windstream. Even if Windstream successfully integrates PAETEC's business, there can be no assurance that this integration will result in the realization of the full benefit of the anticipated synergies 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 merger may be offset by costs incurred in integrating Windstream and PAETEC, or regulatory authorities may impose adverse conditions on Windstream's and PAETEC's combined businesses in connection with granting approval of the merger.

**Windstream cannot assure you whether, when or in what amounts it will be able to use PAETEC's net operating losses following the merger.**

Based on current tax law, as of June 30, 2011, PAETEC had approximately \$1.4 billion of net operating losses (NOLs) for U.S. federal income tax purposes. After the merger, the combined company's ability to utilize these tax attributes to offset future taxable income will be subject to significant limitations under Sections 382 and 383 and other provisions of the Code. Moreover, issuances or sales of Windstream stock following the merger (including certain transactions outside of Windstream's control) could result in an ownership change further limiting the combined company's ability to utilize the NOLs. Determining whether an ownership change has occurred and the limitations applicable to the NOLs is technical and highly complex. For these and other reasons, Windstream cannot assure you that the combined company will be able to use PAETEC's NOLs after the merger in the amounts it projects.

**Failure to quickly and efficiently integrate PAETEC's technology, products and services could reduce Windstream's profitability, adversely affect its stock price, and either delay or prevent realization of many of the potential benefits of the merger.**

In order to obtain the benefits of the merger, Windstream must effectively integrate PAETEC's technology, products and services with Windstream's technology, products and services. Windstream may not be able to accomplish this integration quickly and effectively. Windstream may be required to spend additional time and money on operating compatibility, which would otherwise be spent on developing and selling its own products and services. If Windstream does not integrate operations effectively or uses too many resources on integration issues, it could harm the combined companies' business, financial condition and results of operations.

**The time and effort required to be dedicated to the integration of PAETEC into Windstream could divert the attention of Windstream's management from other business concerns or otherwise harm Windstream's business.**

The integration process could result in the diversion of Windstream management's attention from other business concerns, in the disruption or interruption of, or the loss of momentum in, Windstream's ongoing business, or in inconsistencies in standards, controls, procedures and policies. Any of these impacts could adversely affect Windstream's ability to maintain relationships with its customers and employees or Windstream's ability to achieve the anticipated benefits of the merger, or could reduce the earnings or otherwise adversely affect Windstream's business and financial results.

**Windstream expects to incur significant non-recurring expenses related to the merger.**

Windstream is developing a plan to integrate the operations of PAETEC after the merger. In connection with that plan, Windstream anticipates that certain non-recurring operating expenses, such as branding, severance and billing system conversion costs, will be incurred in connection with this integration. Additionally, Windstream anticipates incurring certain capital expenditures and non-recurring operating expenses associated

## **Table of Contents**

### **Index to Financial Statements**

with network integration and achievement of network synergies. These expenditures include investments in switching and transport equipment, as well as circuit change fees and other interconnection costs. Windstream cannot identify the timing, nature and amount of all such charges as of the date of this proxy statement/prospectus. However, any such charges could affect Windstream's results of operations and cash flows from operations in the period in which such charges are recorded.

#### **The market price of Windstream common stock may decline as a result of the merger.**

The market price of Windstream common stock may decline as a result of the merger if the integration of Windstream and PAETEC is unsuccessful or takes longer than expected, the perceived benefits of the merger are not achieved as rapidly or to the extent anticipated by financial analysts or investors, or the effect of the merger on Windstream's financial results is not consistent with the expectations of financial analysts or investors.

#### **The price of Windstream common stock and Windstream's results of operations may be affected by factors different from those affecting the price of PAETEC common stock and PAETEC's results of operations.**

Holders of PAETEC common stock will be entitled to receive Windstream common stock in the merger and will thus become holders of Windstream common stock. Windstream's business is different in certain ways from that of PAETEC, and Windstream's results of operations, as well as the price of Windstream common stock, may be affected by factors different from those currently affecting PAETEC's results of operations and the price of PAETEC common stock. The price of Windstream common stock may fluctuate significantly following the merger, including as a result of factors over which Windstream has no control. For a discussion of Windstream's and PAETEC's businesses and certain factors to consider in connection with such businesses, including risk factors for PAETEC, see "Risks Related to Windstream after the Merger" beginning on page 33 and "Information About PAETEC PAETEC's Business Risk Factors" beginning on page 166.

#### **PAETEC stockholders will have reduced ownership and voting interests after the merger and will exercise less influence over management of Windstream than they currently exercise over management of PAETEC.**

After the effective time of the merger, PAETEC stockholders will own in the aggregate a significantly smaller percentage of Windstream than they currently own of PAETEC. Following completion of the merger, PAETEC stockholders are expected to own less than 15% of the outstanding shares of Windstream common stock based on the number of shares of PAETEC common stock and Windstream common stock outstanding on the record date for the special meeting of PAETEC stockholders to be held for a vote on adoption of the merger agreement. Consequently, PAETEC stockholders as a group will have less influence over the management and policies of Windstream than they currently exercise over the management and policies of PAETEC.

#### **PAETEC stockholders will have different rights with respect to their holdings following the merger.**

Upon completion of the merger, PAETEC stockholders will become stockholders of Windstream. There are differences between the rights of PAETEC stockholders under the PAETEC governing documents and the rights of Windstream stockholders under the Windstream governing documents. For a description of some of these differences, see "Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC" beginning on page 141.

#### **Certain directors and executive officers of PAETEC may have potential conflicts of interest in connection with the transactions contemplated by the merger agreement.**

The interests of certain of the directors and executive officers of PAETEC are different from those of PAETEC stockholders generally, and such directors and executive officers of PAETEC participate in arrangements that are different from, or in addition to, those of PAETEC stockholders. These interests are

---

**Table of Contents**

**Index to Financial Statements**

described more fully under The Merger Interests of PAETEC's Directors and Executive Officers in the Merger. PAETEC stockholders should consider whether these interests may have influenced those directors and executive officers with respect to the merger.

As of the close of business on the record date for the special meeting of PAETEC stockholders to be held for a vote on adoption of the merger agreement, PAETEC directors and executive officers collectively beneficially owned and were entitled to vote approximately 13.4% of the shares of PAETEC common stock then outstanding.

**The voting agreement may limit PAETEC's ability to pursue alternatives to the merger.**

Certain directors and executive officers of PAETEC have signed a voting agreement committing them to vote any shares held by them in favor of adoption of the merger agreement and against any alternative proposal or any other action which is reasonably likely to adversely affect or interfere with the consummation of the transactions contemplated by the merger agreement. Because signatories to the voting agreement collectively beneficially owned approximately 7.2% of the outstanding PAETEC common stock as of the record date for the special meeting, the voting agreement may have the effect of discouraging a competing offer to acquire PAETEC.

**The merger agreement limits PAETEC's ability to pursue alternatives to the merger, and in certain instances requires payment of a termination fee, which could deter a third party from proposing an alternative transaction to the merger.**

While the merger agreement is in effect, subject to certain limited exceptions, PAETEC is prohibited from soliciting, initiating, encouraging or entering into certain transactions, such as a merger, sale of assets or other business combination, with any third party. As a result of these limitations, PAETEC may lose opportunities to enter into a more favorable transaction than the merger. See The Merger Agreement Covenants No Solicitation beginning on page 126 for a description of the foregoing limitations.

Moreover, under specified circumstances, PAETEC could be required to pay Windstream a termination fee of \$40 million in connection with the termination of the merger agreement. Upon termination of the merger agreement under certain circumstances, PAETEC may be required to reimburse Windstream for up to \$15 million of fees and expenses whether or not the termination fee later becomes payable. See The Merger Agreement Termination Fee beginning on page 133 for a description of PAETEC's obligations in these circumstances. The termination fee and the obligation of PAETEC to reimburse Windstream for fees and expenses could deter a third party from proposing an alternative to the merger.

**PAETEC will be subject to business uncertainties and contractual restrictions while the proposed merger is pending that could adversely affect PAETEC's business.**

Uncertainty about the effect of the proposed merger on PAETEC's employees and customers may have an adverse effect on PAETEC's business. These uncertainties may impair PAETEC's ability to attract, retain and motivate key personnel until the proposed merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with PAETEC to seek to change existing business relationships with PAETEC. Employee retention may be particularly challenging during the pendency of the proposed merger, as employees may experience uncertainty about their future roles with the combined company. If, despite PAETEC's retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, PAETEC's business could be seriously harmed.

The merger agreement restricts PAETEC, without the consent of Windstream, from making acquisitions and taking other specified actions until the proposed merger occurs or the merger agreement terminates. The restrictions may prevent PAETEC from pursuing otherwise attractive business opportunities and making other

**Table of Contents**

**Index to Financial Statements**

changes to its business that may arise before completion of the proposed merger or, if the proposed merger is abandoned, termination of the merger agreement.

PAETEC has incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the merger. Many of the fees and costs will be payable by PAETEC even if the proposed merger is not completed.

**PAETEC, its directors, and Windstream are defendants in three purported class action lawsuits seeking to enjoin the merger.**

On August 8, 2011, a purported stockholder of PAETEC filed a complaint styled as a class action lawsuit in the Court of Chancery of the State of Delaware. On August 9, 2011, a purported stockholder of PAETEC filed a similarly styled complaint in the Supreme Court of the State of New York, Monroe County. These complaints allege, among other things, that the board of directors of PAETEC conducted an unfair sales process resulting in an unfair merger price. They assert that PAETEC's board members breached their fiduciary duties in agreeing to the merger and that Windstream aided and abetted in the breaches of fiduciary duties. The lawsuits seek to enjoin the merger and seek unspecified monetary damages. On September 14, 2011, the plaintiff in the New York action filed the Delaware Complaint in the Court of Chancery of the State of Delaware. In addition to alleging the same items as in the earlier filed actions, the Delaware Complaint alleges that the board of directors of PAETEC breached their fiduciary duties by issuing a false and misleading proxy statement. The defense of these lawsuits may divert the time and attention of Windstream's and PAETEC's managements away from business operations, and negative developments with respect to these lawsuits could cause a decline in the price of Windstream's stock or the price of PAETEC's stock. In addition, the outcome of these lawsuits cannot be predicted and ultimately may have a material adverse effect on the ability of Windstream and PAETEC to complete the merger.

**Risks Related to Windstream after the Merger**

**Windstream faces intense competition in its businesses from many sources that could reduce its market share or adversely affect its financial performance.**

Substantial and increasing competition exists in the wireline communications industry. Windstream's operations have experienced, and will continue to experience, competition in its local service areas. Sources of competition to its local service business include, but are not limited to, wireless communications providers in markets where Windstream provides incumbent local exchange services, cable television companies, resellers of local exchange services, interexchange carriers, incumbent local exchange carriers ( ILECs ) in markets where Windstream provides competitive local exchange services, satellite transmission service providers, electric utilities, competitive access service providers, including, without limitation, those utilizing Commercial Unbundled Network Elements-Platform (or Commercial UNE-P ), voice over Internet Protocol ( 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 Windstream in several ways, including (1) the loss of customers and resulting revenue and market share, (2) the possibility of customers reducing their usage of Windstream's services or shifting to less profitable services, (3) Windstream's need to lower prices or increase marketing expenses to remain competitive and (4) Windstream's inability to diversify by successfully offering new products or services.

---

**Table of Contents**

**Index to Financial Statements**

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

Windstream faces 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 than Windstream's ILEC operations. In addition, the rates or prices of the voice service offerings of cable companies are not subject to regulation. In contrast, Windstream's voice service rates or prices, in its capacity as an ILEC, are subject to regulation by various state public service commissions. Unlike cable operators, its ILEC operations are also subject to carrier of last resort obligations, which generally obligate it to provide basic voice services to any person regardless of the profitability of such customer. As a result of these disadvantages, Windstream may not be able to compete successfully with cable companies in the offering of voice services.

**Funding from the federal broadband stimulus program could result in increased competition, which could adversely affect Windstream's operating results and financial performance.**

The federal broadband stimulus program is providing approximately \$7.2 billion in financial incentives to companies for the purpose of expanding broadband service in unserved or underserved markets. Financial incentives paid to new or existing competitors could incent them to enter markets where Windstream is already providing broadband service. This could result in increased competition and the loss of customers, negatively impacting its operating results and financial performance.

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

Wireless competition has contributed to a reduction in Windstream's ILEC 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. Windstream anticipates that this trend toward solely using wireless services in the consumer market 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 consumer access lines served by Windstream will continue to be adversely affected by wireless substitution and that industry-wide pricing pressure will continue. Windstream may not be able to compete successfully with these wireless carriers.

**Windstream 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, WiFi and other 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, there is a risk that cable operators may be able to deploy broadband service at higher speeds using data-over-cable-service-interface specification (or DOCSIS) more rapidly than Windstream. In addition, wireless companies are developing networks using long-term evolution (or LTE) and Worldwide Interoperability for Microwave Access (or WiMAX), that purport to support greater data transmission speeds over wireless networks.

These new and evolving technologies could result in greater competition and product substitution for Windstream's high-speed Internet services. Furthermore, the proliferation of replacement technologies impacting Windstream's wireline business could require Windstream 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, Windstream may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into its systems in a cost effective

**Table of Contents****Index to Financial Statements**

manner, or at all. If Windstream cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by its customers, Windstream's results of operations could be adversely impacted.

**Windstream is subject to various forms of regulation from the FCC and state regulatory commissions in the states in which it operates, which limits its pricing flexibility for regulated voice and high-speed Internet products, subjects Windstream to service quality, service reporting and other obligations, and exposes it 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, as of June 30, 2011, Windstream had operating authority from each of the 29 states in which it conducted local service operations, and Windstream is subject to various forms of regulation from the regulatory commissions in each of these 29 states as well as from the FCC. State regulatory commissions have jurisdiction over local and intrastate services including, to some extent, the rates that Windstream charges customers and other telecommunications companies, and service quality standards. The FCC has primary jurisdiction over interstate services, including the rates that Windstream charges other telecommunications companies that use Windstream's network and other issues related to interstate service. These regulations restrict Windstream's ability to adjust rates to reflect market conditions and affect its ability to compete and respond to changing industry conditions.

Future revenues, costs, and capital investment in Windstream's 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 universal service fund ( USF ) support, unbundled network element ( UNE ) pricing and requirements, and VoIP regulation. The potential effect of regulatory changes may differ with respect to particular lines of Windstream's business. In particular, Windstream's ILEC and competitive local exchange carrier ( CLEC ) businesses may be affected differently by changes to and enforcement of these regulations and other existing laws or rules. The pursuit by Windstream of changes in laws or regulations that would improve operating margins in the CLEC business would be contrary, in some instances, to the interests of Windstream's ILEC operations, and vice versa. Federal and state communications laws may be amended in the future, and other laws may affect Windstream's business. In addition, certain laws and regulations applicable to Windstream and its competitors may be, and have been, challenged in the courts and could be changed at any time. Windstream 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 Windstream. Delays in obtaining certifications and regulatory approvals could cause Windstream to incur substantial legal and administrative expenses, and conditions imposed in connection with such approvals could adversely affect the rates that Windstream is able to charge its customers. Windstream's 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 its 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. Windstream's compliance costs could increase if future legislation, regulations or orders continue to increase its obligations.

**In 2010, Windstream received approximately 7 percent of its revenues from state and federal Universal Service Funds, and any adverse regulatory developments with respect to these funds could adversely affect its profitability.**

Windstream receives state and federal USF revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted approximately 7 percent of its revenues for the year ended December 31, 2010. A portion of such fees is based on relative cost and access line counts, and Windstream expects receipt of such fees to decline as it continues to reduce costs and lose access

---

**Table of Contents**

**Index to Financial Statements**

lines. Pending regulatory proceedings could, depending on the outcome, materially reduce its USF revenues. For the six months ended June 30, 2011, USF revenues decreased \$5.5 million from the same period in 2010.

Windstream is required to make contributions to state and federal USF programs each year. Current state and federal regulations allow Windstream to recover these contributions by including a surcharge on its customers' bills. If state and/or federal regulations change, and Windstream becomes ineligible to receive support, such support is reduced, or Windstream becomes unable to recover the amounts it contributes to the state and federal USF programs from its customers, its earnings and cash flows from operations would be directly and adversely affected.

**Changes to regulations could materially reduce Windstream's revenues from inter-carrier compensation.**

Windstream'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 2010, Windstream recognized \$285.9 million in inter-carrier compensation, an increase of \$11.6 million, or 4.2 percent, from 2009 levels. This increase in inter-carrier compensation revenue was driven by \$48.7 million from D&E Communications, Inc., Lexcom, Inc., NuVox, Inc. ( NuVox ), Iowa Telecommunications Services, Inc. ( Iowa Telecom ), Hosted Solutions Acquisition, LLC ( Hosted Solutions ) and Q-Comm Corporation ( Q-Comm ), and was partially offset by decreases in minutes of use associated with access line losses resulting from wireless and cable voice competition, efforts by carriers to mask traffic to avail their traffic of lower inter-carrier compensation rates and allegations by carriers that their traffic is not subject to existing inter-carrier compensation rules as a result of the technology being used to deliver the traffic. Absent any changes to existing inter-carrier compensation regulations, Windstream expects inter-carrier revenues to continue to be unfavorably impacted by these trends in 2011.

On July 29, 2011, Windstream and a group of communications companies jointly filed a proposal with the FCC that recommends specific reforms to the existing inter-carrier compensation and universal service mechanisms ( Proposal ). Under the Proposal, over a five-year transition period price-cap carriers would reduce terminating switched access and reciprocal compensation rates, would have an opportunity for modest increases in end user rates and would receive additional universal service support.

The Proposal also recommends transitioning the existing universal service support received by price-cap carriers over a five-year period to a new mechanism designed to explicitly support broadband service in high-cost areas. Windstream supports the Proposal because it modernizes the universal service and intercarrier mechanisms for the future deployment and expansion of broadband services in high-cost areas by providing adequate and targeted universal service support, adequate rate transitions and a reasonable opportunity to recover revenue reductions.

At this time, Windstream cannot predict the outcome of the Proposal and related proceedings regarding inter-carrier compensation or the impact on Windstream's revenues and expenses.

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

As of June 30, 2011, Windstream had approximately \$7.4 billion in long-term debt outstanding, including current maturities. Windstream will also assume or incur additional indebtedness in connection with the merger with PAETEC and may incur additional long-term debt to meet future financing needs or to fund other potential acquisitions, in each case subject to certain restrictions under its existing indebtedness. Windstream's substantial amount of debt could have negative consequences to its business. For example, it could:

increase its vulnerability to general adverse economic and industry conditions;

require Windstream 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;

**Table of Contents****Index to Financial Statements**

limit its flexibility in planning for, or reacting to, changes in its business and the telecommunications industry;

place Windstream at a competitive disadvantage compared with competitors that have less debt; and

limit its ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In addition, Windstream's ability to borrow funds in the future will depend in part on the satisfaction of the covenants in its credit facilities and its other debt agreements. If Windstream is unable to satisfy the financial covenants contained in those agreements, or is 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 its outstanding indebtedness.

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

As of August 22, 2011, Moody's Investors Service (Moody's), Standard & Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) had granted Windstream the following senior secured, senior unsecured and corporate credit ratings:

Description	Moody's	S&P	Fitch
Senior secured credit rating	Baa3	BB+	BBB-
Senior unsecured credit rating	Ba3	B+	BB+
Corporate credit rating	Ba2	BB-	BB+
Outlook	Stable	Stable	Stable

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

**Windstream may be unable to fully realize expected synergies and growth opportunities in connection with various recent transactions.**

In addition to the proposed acquisition of PAETEC, Windstream acquired NuVox, Iowa Telecom, Q-Comm and Hosted Solutions in 2010.

Windstream expects to achieve substantial synergies, cost savings and growth opportunities as a result of these previous acquisitions. However, Windstream's ability to realize the anticipated synergies, cost savings and growth opportunities will depend upon the successful integration of the respective businesses with Windstream. Even if Windstream successfully integrates these businesses, 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. Despite Windstream's efforts to retain quality employees, Windstream might lose some employees in connection with these acquisitions. Windstream cannot assure you that the combined companies will be able to attract, retain and integrate employees following these acquisitions. It is possible that the integration process of the respective acquisitions could result in the



**Table of Contents****Index to Financial Statements**

diversion of Windstream's management's attention, the disruption or interruption of, or the loss of momentum in, Windstream's ongoing business or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect Windstream's ability to maintain relationships with its customers and employees or Windstream's ability to achieve the anticipated benefits of these acquisitions, or could reduce the earnings or otherwise adversely affect Windstream's business and financial results. The market price of Windstream common stock may decline as a result of these acquisitions if the integration of these businesses is unsuccessful or takes longer than expected, the perceived benefits of these acquisitions are not achieved as rapidly or to the extent anticipated by financial analysts or investors, or the effect of these acquisitions on Windstream's financial results is not consistent with the expectations of investors.

**Windstream provides services to its customers over access lines, and if it continues to lose access lines as it has historically, its revenues, earnings and cash flows from operations could be adversely affected.**

Windstream's business generates revenue by delivering voice and data services over access lines. Windstream has experienced net access line loss over the past few years. During the twelve month period ended June 30, 2011, total access lines decreased by approximately 2.1 percent. Excluding the access lines in the acquired markets of Q-Comm, access lines declined by 3.3 percent over the same period. Windstream expects to continue to experience net access line loss in its markets. Windstream's inability to retain access lines could adversely affect its revenues, earnings and cash flow from operations.

**Windstream is dependent upon other ILECs for facilities and service in operating territories in which it is not the incumbent.**

The acquisition of PAETEC would substantially increase Windstream's operating presence in territories where it depends upon the ILEC to install and maintain the facilities and services used to serve Windstream's customers (CLEC territories). These facilities include certain digital transmission lines or services, unbundled network elements and other network components. Although parties may negotiate prices contained in interconnection agreements, such statewide agreements typically incorporate prices for interconnection, collocation, and UNEs that have been established by the state regulatory agency in generic proceedings for the incumbent carrier using the FCC's approved pricing methodology. The prices for ILEC special access services are included in tariffs that may be changed after notice. In addition, Windstream must secure an acceptable interconnection agreement either through negotiation or by selecting an existing agreement available through the opt-in methodology whenever its CLEC business enters a new state or an existing agreement is terminated. If Windstream cannot negotiate interconnection agreements with other ILECs for network access and services for its CLEC territories on acceptable terms, Windstream may invoke binding arbitration by state regulatory agencies. The arbitration process is expensive and time consuming, and the results of arbitration may be unfavorable to Windstream. The inability to obtain interconnection on acceptable terms would be detrimental to operations in the CLEC territories.

Access to the ILEC-provisioned facilities and services is essential for providing communications services in the CLEC territories. Because of this dependence, communications services in these territories are susceptible to changes in the availability and pricing of ILEC facilities and services. If the ILECs become legally entitled to deny or limit access to network elements such as UNEs, or if state commissions allow ILECs to increase their rates for these elements or services, Windstream may not be able to effectively compete in these CLEC territories. In addition, if the ILECs do not adequately maintain or timely install these facilities, which they are legally obligated to do, Windstream's service to customers may be adversely affected. As a result, Windstream's business, results of operations and financial condition could be materially impacted as Windstream may have difficulty retaining existing customers and attracting new ones.

**Windstream's operations require substantial capital expenditures.**

Windstream requires substantial capital to maintain, upgrade and enhance its network facilities and operations. During 2010, Windstream incurred \$415.2 million in capital expenditures, and during the six month period ended June 30, 2011 Windstream incurred \$331.7 million in capital expenditures. In addition,

---

**Table of Contents**

**Index to Financial Statements**

Windstream's current dividend practice utilizes a significant portion of its cash generated from operations and therefore limits its operating and financial flexibility and its ability to significantly increase capital expenditures. While Windstream has 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 its capital expenditure requirements, and these outcomes could cause capital not to be available when needed. This could adversely affect its business.

In addition, Windstream filed numerous applications with the Rural Utilities Services ( RUS ) as part of the American Recovery and Reinvestment Act of 2009 and was notified during the third quarter of 2010 that 18 applications in thirteen states totaling \$181.3 million were approved. Windstream must fund 25 percent of the project cost, or \$60.4 million, for a total cost of \$241.7 million. These projects must be substantially completed within two years. Windstream began these projects in the first quarter of 2011 and has various vendor contracts currently under review with the RUS. During the first quarter of 2011, Windstream began contributing its matching funds into a pledged deposit account, reflected as restricted cash on its balance sheet. Windstream began applying for reimbursement for stimulus expenditures during the second quarter of 2011.

**Unfavorable changes in financial markets could adversely affect Windstream's pension plan investments, resulting in material funding requirements to meet pension obligations.**

Windstream'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. The fair market value of these investments, totaling \$929.2 million at June 30, 2011, increased 6.7 percent from \$870.5 million on December 31, 2010, due to a return on plan assets of \$37.2 million, or 4.3 percent, and a stock contribution with an appraised value, as determined by an unaffiliated third party valuation firm, of approximately \$60.6 million, which was subsequently sold for \$61.1 million, partially offset by \$39.1 million in routine benefit payments and administrative expenses. Returns generated on plan assets have historically funded a large portion of the benefits paid under Windstream's pension plan. Windstream estimates that the long-term rate of return on plan assets will be 8.0 percent, but returns below this estimate could significantly increase Windstream's contribution requirements, which could adversely affect Windstream's cash flows from operations.

**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 its 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 operations.

**Disruption in its networks and infrastructure may cause Windstream to lose customers and incur additional expenses.**

To be successful, Windstream will need to continue to provide its customers with reliable service over its networks. Some of the risks to its networks and infrastructure include physical damage to access lines, breaches of security, capacity limitations, power surges or outages, software defects and disruptions beyond its control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, Windstream will experience short disruptions in its service due to factors such as cable damage, inclement weather and service failures of its third party service providers. Windstream could experience more significant disruptions in the future. Windstream could also face disruptions due to capacity limitations if changes in its customers' usage patterns for its 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 Windstream to lose customers and incur expenses, and thereby adversely affect its business, revenue and cash flows.

---

**Table of Contents**

**Index to Financial Statements**

**Weak economic conditions may decrease demand for Windstream's services.**

Windstream could be sensitive to economic conditions and downturns in the economy. Downturns in the economy and vendor concentration in the markets served by Windstream could cause its existing customers to reduce their purchases of its basic and enhanced services and make it difficult for Windstream 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 its network facilities and operations. Should these suppliers experience financial difficulties, such difficulties could adversely affect Windstream's business through increased prices to source purchases through alternative vendors or unanticipated delays in the delivery of equipment and services purchased.

**Adverse developments in Windstream's relationship with its employees could adversely affect its business, financial condition or results of operations.**

As of June 29, 2011, 1,722 of Windstream's employees at various sites, or 17 percent of all of its employees, were covered by collective bargaining agreements. Windstream's relationship with these unions generally has been satisfactory, but occasional work stoppages have occurred.

Windstream is currently party to 23 collective bargaining agreements and one national pension agreement with several unions, which expire at various times. In addition, the proposed Employee Free Choice Act, if enacted, could increase organizational activity at locations where employees are currently not represented by a labor organization. Of its existing collective bargaining agreements, five agreements expired in 2011 and new agreements were ratified. In addition, the national pension agreement covered 606 employees as of June 30, 2011. This agreement expired in 2010 but has been extended indefinitely, subject to the right of Windstream or the unions to terminate the agreement with 30 days notice. Historically, Windstream has succeeded in negotiating new collective bargaining agreements without work stoppages; however, no assurances can be given that Windstream 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 its business, financial condition or results of operations.

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

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 Windstream'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 Windstream's capital expenditure requirements, and these outcomes could cause capital to not be available when needed in an amount sufficient to support Windstream's 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 the elimination of dividends or 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 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the American Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act") for two years. The Act designated certain qualifying dividend payments on capital stock as long term capital gains, which capped the federal tax rate on these payments at 15 percent for individual holders, provided certain holding period requirements are met. The provisions of the Act are set to expire at the end of 2012, and if not renewed, dividends will become taxable as ordinary income to the individual stockholder at their current federal tax rate. This could adversely affect the market price of Windstream's common stock by decreasing the after tax yield of holding the stock.

**Table of Contents**

**Index to Financial Statements**

**SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus, including information contained or incorporated by reference into this proxy statement/prospectus, contains certain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Generally, the words will, may, should, continue, believes, expects, intends, anticipates, estimates or similar expressions identify forward-looking statements, which also include any statements regarding the anticipated benefits of the merger, or Windstream's or PAETEC's expected financial condition, results of operations and business. Without limiting the generality of the preceding sentence, forward-looking statements include the statements not regarding historical facts contained in Risk Factors, The Merger Background of the Merger, The Merger Recommendation of the PAETEC Board; PAETEC's Reasons for the Merger, The Merger Windstream's Reasons for the Merger, The Merger Financial Forecasts of PAETEC's Management, and The Merger Financing Arrangements that refer to, without limitation, any forecasts, projections and descriptions of anticipated cost savings or other synergies or other expected benefits of the merger. Forward-looking statements also include certain statements contained in Information About PAETEC and incorporated by reference herein from documents filed with the SEC by Windstream relating to, among other matters, the possible or assumed future results of operations of Windstream's and PAETEC's businesses, the markets for Windstream's and PAETEC's services and products, anticipated capital expenditures, regulatory developments, competition or the expected effects of the merger.

These forward-looking statements involve known and unknown risks and uncertainties that are difficult to predict. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, among others, the following factors:

Windstream's and PAETEC's ability to complete the merger;

failure of PAETEC stockholders to adopt the merger agreement;

Windstream's ability to successfully integrate PAETEC's operations and to realize the synergies from the merger;

failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals;

Windstream's and PAETEC's ability to effectively manage their regulatory compliance and service quality;

Windstream's and PAETEC's ability to sell product offerings or enhanced services;

changes in accounting policies or practices;

changes in rates or traffic that are subject to access charges;

further adverse changes in economic conditions in the markets in which Windstream and PAETEC operate;

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 FCC or the U.S. Congress that results in a significant loss of revenue to Windstream;

material changes in the communications industry generally that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;

the potential for adverse changes in the ratings given to Windstream's debt securities by nationally accredited ratings organizations;

**Table of Contents**

**Index to Financial Statements**

the availability and cost of financing in the corporate debt markets;

the effects of work stoppages;

unexpected results of litigation;

unexpected or unfavorable rulings by public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;

the impact of equipment failure, natural disasters or terrorist acts;

the effects of federal and state legislation, rules, and regulations governing the communications industry;

changes in Windstream's and PAETEC's ability to manage their operations, costs and capital expenditures, to pay dividends and to reduce or refinance debt;

the effects of any unfavorable outcome with respect to any of Windstream's or PAETEC's current or future legal, governmental, or regulatory proceedings, audits or disputes;

earnings on pension plan investments significantly below Windstream's expected long-term rate of return for plan assets;

changes in income tax rates and tax laws; and

those factors listed or referenced under the heading "Risk Factors."

In addition to these factors, actual future performance, outcomes and results may differ materially because of other, more general, factors including (without limitation) general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes. Forward-looking statements, therefore, should be considered in light of all of the information included or referred to in this proxy statement/prospectus, including the cautionary information set forth or referenced under "Risk Factors" beginning on page 29.

Any forward-looking statements in this proxy statement/prospectus are not guarantees of future performance, and actual results, developments and business decisions may differ from those contemplated by those forward-looking statements, possibly materially. Accordingly, you should not place undue reliance on any such forward-looking statements. Windstream and PAETEC disclaim any duty to update any forward-looking statements except as required by applicable law. See "Where You Can Find More Information" on page 203 for information on how you can view Windstream's incorporated documents.

---

**Table of Contents**

**Index to Financial Statements**

**THE COMPANIES**

**Windstream Corporation**

Windstream is a leading communications and technology solutions provider, delivering complex data, high-speed Internet, voice and transport services to customers with operations throughout the United States and the District of Columbia. Windstream's business solutions include IP-based voice and data services, multiprotocol label switching networking, data center and managed services, hosting services and communications systems. Windstream provides high-speed Internet, voice, and digital television services to residential customers in 29 states. Windstream delivers its services over an extensive local and long-haul fiber network, which it also uses to provide wholesale services to other carriers.

As of June 30, 2011, Windstream served approximately 3.3 million access lines and 1.3 million high-speed Internet customers, and operated approximately 60,000 fiber route miles.

Windstream's telecommunications services are offered in the following 29 states: Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

Windstream is incorporated in Delaware. Windstream's principal executive offices are located at 4001 Rodney Parham Road, Little Rock, Arkansas 72212, and its telephone number is (501) 748-7000. Windstream's website is located at [www.windstream.com](http://www.windstream.com). Information on Windstream's website is not incorporated into, and does not otherwise form a part of, this proxy statement/prospectus.

Windstream common stock is traded on the NASDAQ Global Select Market under the trading symbol WIN.

For a further discussion of Windstream's business, you are urged to read Windstream's Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference into this proxy statement/prospectus. See *Where You Can Find More Information* on page 203 for information on how you can view this report.

***Recent Windstream Developments***

*Partial Redemption of 8.625% Senior Notes due 2016.* On August 19, 2011, Windstream directed U.S. Bank National Association, as trustee under the indenture governing Windstream's 8.625% Senior Notes due 2016 (the *2016 Notes*), to deliver a notice of redemption to holders of the 2016 Notes to redeem on September 19, 2011 (the *Redemption Date*) \$350.0 million of the outstanding aggregate principal amount of the 2016 Notes at a redemption price equal to \$1,043.13 per \$1,000 principal amount of the 2016 Notes, plus accrued and unpaid interest to, but excluding, the Redemption Date. The partial redemption was made in accordance with the terms of the indenture governing the 2016 Notes.

*Commitment Letter.* Contemporaneously with the execution of the merger agreement, Windstream entered into a commitment letter with J.P. Morgan Securities LLC and JPMorgan Chase Bank, N.A. (the *Commitment Letter*) pursuant to which JPMorgan Chase Bank, N.A. committed to provide to Windstream credit facilities of up to \$1,100,000,000, which, together with cash on hand at Windstream and PAETEC and the expected existing capacity under Windstream's revolving credit facility, would be sufficient to pay off all amounts outstanding under PAETEC's credit facilities and to repay or purchase all of PAETEC's outstanding senior notes and senior secured notes. As a result of the receipt of the amendments to (1) Windstream's credit facilities described below and (2) the indentures governing the PAETEC notes described below, the Commitment Letter has been terminated in accordance with its terms.

---

**Table of Contents**

**Index to Financial Statements**

*Credit Agreement Amendment.* As contemplated by the merger agreement, on August 9, 2011, Windstream received consent from the requisite lenders to amend certain provisions of its existing senior secured credit facilities and security agreement in order to, among other things, permit Windstream to leave PAETEC's senior notes and senior secured notes outstanding following the completion of the merger.

*Consent Solicitation.* As contemplated by the merger agreement, PAETEC solicited and, on August 16, 2011, received consents from the requisite holders of PAETEC's outstanding 9.5% Senior Notes due 2015, PAETEC's outstanding 8% Senior Secured Notes due 2017, and PAETEC's outstanding 8% Senior Notes due 2018 (collectively, the Notes) to proposed amendments to the indentures governing each series of Notes. The amendments provide that PAETEC's obligation under each indenture to make an offer to purchase all of the outstanding Notes of the applicable series upon a change of control of PAETEC (as defined in such indenture) will not apply as a result of the merger, and clarify PAETEC's obligations under the reporting covenant in each indenture.

See The Merger Financing Arrangements on page 116 for additional information about the Commitment Letter, the Credit Agreement Amendment and the Consent Solicitation.

**Peach Merger Sub, Inc.**

Merger Sub is a Delaware corporation and a direct, wholly-owned subsidiary of Windstream. Merger Sub was organized on July 27, 2011 solely for the purpose of effecting the merger with PAETEC. It has not carried on any activities other than in connection with the merger agreement.

**PAETEC Holding Corp.**

PAETEC is a competitive broadband communications services and solutions provider guided by the principle that delivering superior customer service is the key to competing successfully with other communications services providers. PAETEC's primary business is providing business end-user customers in metropolitan areas with a package of integrated broadband communications services that encompasses data services, including Internet access services and virtual private network services, and voice services, including local telephone services and domestic and international long distance services. As of June 30, 2011, PAETEC provided services in 48 states and the District of Columbia for approximately 53,000 business customers in a service area encompassing 86 of the country's top 100 metropolitan statistical areas.

PAETEC is incorporated in Delaware. PAETEC's principal executive offices are located at One PAETEC Plaza, 600 Willowbrook Office Park, Fairport, New York 14450, and its telephone number is (585) 340-2500. PAETEC's website is located at [www.paetec.com](http://www.paetec.com). Information on PAETEC's website does not form a part of this proxy statement/prospectus.

PAETEC's common stock is listed on the NASDAQ Global Select Market under the trading symbol PAET.

Additional information about PAETEC and its subsidiaries is included in the section of this proxy statement/prospectus entitled Information About PAETEC. See Where You Can Find More Information on page 203 for information on how you can view reports and other documents filed with the SEC by PAETEC. Such filed information does not form a part of this proxy statement/prospectus.



---

**Table of Contents**

**Index to Financial Statements**

**THE SPECIAL MEETING**

**General**

The PAETEC board of directors is using this proxy statement/prospectus to solicit proxies from the holders of shares of PAETEC common stock for use at the special meeting of PAETEC stockholders. PAETEC is first mailing to its stockholders this proxy statement/prospectus, including a notice of the special meeting and a form of proxy, on or about September 14, 2011.

**Date, Time and Place of the Special Meeting**

The special meeting is scheduled to be held at the Hilton Manhattan East, 304 East 42nd Street, New York, New York 10017 on October 27, 2011, at 10:00 a.m., local time.

**Purpose of the Special Meeting**

At the special meeting, holders of PAETEC common stock will be asked to:

1. consider and vote upon a proposal to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement;
2. cast an advisory (nonbinding) vote to approve golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and
3. consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

**Recommendations of the PAETEC Board of Directors**

The PAETEC board of directors unanimously recommends that PAETEC stockholders vote:

**FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

**FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

**FOR** approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

As discussed elsewhere in this proxy statement/prospectus, PAETEC's board of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and has determined that the merger agreement and the merger are fair to, advisable and in the best interests of PAETEC and its stockholders. PAETEC stockholders should carefully read this proxy statement/prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, PAETEC stockholders are directed to the merger agreement, which is attached as Annex A to this proxy statement/prospectus.

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

Adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement is subject to a vote by the PAETEC stockholders separate from the vote on approval of the golden parachute compensation, and approval of the golden parachute compensation is not a condition to completion of the merger.

### **Required Vote for Adoption of Merger Agreement**

Assuming a quorum is present at the special meeting, adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock outstanding as of the record date for the special meeting.

---

**Table of Contents**

**Index to Financial Statements**

If you fail to vote, if you fail to authorize your broker to vote on your behalf (which will result in a broker non-vote, as described below under Quorum ), or if you abstain from voting, the effect will be the same as if you had voted against the adoption of the merger agreement.

**Required Vote on Other Proposals**

Assuming a quorum is present at the special meeting, approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal. An abstention from voting on this proposal will have the same effect as a vote against the proposal. Broker non-votes will not affect whether this proposal is approved. Because the vote on this proposal is advisory, the result of the vote will not be binding on PAETEC.

Approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement, will require the affirmative vote of the holders of a majority of the shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal. An abstention from voting on this proposal will have the same effect as a vote against the proposal. Broker non-votes will not affect whether this proposal is approved. See Adjournment Proposal on page 136 for more information about this proposal.

**PAETEC Security Ownership of Management and Certain Beneficial Owners**

The following table presents information regarding the beneficial ownership of PAETEC common stock as of September 12, 2011 (except as indicated below) by:

each of PAETEC's directors;

PAETEC's Chief Executive Officer, its Chief Financial Officer and its five other most highly compensated executive officers for 2010, including two former executive officers;

all directors and executive officers of PAETEC as a group; and

each person known by PAETEC to own beneficially more than 5% of PAETEC's common stock.

As of September 12, 2011, the record date for PAETEC's special meeting, there were 146,145,461 shares of PAETEC common stock outstanding.

The following information has been presented in accordance with the SEC's rules and is not necessarily indicative of beneficial ownership for any other purpose. Under the SEC's rules, beneficial ownership of a class of capital stock as of any date includes any shares of that class as to which a person, directly or indirectly, has or shares voting power or investment power as of that date and also any shares as to which a person has the right to acquire sole or shared voting or investment power as of or within 60 days after that date through the exercise of any stock option or warrant or the vesting of any restricted stock unit, without regard to whether the right expires before the end of the 60-day period or continues thereafter. The beneficial ownership reported below does not take into account the acceleration of vesting of stock options or restricted stock units in connection with the closing of the merger. If two or more persons share voting power or investment power with respect to specific securities, all of those persons may be deemed to be the beneficial owners of the securities. Information with respect to persons other than the holders listed in the table below that share beneficial ownership with respect to the securities shown is set forth following the table.

**Table of Contents****Index to Financial Statements**

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (%)
<b>Executive Officers and Directors:</b>		
Richard T. Aab	8,391,543	5.7
Edward J. Butler, Jr.	1,121,894	*
Arunas A. Chesonis	6,689,191	4.6
Mario DeRiggi	289,310	*
Shelley Diamond	50,498	*
H. Russell Frisby, Jr.	144,057	*
Tansukh V. Ganatra	2,421,761	1.7
Michael C. Mac Donald	100,998	*
William R. McDermott	104,857	*
Robert D. Moore, Jr.	300,832	*
Mary K. O'Connell	71,001	*
Alex Stadler	139,798	*
Keith M. Wilson	829,435	*
Laurie Zaucha	56,739	*
Mark Zupan	176,723	*
All directors and executive officers as a group (16 persons)	21,121,387	14.2
<b>Other Stockholders:</b>		
BlackRock, Inc.	8,871,966	6.1
Columbia Wanger Asset Management, L.P.	14,743,000	10.1
FMR LLC	8,024,360	5.5
Penn Capital Management	7,921,094	5.4
Sankaty Credit Opportunities III, L.P. and others	7,801,908	5.3
Wayzata Investment Partners LLC	12,876,887	8.8

\* Represents beneficial ownership of less than 1%.

The percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by the person, which includes the number of shares as to which the person has the right to acquire voting or investment power as of or within 60 days after such date, by the sum of the number of shares outstanding as of the date plus the number of shares as to which the person has the right to acquire voting or investment power as of or within 60 days after such date. Consequently, the denominator for calculating beneficial ownership percentages may be different for each beneficial owner.

The information concerning Mr. Aab is based on PAETEC's records and on information filed with the SEC on Schedule 13D/A on December 17, 2009. Mr. Aab reports that the shares of common stock shown as beneficially owned by him include shares held by Melrich Associates, L.P., for which Mr. Aab and his wife are the sole general partners and share voting and investment power. The amount shown in the table also includes 811,639 shares issuable upon the exercise of stock options and a warrant that are exercisable as of or within 60 days after September 12, 2011. Mr. Aab's address is c/o PAETEC Holding Corp., One PAETEC Plaza, 600 Willowbrook Office Park, Fairport, New York 14450.

The shares of common stock shown as beneficially owned by Mr. Butler are based on PAETEC's records as of the termination of Mr. Butler's employment on November 5, 2010 and include 11,250 shares issuable upon the exercise of stock options that were exercisable as of or within 60 days after such date.

The information concerning Mr. Chesonis is based on PAETEC's records and on information filed with the SEC on Schedule 13D/A on May 17, 2010. The shares of common stock shown as beneficially owned by Mr. Chesonis include 548,535 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011. Mr. Chesonis's address is c/o PAETEC Holding Corp., One PAETEC Plaza, 600 Willowbrook Office Park, Fairport, New York 14450.

**Table of Contents**

**Index to Financial Statements**

The shares of common stock shown as beneficially owned by Mr. DeRiggi include 52,232 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Ms. Diamond include 43,999 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Frisby include 132,891 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Ganatra include 342,500 shares as to which Mr. Ganatra has sole voting and investment power through a stock control agreement with his son, 235,000 shares as to which Mr. Ganatra has sole voting and investment power through a stock control agreement with his wife, 1,700,000 shares held in charitable remainder trusts for which Mr. Ganatra has sole voting and investment power, and 19,499 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Mac Donald include 13,999 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. McDermott include 52,598 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Moore include 72,385 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Ms. O Connell include 43,611 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Stadler include 130,299 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Mr. Wilson include 103,649 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by Ms. Zaucha are based on PAETEC's records as of the termination of Ms. Zaucha's employment on March 4, 2011 and include 48,250 shares issuable upon the exercise of stock options that were exercisable as of or within 60 days after such date.

The shares of common stock shown as beneficially owned by Mr. Zupan include 149,224 shares issuable upon the exercise of stock options that are exercisable as of or within 60 days after September 12, 2011.

The shares of common stock shown as beneficially owned by all directors and executive officers as a group include 2,304,985 shares issuable upon the exercise of stock options and warrants that are exercisable, and the vesting of restricted stock units that are vested or subject to vesting, as of or within 60 days after September 12, 2011, or, with respect to the executive officers identified above who are no longer employed by PAETEC, as of or within the dates indicated above.

The information concerning BlackRock, Inc. is based on information filed with the SEC on Schedule 13G on February 7, 2011. BlackRock, Inc. reports sole dispositive and sole voting power over all of the shares shown. BlackRock, Inc.'s address is 40 East 52<sup>nd</sup> Street, New York, New York 10022.

The information concerning Columbia Wanger Asset Management, L.P. is based on information filed with the SEC on Schedule 13G/A on February 11, 2011. Columbia Wanger Asset Management, L.P. reports that it has sole dispositive power over all of the shares shown and sole voting power over 13,518,000 of the shares shown. The shares shown include shares held by Columbia Acorn Trust, a Massachusetts business trust advised by the reporting person. Columbia Wanger Asset Management, L.P.'s address is 227 West Monroe Street, Suite 3000, Chicago,

Illinois 60606.

**Table of Contents**

**Index to Financial Statements**

The information concerning FMR LLC ( FMR ) is based on information filed with the SEC on Schedule 13G/A on February 14, 2011. FMR reports that the shares of common stock shown as beneficially owned by it include 7,624,220 shares beneficially owned by Fidelity Management & Research Company ( Fidelity ) a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, as a result of Fidelity's service as investment adviser to various investment companies. Each of Edward C. Johnson, III, the Chairman of FMR, FMR, through its control of Fidelity, and unnamed investment companies has sole power to dispose of the shares owned by the investment companies. Members of the family of Mr. Johnson are the predominant owners of FMR and may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR. Neither FMR nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned directly by any investment company, which power resides with each such investment company's board of trustees. Pyramis Global Advisors Trust Company, an indirect, wholly-owned subsidiary of FMR and a bank, is the beneficial owner of 400,140 shares of common stock as a result of its serving as investment manager of institutional accounts owning such shares. Mr. Johnson and FMR each has sole dispositive power over 400,140 shares of common stock and sole power to vote or direct the voting of 400,140 shares of common stock owned by the institutional accounts managed by Pyramis Global Advisors Trust Company. FMR's address is 82 Devonshire Street, Boston, Massachusetts 02109.

The information concerning Penn Capital Management is based on information filed with the SEC on Schedule 13G on February 15, 2011. Penn Capital Management reports sole voting and dispositive power over all of the shares shown. Penn Capital Management's address is Navy Yard Corporate Center, Three Crescent Drive, Suite 400, Philadelphia, Pennsylvania 19112.

The information concerning Sankaty Credit Opportunities III, L.P. and others is based on information filed with the SEC on Schedule 13G on February 14, 2011 by Sankaty Credit Opportunities III, L.P. ( COPS III ), Sankaty Credit Opportunities IV, L.P. ( COPS IV ), Sankaty Credit Opportunities (Offshore) IV, L.P. ( COPS IV Offshore ) and Sankaty Advisors, LLC in its capacity as the investment manager for a managed account client. The Schedule 13G states that COPS III has sole voting and dispositive power with respect to 2,425,677 shares of common stock, COPS IV has sole voting and dispositive power with respect to 2,046,296 shares of common stock, COPS IV Offshore has sole voting and dispositive power with respect to 2,636,310 shares of common stock, and Sankaty Advisors, LLC has sole voting and dispositive power with respect to 693,625 shares of common stock. The reporting persons also state that Sankaty Credit Member, LLC is the managing member of COPS III and COPS IV, that Sankaty Credit Member (Offshore), Ltd. is the general partner of COPS IV Offshore, that Sankaty Advisors, LLC has entered into an investment management agreement with a managed account client pursuant to which it has authority to acquire, dispose of, and vote securities on behalf of such client, and that Jonathan S. Lavine is the managing member of Sankaty Credit Member, LLC and a director of Sankaty Credit Member (Offshore), Ltd. The address for COPS III, COPS IV, COPS IV Offshore and Sankaty Advisors, LLC is 111 Huntington Avenue, Boston, Massachusetts 02199.

The information concerning Wayzata Investment Partners LLC ( Wayzata ) is based on information filed with the SEC on Schedule 13G/A on February 14, 2011. Wayzata serves as an investment adviser to Wayzata Recovery Fund, LLC, Wayland Distressed Opportunities Fund I-B, LLC, Wayland Distressed Opportunities Fund I-C, LLC, Wayzata Opportunities Fund II, L.P., Wayzata Opportunities Fund Offshore II, L.P., Wayzata Opportunities Fund, LLC, and Wayzata Opportunities Fund Offshore, L.P. Wayzata and Patrick J. Halloran, an individual who serves as the managing member of Wayzata, report that they share voting and dispositive power over all of the shares shown. Wayzata and Mr. Halloran disclaim beneficial ownership of the shares owned by the funds which they manage. The address for Wayzata and Mr. Halloran is 701 East Lake Street, Suite 300, Wayzata, Minnesota 55391.

**Table of Contents**

**Index to Financial Statements**

**Voting by Directors and Executive Officers**

As of the record date for the special meeting, PAETEC's directors and executive officers collectively had the power to vote approximately 13.4% of the shares of PAETEC common stock outstanding and entitled to vote at the special meeting.

**Voting Agreement**

As an inducement to and a condition of Windstream's willingness to enter into the merger agreement, certain directors and executive officers of PAETEC, who collectively beneficially owned approximately 7.2% of the outstanding PAETEC common stock as of the record date for the PAETEC special meeting, have signed a voting agreement committing them to vote any shares held by them in favor of adoption of the merger agreement and against any alternative proposal or any other action which is reasonably likely to adversely affect or interfere with the consummation of the transactions contemplated by the merger agreement. A copy of the voting agreement is attached as Annex B to this proxy statement/prospectus.

**Record Date; Outstanding Shares; Shares Entitled to Vote**

The PAETEC board of directors has fixed the close of business on September 12, 2011 as the record date for determination of stockholders entitled to notice of, and to vote at, the special meeting. Only stockholders of record of shares of PAETEC common stock as of the close of business on the record date will receive notice of, and be entitled to vote at, the special meeting and any adjournments, postponements or continuations of the special meeting.

As of September 12, 2011, the record date for the special meeting, there were 146,145,461 shares of PAETEC common stock outstanding and held by approximately 432 holders of record. Each stockholder is entitled to one vote at the special meeting for each share of PAETEC common stock held by that stockholder at the close of business on the record date. PAETEC's common stock is the only security the holders of which are entitled to notice of, and to vote at, the special meeting.

**Quorum**

The holders of a majority of the shares of PAETEC common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, will constitute a quorum at the special meeting. There must be a quorum in order for the vote on adoption of the merger agreement and the other proposals to be taken. It is important that PAETEC stockholders vote promptly so that their shares are counted toward the quorum.

All shares of PAETEC common stock represented at the special meeting, including as abstentions and broker non-votes, will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. PAETEC may seek to adjourn the special meeting if a quorum is not present at the meeting.

Broker-dealers who hold their customers' shares in street name may, under the applicable rules of the exchanges and other self-regulatory organizations of which the broker-dealers are members, vote the shares of their customers on routine proposals when they have not received instructions from the customer. Under these rules, brokers may not vote shares of their customers on non-routine matters without instructions from their customers. A broker non-vote occurs with respect to any proposal when a broker holds shares of a customer in its name and is not permitted to vote on that proposal without instruction from the beneficial owner of the shares and no instruction is given.



## Table of Contents

### Index to Financial Statements

#### **Voting of Proxies**

All shares represented by properly submitted proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the stockholders giving those proxies. Properly submitted proxies that do not contain voting instructions will be voted:

**FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement;

**FOR** approval, on an advisory (nonbinding) basis, of the golden parachute compensation payable under existing arrangements that certain PAETEC executive officers may receive in connection with the merger; and

**FOR** approval of one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

#### **How to Vote**

Whether or not you plan to attend the special meeting in person, you should submit your proxy as soon as possible.

If you own shares of PAETEC common stock in your own name, you are an owner of record. This means that you may use the enclosed proxy card or the Internet or telephone voting options to tell the persons named as proxies how to vote your shares of PAETEC common stock.

You have four voting options:

*Mail.* You can submit your proxy by mail by completing, signing, dating and mailing your proxy card in the postage-paid reply envelope included with this proxy statement/prospectus.

*Internet.* You can submit your proxy over the Internet by accessing the website at [www.proxyvote.com](http://www.proxyvote.com), entering the control number printed on the enclosed proxy card and following the instructions on the website. Internet voting is available 24 hours a day.

*Telephone.* You can submit your proxy by telephone by calling the toll-free number 1-800-690-6903 in the United States, Canada or Puerto Rico on a touch-tone phone. You will then be prompted to enter the control number printed on the enclosed proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day.

*In Person.* You may attend the special meeting and cast your vote in person by written ballot as described below under **Voting in Person at the Special Meeting**. To ensure that your shares are voted at the special meeting, the PAETEC board of directors recommends that you submit a proxy even if you plan to attend the special meeting.

If your shares are held in street name by a broker, bank or other institution as nominee, please follow the voting instructions provided by that entity. If you do not instruct your bank, broker or other nominee how to vote your shares with respect to each proposal, those shares will not be voted on such proposals at the special meeting, and your bank, broker or other nominee will not be authorized to vote.

The Internet and telephone voting options available to holders of record are designed to authenticate stockholders' identities, to allow stockholders to give their proxy voting instructions and to confirm that these instructions have been properly recorded. Proxies submitted over the Internet or by telephone through such a program must be received by 11:59 p.m., Eastern Time, on October 26, 2011. Submitting a proxy will not affect your right to vote in person if you decide to attend the special meeting.



**Table of Contents**

**Index to Financial Statements**

**Revoking Your Proxy**

Your grant of a proxy on the enclosed proxy card or through one of the alternative methods discussed above does not prevent you from voting in person or otherwise revoking your proxy at any time before it is voted at the special meeting. If your shares of PAETEC common stock are registered in your own name, you may revoke your proxy in one of the following ways:

by delivering to PAETEC Holding Corp., 600 Willowbrook Office Park, Fairport, New York 14450, Attn: Mary K. O'Connell, Secretary, a written notice revoking your proxy that bears a date later than the date of the proxy that you are revoking and that is received before the special meeting;

by submitting another proxy card bearing a later date and mailing it so that it is received before the special meeting;

by submitting another proxy using the Internet or telephone voting procedures; or

by attending the special meeting and voting in person, although simply attending the meeting will not revoke your proxy, as you must deliver a notice of revocation or vote at the special meeting in order to revoke a prior proxy.

Your last vote is the vote that will be counted.

If you have instructed a broker, bank or other nominee to vote your shares, you must follow the directions received from your broker or other nominee if you wish to change your vote.

**Voting in Person at the Special Meeting**

All stockholders of record may vote their shares in person by attending the special meeting and submitting the ballot that will be provided there.

If your shares are held in street name, you may vote in person at the special meeting if you have a legal proxy from the holder of record. You will need to ask the broker or bank or other institution holding your shares for a legal proxy and bring the legal proxy with you to the special meeting. You will not be able to vote your shares at the meeting without a legal proxy. If you request a legal proxy, any previously executed proxy will be revoked, and your vote will not be counted unless you appear at the special meeting and vote in person or legally appoint another proxy to vote on your behalf.

**Proxy Solicitation**

PAETEC is soliciting proxies for the special meeting from PAETEC stockholders. PAETEC will bear the entire cost of soliciting proxies from PAETEC stockholders, including the expenses incurred in connection with the filing of the registration statement of which this proxy statement/prospectus is a part. In addition to this mailing, PAETEC's directors, officers and employees, who will not receive any additional compensation for their services, may solicit proxies personally, electronically or by telephone. Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of PAETEC common stock held of record by those persons, and PAETEC will reimburse these brokerage firms, custodians, nominees and fiduciaries for related, reasonable out-of-pocket expenses they incur.

PAETEC has made arrangements with Morrow & Co., LLC to aid in the solicitation of proxies and in communications with stockholders regarding the merger agreement and the merger, at a fee of approximately \$50,000 plus reimbursement of reasonable out-of-pocket expenses. PAETEC has agreed to indemnify Morrow & Co, LLC against any claims, costs, damages, liabilities, judgments and expenses such firm may incur in providing these services.



**Table of Contents**

**Index to Financial Statements**

A list of stockholders entitled to vote at the special meeting will be open for examination by any PAETEC stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of ten days before the meeting at PAETEC's principal executive offices at 600 Willowbrook Office Park, Fairport, New York 14450, and at the time and place of the meeting during the entire time of the meeting.

**Other Business**

The PAETEC board of directors is not aware of any other business to be acted upon at the special meeting.

**Assistance**

If you need assistance in completing your proxy card or have questions regarding the various voting options with respect to the special meeting, please contact PAETEC's proxy solicitor, Morrow & Co., LLC, at (203) 658-9400 or toll-free at (800) 276-3011.

**Table of Contents**

**Index to Financial Statements**

**THE MERGER**

**(PROPOSAL NO. 1)**

**General**

On July 31, 2011, PAETEC's board of directors unanimously approved the merger agreement, which provides that, subject to specified terms and conditions, at the effective time of the merger, Merger Sub will be merged with and into PAETEC. PAETEC will survive the merger as a direct, wholly-owned subsidiary of Windstream. At the effective time of the merger, each share of PAETEC common stock (other than shares owned by PAETEC, Windstream, Merger Sub and their wholly-owned subsidiaries) will be converted into the right to receive 0.460 shares of Windstream common stock. For information regarding the treatment of PAETEC stock options, restricted stock units and warrants in the merger, see The Merger Agreement Stock Options, Restricted Stock Units and Warrants beginning on page 119. The merger agreement provides that the merger consideration will be adjusted appropriately if, prior to the effective time of the merger, there is a change in the outstanding shares of PAETEC common stock or Windstream common stock as a result of any reclassification, recapitalization, stock split (including a reverse stock split) or combination, exchange or readjustment of shares, or any stock distribution with a record date during such period.

**Background of the Merger**

The following is a summary of the meetings, negotiations, material contacts and discussions between PAETEC and Windstream that preceded the execution of the merger agreement, as well as the material contacts PAETEC had with third parties concerning a potential strategic transaction with PAETEC.

Since PAETEC Corp. completed its combination with US LEC Corp. in February 2007, and before the events leading up to the negotiation and execution of the merger agreement, PAETEC engaged in numerous discussions with a number of other companies in the telecommunications industry regarding a variety of possible business opportunities. These discussions ranged from possible commercial or partnering arrangements to possible acquisitions by or of PAETEC or other business combination transactions. PAETEC received, on occasion, unsolicited inquiries from third parties regarding possible business combinations or other strategic transaction opportunities. Given the consolidation in the telecommunications industry that occurred during this period, PAETEC engaged in these discussions as part of its ongoing evaluation of business opportunities in the telecommunications industry.

A number of the discussions during this period involved potential business combinations pursued by PAETEC in accordance with its strategy of supplementing internal growth with a program of targeted acquisitions. Pursuant to this program, PAETEC completed acquisitions of a number of companies, including McLeodUSA Incorporated in February 2008, Cavalier Telephone Corporation in December 2010, and XETA Technologies, Inc. ( XETA ) in May 2011.

During this period, PAETEC regularly entered into nondisclosure agreements with third parties for purposes of exchanging material non-public information for evaluation purposes, even though discussions generally were brief and informal. For example, during 2009 alone, PAETEC entered into nondisclosure agreements, and engaged in exploratory discussions, with approximately six different third parties, including Windstream (as discussed further below), regarding possible strategic transaction alternatives. None of these discussions in 2009 resulted in an agreement or understanding regarding an acquisition of PAETEC by a third party or a business combination transaction involving PAETEC.

As part of PAETEC's ongoing evaluation of business opportunities in the telecommunications industry, Windstream and PAETEC also engaged in discussions during this period. In particular, in September 2009, representatives of Windstream contacted representatives of PAETEC regarding a possible business combination transaction. Windstream and PAETEC entered into a mutual nondisclosure agreement governing, among other

---

**Table of Contents**

**Index to Financial Statements**

things, the provision of non-public information for each party's use in evaluating such a transaction. Windstream and PAETEC held one meeting between members of the senior management of each company, but discussions by the companies ended without any additional diligence activities or anticipated follow-up. Thereafter, between Fall 2009 and June 2011, representatives of Windstream and PAETEC conducted occasional, informal discussions regarding possible commercial arrangements, but none of these informal discussions related to a possible business combination transaction, nor did such discussions result in any agreement or understanding between PAETEC and Windstream relating to any material commercial arrangements.

On June 13, 2011, at the request of Jeffrey Gardner, Chief Executive Officer of Windstream, Arunas Chesonis, Chairman and Chief Executive Officer of PAETEC, and Mr. Gardner met over dinner in Rochester, New York. During the dinner, Mr. Gardner indicated that Windstream was interested in pursuing a possible business combination transaction with PAETEC and that he would be sending a preliminary term sheet to Mr. Chesonis regarding such a transaction. Mr. Gardner also outlined the general terms of the proposed transaction that would be reflected in the preliminary term sheet. Later that evening, Mr. Chesonis received the preliminary term sheet from Windstream. The term sheet, among other things, proposed a merger of the companies based on a fixed exchange ratio reflecting a conversion price of \$5.25 per share for each share of PAETEC common stock outstanding (payable in shares of Windstream common stock), indicated that the proposal would not be subject to a financing contingency and that the transaction would not require a vote of Windstream stockholders, and proposed that the parties execute an exclusivity agreement and commence diligence activities. In addition, the term sheet proposed that the merger agreement would provide for an \$80 million break-up fee payable by PAETEC upon termination of the merger agreement in certain circumstances, including if Windstream determined to terminate the merger agreement after an adverse recommendation change by the PAETEC board of directors. The term sheet also proposed that the merger agreement would include a "force the vote" provision that would require PAETEC to hold a meeting of stockholders even if the board of directors of PAETEC changed its recommendation, and that the merger agreement would not include a fiduciary termination right in the event the PAETEC board received a superior proposal from a third party.

On June 16, 2011, PAETEC and Windstream entered into a letter agreement extending the term of their 2009 nondisclosure agreement to permit the exchange of non-public information. Between June 16, 2011 and July 8, 2011, because of other ongoing corporate finance transaction activities by PAETEC, Windstream and PAETEC did not engage in further discussions or diligence activities, except that members of the PAETEC and Windstream finance departments had a brief conversation regarding PAETEC's existing indebtedness, and PAETEC provided Windstream's finance department with certain information and materials relating to the terms of PAETEC's outstanding debt instruments.

On July 8, 2011, the board of directors of PAETEC held a special telephonic board meeting, with representatives of BofA Merrill Lynch and PAETEC's outside legal advisor, Hogan Lovells US LLP (Hogan Lovells), present. Mr. Chesonis reported on his discussions with Mr. Gardner, including the terms of the unsolicited proposal set forth in the Windstream preliminary term sheet. A representative of Hogan Lovells discussed with the board, among other things, the board's fiduciary duties when considering a business combination or acquisition proposal. A representative of BofA Merrill Lynch discussed with the board, among other things, the current market conditions in the telecommunications industry and the status of the capital markets, and certain preliminary considerations regarding a potential business combination with Windstream. The PAETEC board discussed, among other things, the benefits to PAETEC and its stockholders of potential synergies from a combination transaction, the quality and potential value of the Windstream shares that would be received as merger consideration, the greater liquidity of investment that would be available to PAETEC stockholders as a result of the larger market capitalization of the combined company, the consistency of Windstream's dividend policy, and Windstream's ability to refinance, repay or repurchase PAETEC's outstanding debt, if necessary, as a result of a combination transaction. After further discussion, including with its financial and legal advisors, the board authorized management to pursue negotiations with Windstream regarding a possible business combination and directed management to seek more favorable transaction terms than those set forth in Windstream's preliminary term sheet, including an increase in the proposed merger consideration.

---

**Table of Contents**

**Index to Financial Statements**

On July 9, 2011, Mr. Chesonis and Mr. Gardner had several discussions regarding Windstream's proposal. During these discussions, Mr. Chesonis conveyed to Mr. Gardner that, among other things, the value of the proposed merger consideration in Windstream's June 13 preliminary term sheet needed to be improved. The two executives also discussed other aspects of a possible transaction. During these discussions, Mr. Gardner informed Mr. Chesonis that he was prepared to recommend to the Windstream board an increase in the value of the merger consideration from \$5.25 to \$5.40 per share of PAETEC common stock to be expressed in a fixed exchange ratio, subject to PAETEC's agreeing to negotiate a transaction exclusively with Windstream.

Also on July 9, 2011, the Chief Executive Officer of another telecommunications company, referred to in this proxy statement/prospectus as Company A, sent Mr. Chesonis a text message and left a separate voicemail message requesting to speak with Mr. Chesonis.

On July 10, 2011, Mr. Chesonis returned the call from the CEO of Company A. During the telephone conversation, the CEO of Company A expressed an interest in pursuing a possible business combination between Company A and PAETEC, informed Mr. Chesonis that Company A intended to deliver a written proposal later that day and outlined the general terms of the proposed business combination that would be reflected in the written proposal. The CEO of Company A also contacted the Vice Chairman of the board of directors of PAETEC that same day and conveyed a similar message. That afternoon, PAETEC received a letter from the CEO of Company A setting forth the terms of a proposal for Company A to acquire all of the outstanding common stock of PAETEC. The letter indicated that Company A was prepared to offer between \$5.45 and \$5.75 per share of PAETEC common stock in a cash and stock transaction, consisting of 80% Company A common stock and 20% cash consideration. Based on the number of outstanding shares of Company A and the then-current prices of Company A and PAETEC shares, the proposal would result in PAETEC stockholders owning approximately 44% of the combined company. The letter indicated that the proposal was subject to conditions, including completion of diligence activities and negotiation of definitive documentation. The letter did not address how Company A proposed to finance the cash portion of the transaction or the requisite refinancing of PAETEC's approximately \$1.5 billion of outstanding debt that would or could become payable in connection with such transaction, the proposed governance structure of the combined company or Company A's need for stockholder approval of the proposed transaction given the significant number of shares to be issued based on Company A's proposal.

PAETEC was already familiar with Company A, including its business activities and financial performance, when it received Company A's letter on July 10, 2011. Mr. Chesonis and the CEO of Company A had spoken on a number of occasions in the past, including with respect to possible business combination transactions as part of PAETEC's ongoing evaluation of such transactions. In particular, on two previous occasions in 2009 and 2010, representatives of Company A had approached representatives of PAETEC in connection with a proposed business combination transaction in which Company A would have acquired all of the outstanding PAETEC common stock. In addition, in March 2011, PAETEC had approached Company A regarding a possible business combination proposal in which PAETEC would have acquired Company A. In each case, the discussions were terminated prior to reaching any agreement regarding terms of a proposed transaction or any agreement or understanding between PAETEC and Company A relating to a business combination.

Also on July 10, 2011, Mr. Gardner informed Mr. Chesonis that Windstream was prepared to increase its previous proposal concerning merger consideration from \$5.40 to \$5.45 per share of PAETEC common stock on the previously discussed condition that PAETEC agree to negotiate a transaction exclusively with Windstream. Later that day, a representative of Windstream delivered a proposed exclusivity agreement to PAETEC, which, among other terms, provided that PAETEC would negotiate a business combination transaction exclusively with Windstream through 5:00 p.m. on August 9, 2011.

During the evening of July 10, 2011, the PAETEC board of directors held a special telephonic board meeting, with representatives of BofA Merrill Lynch and Hogan Lovells present. Members of management provided the board with an update on the events that had transpired since the prior board meeting on July 8, 2011, including the discussions between Mr. Chesonis and Mr. Gardner and the receipt of the unsolicited letter



**Table of Contents**

**Index to Financial Statements**

from Company A, a copy of which had been distributed to the board members prior to the meeting. A representative of BofA Merrill Lynch reviewed, among other things, the financial terms of the Windstream proposal and of the Company A letter and certain financial implications of a transaction with either Windstream or Company A. Representatives of BofA Merrill Lynch noted that Company A's proposal would require the approval of Company A's stockholders as a condition to closing and that Windstream's proposal would not require a vote of Windstream's stockholders as a condition to closing. Representatives of BofA Merrill Lynch also noted that Company A and Windstream could each need to obtain additional financing to refinance, repay or repurchase PAETEC's indebtedness, as required, in connection with each of their proposed transactions, and that the ability of each company to do so could become uncertain, expensive or difficult if the capital markets were to experience disruptions. Representatives of BofA Merrill Lynch further noted that Company A's proposal had not indicated whether Company A had a plan for obtaining the financing, that Windstream had provided that its proposal would not be subject to a financing contingency, and that, based on the respective abilities of Windstream and Company A to raise financing in the public markets previously, Windstream would be expected to have less difficulty doing so than Company A.

During the July 10 meeting, the PAETEC board of directors discussed, among other things, that based on a comparison of the Windstream and Company A proposals, Windstream appeared to offer a higher-quality stock yielding a higher dividend, Windstream's proposal appeared to carry substantially less financing contingency risk, Windstream's future financial performance appeared to be subject to less risk and to be more stable, a Windstream stockholder vote to approve a transaction was not required, and Windstream appeared to have a strong and established track record of successfully integrating acquisitions of telecommunications companies. The PAETEC board discussed whether to seek to continue negotiations with Windstream without granting Windstream exclusive negotiating rights, but believed, based upon Windstream's continuing insistence on exclusivity during discussions with management, that there was a significant risk that Windstream would not proceed further without exclusivity. The PAETEC board, while not prepared to accept all of the terms in Windstream's proposal, determined it was appropriate to grant Windstream exclusivity for three weeks (rather than the four weeks requested by Windstream) given the increased merger consideration included in Windstream's latest proposal, with the understanding that, through diligence and negotiations, PAETEC management would seek to make Windstream aware of additional benefits to it of a business combination (including growth opportunities and possible additional synergies) and seek improvement in the proposed merger consideration and other terms. Consistent with the foregoing, after evaluating, among other things, the terms of Company A's proposal and the risk that Windstream would terminate further discussions without exclusivity, as well as the advice of its financial and legal advisors, the PAETEC board authorized management to enter into, on behalf of PAETEC, an exclusivity agreement with Windstream through July 31, 2011 and to engage in negotiations and additional diligence activities with Windstream to determine whether PAETEC and Windstream could reach agreement on the terms of a proposed business combination.

On July 11, 2011, PAETEC and Windstream entered into an exclusivity agreement pursuant to which, among other things, PAETEC agreed to negotiate exclusively with Windstream through 5:00 p.m. on July 31, 2011 regarding any business combination or similar transaction involving PAETEC. In addition, throughout the day on July 11, 2011, members of each company's senior management and the financial and legal advisors to PAETEC and Windstream met in New York City to exchange business and financial information. Management discussions and presentations by each company were followed by breakout sessions among members of management and their advisors. Thereafter and continuing until the execution of the merger agreement on July 31, 2011, the management teams of PAETEC and Windstream, together with their respective financial, legal and accounting advisors, performed a diligence review with respect to the other company through a series of telephonic discussions and review of publicly available and non-public information.

On July 12, 2011, PAETEC received a revised preliminary term sheet from Windstream that reflected certain open issues to be addressed by the parties during negotiations, including the force the vote provisions and the circumstances under which PAETEC could terminate the merger agreement. The revised term sheet also

---

**Table of Contents**

**Index to Financial Statements**

expressed the merger consideration as a fixed exchange ratio of 0.415 of a share of Windstream common stock for each share of PAETEC common stock, which reflected a value of approximately \$5.45 per share of PAETEC common stock as of July 8, 2011.

Also on July 12, 2011, Mr. Chesonis received an e-mail from the CEO of Company A reiterating Company A's interest in a combination with PAETEC, and noting that Company A would be in a position to increase its proposal above \$6.00 per share of PAETEC common stock and would be separately sending an analysis of Company A's proposal. The CEO of Company A also called PAETEC's lead independent director regarding Company A's revised proposal. Later that evening, Mr. Chesonis received a revised proposal from Company A. The proposal noted, among other things, that Company A was prepared to offer \$6.50 for each share of PAETEC common stock, consisting of 80% Company A common stock and 20% cash consideration, and that, with the benefit of full access to the PAETEC management team and financial information, Company A might be able to increase its proposal above \$6.50 per share. The letter was accompanied by Company A's preliminary analysis of the benefits of the proposed combination. Neither the letter nor the accompanying analysis addressed the refinancing or other treatment of PAETEC's outstanding debt, the governance structure of the combined company or Company A's need for stockholder approval of the proposed transaction. A copy of the revised proposal was distributed to the members of the PAETEC board of directors on July 13, 2011.

On July 15, 2011, the PAETEC board of directors held a special telephonic board meeting, with representatives of BofA Merrill Lynch, Hogan Lovells and Richards, Layton & Finger, P.A. ( Richards Layton ), Delaware counsel, present. Mr. Chesonis reported on the status of negotiations with Windstream, including, among other things, that Windstream had agreed to reduce the break-up fee payable by PAETEC under the merger agreement from \$80 million to \$40 million, as well as on the additional unsolicited communications received from Company A regarding its revised proposal. Mr. Chesonis also stated that it was management's recommendation, particularly in light of having received indications of interest from Company A, that PAETEC retain Richards Layton as special Delaware counsel to provide additional advice to the board with respect to Delaware law issues, in particular fiduciary duty matters. The board approved the retention of Richards Layton as special Delaware counsel at this meeting. Management also recommended that PAETEC retain a second financial advisor to evaluate the terms, conditions and structure of a possible transaction, and also retain a third financial advisory firm on a non-contingent fee basis solely for the purpose of evaluating the fairness of the merger consideration to be received in a combination transaction. At the meeting, the board determined to retain a second financial advisor to provide the foregoing financial advisory services. In addition, the board approved the retention of Houlihan Lokey on a non-contingent fee basis solely for the purpose of evaluating the fairness, from a financial point of view, of the merger consideration to be received by holders of PAETEC common stock. Representatives of Hogan Lovells led a discussion of various matters for the board to consider in evaluating the Windstream and Company A proposals. A representative of BofA Merrill Lynch discussed with the board, among other things, preliminary stand-alone valuation considerations for PAETEC, a further preliminary analysis of the financial terms of the Windstream proposal and certain other financial implications of the Windstream proposal. It was noted that BofA Merrill Lynch would make a presentation to the PAETEC board at the next board meeting regarding a preliminary analysis of the financial terms of Company A's proposal. Immediately following the board meeting, the non-management directors met separately, with representatives of Hogan Lovells present, to discuss the proposals from Windstream and Company A.

Also on July 15, 2011, Windstream's legal advisor, Skadden, Arps, Slate, Meagher & Flom LLP ( Skadden ), provided an initial draft of a proposed merger agreement to Hogan Lovells. On July 17, 2011, Skadden provided an initial draft of a proposed voting agreement to Hogan Lovells that Windstream proposed would be signed by the directors and certain officers of PAETEC.

On July 19, 2011, the non-management members of the PAETEC board of directors retained Potter, Anderson & Corroon LLP ( Potter Anderson ) as special Delaware counsel to the non-management directors to provide additional advice to the non-management directors with respect to Delaware law issues, in particular fiduciary duty matters.

---

**Table of Contents**

**Index to Financial Statements**

On July 20, 2011, the non-management members of the PAETEC board of directors met separately, with representatives of Potter Anderson present, to discuss matters relating to the Windstream and Company A proposals.

On July 22, 2011, the PAETEC board of directors held a special telephonic board meeting, with representatives of BofA Merrill Lynch, Deutsche Bank, Hogan Lovells, Richards Layton and Potter Anderson present. At the meeting, the board approved the retention of Deutsche Bank as an additional financial advisor to PAETEC to evaluate the terms, conditions and structure of a possible transaction. Representatives of Hogan Lovells and Richards Layton advised the board regarding certain legal considerations under Delaware law pertaining to a board of directors of a Delaware corporation when evaluating competing business combination proposals. Representatives of BofA Merrill Lynch and Deutsche Bank discussed with the board, among other things, a preliminary analysis of the financial terms of Company A's proposal, certain publicly available information about Company A's business and financial results, that Company A was in the process of integrating recently-acquired telecommunications businesses and certain other financial implications of the Company A proposal. The representatives of the financial advisors also noted in their discussions that Company A's proposal, among other things, was subject to a diligence review of PAETEC, would require that Company A obtain significant financing and would require a vote by Company A's stockholders to approve the transaction.

During the July 22 meeting, Mr. Chesonis also provided an update regarding the status of the Windstream discussions, including the status of diligence efforts and the status of negotiations regarding the proposed merger agreement and voting agreement. A representative of Hogan Lovells reviewed certain key provisions of the proposed merger agreement for the directors. Mr. Chesonis also reported, among other things, that Windstream's second quarter 2011 financial results were positive, that Windstream's results would show organic revenue growth and that Windstream's growth prospects remained positive. The PAETEC board discussed, among other matters, the importance of the merger agreement containing an appropriate fiduciary termination right in the event PAETEC received a superior proposal from a third party (which was not included in the initial draft provided by Skadden on July 15, 2011) and the elimination of the force the vote provision with respect to PAETEC's receipt of a superior proposal as proposed by PAETEC in its prior comments on the proposed merger agreement. Following the full board meeting, the non-management members of the PAETEC board of directors engaged in a separate telephone call, with representatives of Potter Anderson present, to discuss various matters discussed during the PAETEC board meeting.

Also on July 22, 2011, Hogan Lovells provided PAETEC's comments on the draft merger agreement to Windstream and its counsel. Negotiations between PAETEC and Windstream and their respective financial and legal advisors concerning the merger agreement and the voting agreement continued until the time the proposed merger agreement was finalized for consideration by the boards of directors of PAETEC and Windstream, as described below. The merger agreement negotiations focused in large part on the scope of PAETEC's representations and warranties, exceptions to covenants restricting the operations of PAETEC during the pre-closing period, the identification of regulatory approvals and other conditions to completion of the merger, the force the vote provision, and the bases for terminating the merger agreement. As discussed further below, the companies extensively negotiated the merger agreement terms under which PAETEC could consider an alternative acquisition proposal and change its recommendation in favor of the proposed merger, the terms under which PAETEC could terminate the merger agreement in the event PAETEC received a superior proposal, and the appropriate amount of the break-up fee and level of expense reimbursement payable by PAETEC, and the circumstances in which a break-up fee would be payable or expense reimbursement required. The companies exchanged various drafts of the merger agreement, including schedules and exhibits, during this period.

On July 24, 2011, PAETEC received a letter from the CEO of Company A reiterating Company A's interest in pursuing a business combination with PAETEC. The letter also reiterated that Company A was prepared to offer \$6.50 for each share of PAETEC common stock, consisting of 80% Company A common stock and 20% cash consideration, as reflected in the July 12 letter. The letter also stated that Company A's proposal had no

---

**Table of Contents**

**Index to Financial Statements**

financing contingency, and that, given Company A's cash position, Company A would have the cash on hand to satisfy the cash portion of the proposed merger consideration. The letter also reiterated that, with the benefit of full access to the PAETEC management team and financial information, Company A continued to believe it might be able to increase its proposal above \$6.50 per share. The letter was accompanied by an updated analysis from Company A's financial advisor regarding Company A's preliminary analysis of the benefits of the proposed combination, and indicated that additional materials would be sent on July 28, 2011 containing information about Company A's most recent quarterly performance.

Also on July 24, 2011, representatives of Hogan Lovells and Skadden had a telephonic discussion regarding Hogan Lovell's comments on the proposed merger agreement. Later that evening, Skadden provided a revised draft of the merger agreement to Hogan Lovells.

On July 25, 2011, an informational call was held among members of PAETEC management, PAETEC board members, and representatives of BofA Merrill Lynch, Deutsche Bank, Hogan Lovells, Richards Layton and Potter Anderson. Mr. Chesonis updated the board on the status of the Windstream discussions, including diligence activities and merger agreement negotiations. A representative of Hogan Lovells updated the PAETEC board on the detailed presentation Windstream had provided with respect to its strategy to address PAETEC's outstanding debt, including a consent solicitation to seek amendments to the change of control provisions of PAETEC's public notes making those provisions inapplicable to the proposed merger and, if necessary, a tender offer for some or all of the notes. It was also discussed that Windstream would obtain a backstop financing commitment that would permit Windstream, if the consent solicitation and tender offer were unsuccessful, to repay or refinance PAETEC's notes at the merger closing and/or to fund a repurchase offer for the notes after the closing. In addition, it was discussed that Windstream had not requested, nor did the proposed merger agreement contain, a financing contingency. Mr. Chesonis also reported on the unsolicited communication received from Company A on July 24, which management had distributed to the board that same day.

On July 26, 2011, a representative of BofA Merrill Lynch was contacted by the Chief Executive Officer of another telecommunications company, referred to in this proxy statement/prospectus as Company B. The CEO of Company B expressed an interest in pursuing a business combination with PAETEC, but without proposing any specific terms. The CEO of Company B indicated, however, that Company B was not in a position, at this time, to engage in a transaction process.

On July 27, 2011, an informational call was held among members of PAETEC management, PAETEC board members, and representatives of BofA Merrill Lynch, Deutsche Bank, Hogan Lovells and Richards Layton. Mr. Chesonis updated the board on the status of the Windstream discussions and reported on the unsolicited communication received by a representative of BofA Merrill Lynch from Company B on July 26.

Also on July 27, 2011, one of PAETEC's independent directors received an e-mail from one of the independent directors of Company A reiterating Company A's interest in a business combination transaction with PAETEC and encouraging the PAETEC board to give serious consideration to Company A's offer.

On the morning of July 28, 2011, PAETEC received a letter from the CEO of Company A discussing Company A's most recent quarterly performance, accompanied by a summary presentation of performance results from Company A's advisors and a copy of Company A's quarterly earnings release. Copies of the letter and accompanying materials were distributed to the members of the PAETEC board of directors prior to the board meeting on July 28, 2011.

Also on July 28, 2011, the PAETEC board of directors held an in-person, all-day special board meeting in New York City, with members of PAETEC management and representatives of BofA Merrill Lynch, Deutsche Bank, Hogan Lovells, Richards Layton and Potter Anderson present. A representative of Hogan Lovells summarized the status of negotiations with respect to the proposed merger agreement, including a detailed discussion regarding, among other things, the terms under which PAETEC could consider an alternative

---

**Table of Contents****Index to Financial Statements**

acquisition proposal and change its recommendation in favor of the proposed merger, the force the vote provision, the provisions that would restrict PAETEC's ability to engage in negotiations and consider alternative transaction proposals during the pre-closing period, the termination rights of the parties, the circumstances under which a break-up fee or reimbursement of expenses would be payable by PAETEC to Windstream and other circumstances under which the PAETEC board would have the right to change its recommendation of the transaction to stockholders. In addition, the Hogan Lovells representative discussed Windstream's request that certain PAETEC directors and officers enter into a voting agreement, as well as the proposed terms of the voting agreement. Representatives of Hogan Lovells and Richards Layton advised the board regarding certain legal considerations under Delaware law pertaining to a board of directors of a Delaware corporation when evaluating competing business combination proposals. Representatives of BofA Merrill Lynch and Deutsche Bank discussed with the board, among other things, the financial terms of the Windstream proposal and Company A's proposal and certain financial implications of a transaction with either Windstream or Company A, as well as certain factors which the board might consider when evaluating the two proposals. The PAETEC board also discussed the July 28 letter and accompanying materials received from Company A earlier that day. After a discussion, and consideration of, among other things, the advice of its financial and legal advisors, the PAETEC board directed management to seek to increase the merger consideration being offered by Windstream to a value in excess of the value per share of PAETEC common stock previously proposed and to improve other terms of the proposed merger agreement, including, among others, the provisions restricting PAETEC's ability to engage in negotiations and consider alternative transaction proposals during the pre-closing period, the termination rights of the parties under the merger agreement, the circumstances under which a break-up fee or reimbursement of expenses would be payable by PAETEC to Windstream and the amount of the break-up fee. Following the full board meeting, the non-management members of the PAETEC board of directors met separately, with representatives of Potter Anderson, BofA Merrill Lynch and Deutsche Bank present, to review various matters discussed during the board meeting.

On July 29, 2011, Mr. Chesonis advised Mr. Gardner that the PAETEC board was not prepared to move forward with a transaction without an increase in the merger consideration and a fiduciary termination right in the event the PAETEC board received a superior proposal from a third party. Mr. Chesonis also sought a reduction in the size of the break-up fee. Discussions among representatives of PAETEC and Windstream, and their legal and financial advisors, continued throughout the day. That evening, Mr. Gardner called Mr. Chesonis to report that Windstream was prepared to increase the merger consideration to reflect a fixed exchange ratio of 0.460 of a share of Windstream common stock for each share of PAETEC common stock (which would have an implied value equal to \$5.75 per share of PAETEC common stock, based on the 10-day average closing price as of July 29, 2011), and that Windstream was prepared to provide a fiduciary termination right in the event the PAETEC board received a superior proposal, but that Windstream was not prepared to reduce the break-up fee below \$40 million. That evening, PAETEC received a revised term sheet from Windstream that included, among other terms, the 0.460 fixed exchange ratio and \$40 million break-up fee. The revised term sheet also indicated that the merger agreement would provide a fiduciary termination right in the event the PAETEC board received a superior proposal. Mr. Chesonis also reported that Windstream had conditioned the revised terms on PAETEC's agreement to extend the exclusivity period from July 31, 2011 until midnight on August 4, 2011.

On July 30, 2011, the non-management members of the PAETEC board of directors met separately, by telephone, with representatives of Potter Anderson present, to discuss the developments of July 29, 2011.

Also on July 30, 2011, the PAETEC board of directors held a special telephonic board meeting, with representatives of BofA Merrill Lynch, Deutsche Bank, Hogan Lovells, Richards Layton and Potter Anderson present. Mr. Chesonis reported on his discussions with Mr. Gardner and the revised term sheet from Windstream. Representatives of BofA Merrill Lynch and Deutsche Bank discussed with the board, among other things, the updated Windstream proposal and Company A's proposal. A representative of Hogan Lovells updated the board regarding the status of the merger agreement negotiations with Windstream. After considering, among other matters, the advice of its financial and legal advisors, and following further discussion, the PAETEC board directed management to seek a further improvement with respect to the terms to be included in a definitive

---

**Table of Contents**

**Index to Financial Statements**

merger agreement and authorized management to extend the exclusivity period with Windstream through midnight on August 4, 2011. Later that day, Windstream and PAETEC entered into a letter agreement extending the exclusivity period through midnight on August 4, 2011.

Throughout the day on July 30, 2011 and July 31, 2011, representatives of PAETEC and Windstream and their respective advisors negotiated the final terms of the merger agreement and the voting agreement and finalized the schedules and exhibits to the merger agreement, and PAETEC and Windstream completed their confirmatory diligence reviews. During these discussions, representatives of Windstream reiterated on several occasions, in response to requests from representatives of PAETEC, that Windstream was unwilling to reduce the size of the break-up fee or to modify further certain of the merger agreement provisions under which the break-up fee would become payable.

On July 31, 2011, PAETEC received a letter from the CEO of Company A containing a revised proposal to acquire all of the outstanding common stock of PAETEC. The revised letter indicated that, subject to a diligence review, execution of definitive documentation and final approval by Company A's board of directors, Company A was proposing \$6.80 for each share of PAETEC common stock, consisting of 80% Company A common stock and 20% cash consideration. As reflected in prior letters from Company A, the letter indicated that Company A had the cash on hand to satisfy the cash portion of the merger consideration. The July 31 letter also indicated that Company A's proposal did not contain a financing contingency. However, the July 31 letter acknowledged that Company A had not yet retained a bank to provide financing, including bridge financing, needed in connection with a transaction, but indicated that Company A was in the process of retaining a bank for this purpose. The letter further stated that Company A had no desire to pursue PAETEC publicly either as a stand-alone company or if PAETEC were to pursue a combination with another company. The letter indicated that Company A's proposal would expire at 5:00 p.m. on August 5, 2011.

In addition, on July 31, 2011, the PAETEC board of directors held a special telephonic board meeting, with representatives of BofA Merrill Lynch, Deutsche Bank, Houlihan Lokey, Hogan Lovells, Richards Layton and Potter Anderson present. At the meeting, members of PAETEC senior management and representatives of PAETEC's financial and legal advisors reviewed with the board, among other matters, the financial and legal aspects of the proposed transaction and the other matters described below under Recommendation of PAETEC's Board of Directors; PAETEC's Reasons for the Merger. The PAETEC board also discussed the unsolicited July 31 letter from Company A, described above, which management had distributed to the board members prior to the board meeting. The board members further discussed, including with members of PAETEC senior management and representatives of PAETEC's financial and legal advisors, the proposed Windstream transaction in relation to the revised Company A proposal, including the matters described below under Recommendation of PAETEC's Board of Directors; PAETEC's Reasons for the Merger Alternative Transactions. Representatives of BofA Merrill Lynch and Deutsche Bank reviewed with the board their respective financial analyses of the exchange ratio. In addition, representatives of BofA Merrill Lynch and Deutsche Bank each delivered to the board of directors its oral opinion to the board, which oral opinions were subsequently confirmed by delivery of written opinions dated July 31, 2011, copies of which are attached as Annex C and Annex D, respectively, to this proxy statement/prospectus, to the effect that, as of the date of the opinions, and based upon and subject to the assumptions made, matters considered and the limits of the review undertaken by BofA Merrill Lynch and Deutsche Bank, the PAETEC exchange ratio provided for in the merger was fair, from a financial point of view, to the holders of PAETEC common stock. A representative of Houlihan Lokey (which had been retained by PAETEC on a non-contingent fee basis solely for the purpose of evaluating the fairness of the merger consideration) delivered its oral opinion to the board, which oral opinion was subsequently confirmed by delivery of a written opinion dated July 31, 2011, a copy of which is attached as Annex E to this proxy statement/prospectus, that, as of the date of the opinion, and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion, the consideration to be received by the holders of PAETEC common stock in the merger was fair to such holders from a financial point of view. During the meeting, the non-management members of the board met in executive session with a representative of Potter Anderson present. Following the executive session, and after further discussion and

---

**Table of Contents**

**Index to Financial Statements**

consideration, the PAETEC board of directors unanimously determined that the merger agreement and the merger are advisable, fair to and in the best interests of PAETEC and the PAETEC stockholders, and unanimously approved the merger agreement. The PAETEC board also unanimously recommended that the PAETEC stockholders vote **FOR** the adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

Following the meeting, PAETEC, Windstream and Merger Sub executed the merger agreement and Windstream and the other parties to the voting agreement entered into the voting agreement. For a discussion of the merger agreement and the voting agreement, see *The Merger Agreement* beginning on page 117 of this proxy statement/prospectus and *Special Meeting Voting Agreement* beginning on page 50 of this proxy statement/prospectus.

Prior to the opening of the U.S. financial markets on August 1, 2011, PAETEC and Windstream issued a joint press release announcing the execution of the merger agreement and the proposed merger.

**Recommendation of the PAETEC Board; PAETEC's Reasons for the Merger**

At a meeting of PAETEC's board of directors held on July 31, 2011, the board of directors determined that the merger agreement and the merger are advisable, fair to and in the best interests of PAETEC and PAETEC's stockholders and unanimously approved the merger agreement. Accordingly, PAETEC's board of directors unanimously recommends that PAETEC's stockholders vote **FOR** adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

In reaching its decision to approve the merger agreement, the PAETEC board of directors, with the assistance of PAETEC's management and financial and legal advisors, considered and analyzed a number of factors, including those reviewed by the board of directors at the meetings described in this proxy statement/prospectus under *Background of the Merger*. The following were material factors considered by the PAETEC board of directors in determining to approve the merger agreement and the merger transactions:

*Strategic Benefits in Consolidating Industry.* The PAETEC board of directors considered that PAETEC stockholders would own approximately 13 percent of the combined company and would be able to participate in, and benefit from the future growth potential of, a combined company with approximately \$6 billion in annual revenues, as well as a greater depth of service offerings, more extensive revenue opportunities and financial and operating resources and a lower cost of capital than those available to PAETEC as a stand-alone company. The board considered recent trends in the telecommunications industry, particularly the trend toward consolidation, and management's view that PAETEC's combination with Windstream would result in a combined company with a strong competitive position founded on a significantly broader geographic scope and scale of operations than those of each of PAETEC and Windstream. In this regard, the board took into account management's assessment that the combination would create a competitive communications provider with enhanced nationwide operations better able to compete with other providers, because the transaction would, among other anticipated benefits:

strengthen the combined company's ability to meet the growing demands of business customers for IP-based services, managed services, cloud computing services and data center services;

create a financially stronger and more stable combined company which would have the ability to strengthen existing relationships with, and to attract more easily, employees, customers, vendors and other business partners;

allow the combined company to utilize its enhanced financial position, particularly during difficult economic conditions, to invest in, and take advantage of, opportunities that may arise in a capital intensive industry which requires many industry participants, such as PAETEC, to incur a substantial amount of debt that must be refinanced periodically;

**Table of Contents**

**Index to Financial Statements**

allow the combined company to take advantage of up to approximately \$1.4 billion, as of June 30, 2011, in PAETEC net operating losses that PAETEC as a stand-alone company would be unlikely to utilize fully;

promote revenue growth by expanding the combined company's focus on business services and enhancing its ability to serve multi-location business customers;

provide the combined company significant additional opportunities to invest its substantial cash flows in support of capital expenditures that will enhance revenue growth, even during difficult economic conditions that may limit the ability of potential competitors to take advantage of such opportunities;

create a nationwide network with a deep fiber optic footprint of approximately 100,000 fiber route miles, which is expected to enhance the combined company's ability to serve business customers and to facilitate cost savings by eliminating duplicative network routes and overlapping switching infrastructures and by consolidating Windstream and PAETEC traffic onto a single network;

apply PAETEC's focus on and expertise regarding data centers and cloud computing services to the combined company as key elements of the revenue growth strategy;

augment Windstream's existing marketing resources with PAETEC's established sales organization; and

expand the combined company's capability to serve customers with total solutions that include hardware products and innovative managed services.

The PAETEC board of directors considered management's view that the anticipated benefits of the combination would further PAETEC's strategic objectives of offering a broad range of advanced and traditional communications services (including end-to-end communications solutions tailored to particular customer needs), introducing innovative new products and services, expanding into new markets, adding customers, and emphasizing operational efficiencies.

*Windstream's Businesses, Operating Results, Financial Condition and Management.* The PAETEC board of directors considered information with respect to the businesses, operating results and financial condition of Windstream, on both a historical and prospective basis, and the quality, breadth and experience of Windstream's senior management. The board considered the following factors, among others:

Windstream's substantial operating resources, including a fiber optic network with 60,000 fiber route miles, advanced communications technologies, innovative product portfolio and skilled employee base, which enable it to compete effectively;

Windstream's success in increasing sales and profitability since the company's formation in 2006 through the spin-off of the ILEC landline business of Alltel Corporation and merger with Valor Communications Group, Inc.;

Windstream's strategic vision, shared by PAETEC, concerning the importance of delivering superior customer service, pursuing revenue expansion through product innovation, penetration of existing markets and addition of new markets, and supplementing internal growth with a disciplined acquisition program;



## Edgar Filing: WINDSTREAM CORP - Form S-4/A

Windstream's strong market presence in rural areas, which would be complemented by PAETEC's operations in major metropolitan areas;

the growth-oriented culture of Windstream's management and Windstream's record of successfully integrating acquisitions of two competitive local exchange carriers, as well as a fiber-transport provider and a regional data center and hosting provider; and

Windstream's substantial financial resources, as well as Windstream's access to additional capital at a lower cost as compared to that available to PAETEC, which could be deployed to fund long-term growth projects.

---

**Table of Contents****Index to Financial Statements**

*Merger Consideration.* The PAETEC board of directors evaluated the value of the merger consideration based on the then-current market price and historical trading price of Windstream common stock, as well as various factors bearing on the quality and potential long-term value of the Windstream common stock to be received as consideration, including Windstream's dividend policy and the greater liquidity of its stock. The board noted that, based on the closing prices of the Windstream common stock and PAETEC common stock on July 29, 2011, which was the last trading day before the meeting of the PAETEC board of directors at which the PAETEC board approved the merger agreement, the merger consideration had an implied value of \$5.62 per share of PAETEC common stock, which represented approximately a 27.1 percent premium to the closing price of the PAETEC common stock on July 29, 2011. The board also noted that the implied per share merger consideration represented a premium to the PAETEC price per share of approximately 25.3 percent over the two-week period before July 29, 2011, approximately 26.8 percent over the period of 30 calendar days before July 29, 2011, and approximately 37.4 percent over the period of 90 calendar days before July 29, 2011. The board took into account that a fixed exchange ratio would provide certainty as to the number of shares of Windstream common stock to be issued in the merger, and that a decrease in the market price of PAETEC common stock before the merger closing would not provide Windstream with a right to terminate the merger agreement. The board considered Windstream's history of paying cash dividends on the Windstream common stock, as well as factors that could affect Windstream's ability and willingness to maintain its current dividend policy. The board also considered that PAETEC stockholders would benefit from enhanced liquidity of their investment after the merger based on the higher average daily trading volume of the Windstream common stock compared to that of the PAETEC common stock, which would provide the PAETEC stockholders with the flexibility to sell more quickly all or a portion of their shares for cash in a very liquid market.

*Opinions of Financial Advisors to PAETEC; Opinion of Houlihan Lokey.* The PAETEC board of directors considered the opinion dated July 31, 2011 of BofA Merrill Lynch, a copy of which is attached as Annex C to this proxy statement/prospectus, and the opinion dated July 31, 2011 of Deutsche Bank, a copy of which is attached as Annex D to this proxy statement/prospectus, that, as of such date, and based upon and subject to the assumptions made, matters considered and limits of the review undertaken, the exchange ratio was fair to the holders of PAETEC common stock from a financial point of view. The board took into account the contingent nature of the fees payable to BofA Merrill Lynch and Deutsche Bank for their financial advisory services in connection with the merger, other than the delivery of the opinions described above, and determined that these factors did not affect the board's determination to rely on such opinions. For additional information concerning transactions involving PAETEC and each of BofA Merrill Lynch and Deutsche Bank and the contingent nature of the fees payable to each such advisor for its financial advisory services in connection with the merger, see *Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated* and *Opinion of Deutsche Bank Securities Inc.*

The PAETEC board of directors also considered the financial analysis and oral opinion of Houlihan Lokey, which was confirmed in writing by delivery of the written opinion dated July 31, 2011, a copy of which is attached as Annex E to this proxy statement/prospectus, with respect to the fairness, from a financial point of view, of the consideration to be received by the holders of PAETEC common stock in the merger, as of July 31, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. See *Opinion of Houlihan Lokey Financial Advisors, Inc.* for additional information regarding the opinion.

*Terms and Conditions of the Merger Agreement.* The PAETEC board of directors considered the terms and conditions of the merger agreement. In its review, the board considered that the merger agreement would provide PAETEC with sufficient operating flexibility for it to conduct its business in the ordinary course of business consistent with past practice between the signing of the merger agreement and the completion of the merger. The board considered that the consummation of the merger was not conditioned on approval of the merger by Windstream's stockholders or subject to any financing contingency, thereby increasing the likelihood that the transaction would be completed. In particular, Windstream provided a detailed plan to PAETEC and its advisors

---

**Table of Contents****Index to Financial Statements**

with respect to how Windstream would manage its obligations regarding PAETEC's approximately \$1.5 billion of outstanding debt, which PAETEC and its legal and financial advisors were able to discuss, review and assess with Windstream and its advisors prior to the July 31, 2011 board meeting. The board took into account provisions of the merger agreement that would permit PAETEC, until adoption of the merger agreement by its stockholders, to furnish information to, and engage in discussions and negotiations with, third parties making unsolicited acquisition proposals that the board determines are reasonably likely to lead to a superior proposal and to terminate the merger agreement to accept a superior proposal, subject to payment to Windstream of a termination fee of \$40 million, which provisions the board determined to be reasonable in light of, among other factors, the benefits of the merger to PAETEC's stockholders and the likelihood that an obligation to make a payment of such an amount would not preclude other acquisition proposals (the likelihood of which the board discussed with its financial advisors). The board also considered the merger agreement provisions that permit the PAETEC board of directors to change its recommendation with respect to the merger agreement, as well as the provisions that give PAETEC the right to seek specific performance of the agreement against Windstream.

*Tax Treatment of the Merger.* The PAETEC board of directors considered the ability of the companies to complete the merger on a tax-free basis for federal income tax purposes, other than with respect to cash to be received in lieu of fractional shares of Windstream common stock.

*Interests of PAETEC's Directors and Executive Officers in the Merger.* The PAETEC board of directors considered the interests that certain executive officers and directors of PAETEC may have in the merger that are different from, or in addition to, their general interests as stockholders of PAETEC, as described under [Interests of PAETEC's Directors and Executive Officers in the Merger](#).

*Continued Operation as a Stand-Alone Enterprise.* The PAETEC board of directors evaluated, as an alternative to the merger, the potential rewards and risks associated with the continued execution by PAETEC of its strategic plan as an independent company. In evaluating PAETEC's historical results and prospects for growth, the board noted favorable recent revenue trends in PAETEC's core network and carrier services, the positive impact on operating profitability of PAETEC's ongoing cost-management initiatives, and the contribution of recently acquired businesses to the expansion of PAETEC's network assets and portfolio of scalable network solutions. The board reviewed PAETEC's historical and possible future performance in light of the risks affecting its businesses, operations and financial condition, including the risks discussed in this proxy statement/prospectus under [Information about PAETEC PAETEC's Business Risk Factors](#). The board considered, among other factors, the challenges of continuing to operate independently, the consolidation trend in the telecommunications industry and the risks affecting PAETEC's ability to compete effectively against larger and better capitalized competitors. The PAETEC board also considered, with the assistance of its financial advisors, the potential downside risk in the long-term stock price as a stand-alone enterprise as compared to that of the combined company following a combination with Windstream.

*Alternative Transactions.* The PAETEC board of directors considered, as alternatives to the merger or continued independent operations, PAETEC's prospects for a merger transaction with a company other than Windstream and the potential terms of any such transaction. After taking into account the possible detrimental effects on PAETEC's business, including such effects on, among other things, its employees, customers, financing sources and business prospects, the PAETEC board determined not to solicit proposals for other transactions through an auction process or otherwise. The board's consideration of potential alternatives to the merger was informed by, among other matters, its familiarity with the various indications of interest, proposals and preliminary discussions involving potential merger partners communicated from time to time since PAETEC began operation as a public company in February 2007, including prior discussions between PAETEC and Company A and the unsolicited proposals submitted by Company A to PAETEC in July 2011 and described in this proxy statement/prospectus under [Background of the Merger](#). The board concluded that the Windstream merger, compared to potential alternative merger transactions, would be in the best interests of PAETEC's stockholders in light of the overall terms of the Windstream merger and the timing, likelihood and risks of

**Table of Contents**

**Index to Financial Statements**

completing alternative transactions, including the business, competition, industry and market risks that would apply to PAETEC.

In particular, in deciding to enter into the merger agreement, rather than to authorize PAETEC's management to conduct discussions with Company A regarding a possible business combination transaction on the basis of Company A's proposal, the PAETEC board considered the following matters, among others:

the board's determination, based on its consideration of the businesses, strategic plans, operating results, financial resources, acquisition integration experience and management teams of Windstream and Company A, as well as cost synergies, revenue opportunities and other possible benefits of a transaction with either Windstream or Company A for the combined company, that a transaction with Windstream would offer PAETEC's stockholders the prospect of greater potential long-term value for their investment than would a transaction with Company A;

the fact that the Windstream common stock, when compared to the stock of Company A, appeared to represent a superior potential investment currency in light of its higher dividend, more attractive market valuation and more liquid public market, and the board's comparison, with the assistance of its financial advisors, of the potential downside risk in the long-term stock price of the combined company following a combination with Windstream, on the one hand, to that of the combined company following a combination with Company A, on the other hand;

the greater risks of completing a transaction with Company A in light of Company A's lack of a financing commitment sufficient to enable it to refinance, repay or repurchase PAETEC's approximately \$1.5 billion of outstanding debt, as required by the terms of such debt, in connection with a transaction pursuant to Company A's proposal, as well as in light of the conditions contained in that proposal, which was subject to:

completion by Company A of a diligence review of PAETEC (which had not yet been initiated);

negotiation of specific merger terms and a related definitive agreement, including matters not addressed in Company A's proposal, such as deal protection terms, specific performance and other termination provisions; and

approval of the transaction by Company A's stockholders;

the less developed nature of Company A's proposal, which did not address, among other matters, important management aspects of the combined company, in which PAETEC stockholders would receive an ownership position of approximately 48% pursuant to Company A's proposal, including with respect to integration matters critical to the performance of the combined company and the ability to achieve cost synergies, revenue opportunities and other possible benefits of such a transaction;

the fact that, as discussed above, the provisions of the merger agreement would permit PAETEC, until adoption of the merger agreement by its stockholders, to furnish information to, and engage in discussions and negotiations with, third parties making unsolicited acquisition proposals that the board determines are reasonably likely to lead to a superior proposal and to terminate the merger agreement to accept a superior proposal, subject to payment to Windstream of a termination fee of \$40 million; and

the factors discussed above regarding Windstream's substantial operating resources, strong operating results, stable financial condition and management.

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

*Other Considerations.* The PAETEC board of directors took into account a number of potentially negative factors in its deliberations concerning the merger with Windstream, including the following considerations:

following completion of the merger, PAETEC would no longer exist as an independent public company and PAETEC's stockholders would be able to participate in any future earnings growth of PAETEC solely through their ownership of Windstream common stock;

**Table of Contents**

**Index to Financial Statements**

because the exchange ratio would be fixed, a decline in the share price of Windstream common stock before the merger closing would cause the value of the merger consideration to decline;

although the terms of the merger agreement would permit PAETEC, until adoption of the merger agreement by its stockholders, to furnish information to, and engage in discussions and negotiations with, third parties making unsolicited acquisition proposals that the board determines are reasonably likely to lead to a superior proposal and to terminate the merger agreement to accept a superior proposal, subject to payment to Windstream of a termination fee of \$40 million, the considerations that other potential bidders may choose not to make an alternative acquisition proposal, Company A's proposal stated that Company A would not make an alternative acquisition proposal, and, historically, the incidence of such superior proposals is relatively rare;

PAETEC would be obligated under the merger agreement to pay Windstream, under specified circumstances, a termination fee of \$40 million or to reimburse Windstream for its expenses in an amount not to exceed \$15 million if the merger agreement were terminated;

PAETEC's business could be harmed as a result of uncertainties about the effect of the proposed merger on PAETEC's employees and customers, which could impair PAETEC's ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with PAETEC to seek to change existing business relationships with the company;

the merger may not be completed or may not be completed within the period anticipated, as a result of a failure to satisfy, or satisfy in a timely manner, one or more closing conditions, including as a result of PAETEC's failure to obtain approval of the merger by its stockholders or its failure to obtain certain regulatory approvals in connection with the merger;

a failure to complete the merger could adversely affect PAETEC's stock price, which was anticipated to reflect an assumption that the merger would be completed; and

PAETEC had incurred, and would continue to incur, significant fees for professional services and other transaction costs and expenses in connection with the merger, a significant portion of which would be payable by PAETEC even if the merger were not completed.

After consideration of these factors, the PAETEC board of directors determined that the potential negative factors were significantly outweighed by the potential benefits of the merger to PAETEC's stockholders.

The foregoing summary of the factors considered by the PAETEC board of directors is not intended to be exhaustive, but is believed to include material factors considered by the board. In view of the variety of factors considered in connection with its evaluation of the merger, PAETEC's board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight to these factors. In addition, individual members of PAETEC's board of directors may have given different weight to different factors.

**Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated**

PAETEC has retained BofA Merrill Lynch to act as one of PAETEC's financial advisors in connection with the merger. BofA Merrill Lynch is an internationally recognized investment banking firm which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. PAETEC selected BofA Merrill Lynch to act as PAETEC's financial advisor in connection with the merger on the basis of BofA Merrill Lynch's experience in transactions similar to the merger, its reputation in the investment community and its familiarity with PAETEC and its business.

Edgar Filing: WINDSTREAM CORP - Form S-4/A

On July 31, 2011, at a meeting of PAETEC's board of directors held to evaluate the merger, BofA Merrill Lynch delivered to PAETEC's board of directors an oral opinion, which was confirmed by delivery of a written

---

**Table of Contents**

**Index to Financial Statements**

opinion dated July 31, 2011, to the effect that, as of the date of the opinion and based on and subject to various assumptions and limitations described in its opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to holders of PAETEC common stock.

**The full text of BofA Merrill Lynch's written opinion to PAETEC's board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex C to this proxy statement/prospectus and is incorporated by reference herein in its entirety. The following summary of BofA Merrill Lynch's opinion is qualified in its entirety by reference to the full text of the opinion. BofA Merrill Lynch delivered its opinion to PAETEC's board of directors for the benefit and use of PAETEC's board of directors (in its capacity as such) in connection with and for purposes of its evaluation of the exchange ratio from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the merger and no opinion or view was expressed as to the relative merits of the merger in comparison to other strategies or transactions that might be available to PAETEC or in which PAETEC might engage or as to the underlying business decision of PAETEC to proceed with or effect the merger. BofA Merrill Lynch's opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed merger or any related matter.**

In connection with rendering its opinion, BofA Merrill Lynch:

reviewed certain publicly available business and financial information relating to PAETEC and Windstream;

reviewed certain internal financial and operating information with respect to the business, operations and prospects of PAETEC furnished to or discussed with BofA Merrill Lynch by the management of PAETEC, including certain financial forecasts relating to PAETEC prepared by the management of PAETEC (such forecasts, the PAETEC Forecasts );

reviewed an alternative version of the PAETEC Forecasts incorporating certain adjustments thereto made by the management of PAETEC (the Adjusted PAETEC Forecasts ), and discussed with the management of PAETEC its assessments as to the relative likelihood of achieving the future financial results reflected in the PAETEC Forecasts and the Adjusted PAETEC Forecasts;

reviewed certain publicly available financial forecasts relating to Windstream and certain financial forecasts relating to Windstream prepared by the management of PAETEC (the PAETEC-Windstream Forecasts );

reviewed an alternative version of the PAETEC-Windstream Forecasts incorporating certain adjustments thereto made by the management of PAETEC (the Adjusted PAETEC-Windstream Forecasts );

reviewed certain estimates as to the amount and timing of cost savings and revenue enhancements (collectively, the Synergies/Cost Savings ) anticipated by the management of PAETEC to result from the merger;

reviewed and discussed with the management of PAETEC certain net operating losses (the PAETEC NOLs ), the benefits of which are expected by PAETEC management and its tax advisors to be available to PAETEC following consummation of the merger;

discussed the past and current business, operations, financial condition and prospects of PAETEC with members of senior management of PAETEC, and discussed the past and current business, operations, financial condition and prospects of Windstream with members of senior managements of Windstream;



reviewed the potential pro forma financial impact of the merger on the future financial performance of Windstream;

---

**Table of Contents**

**Index to Financial Statements**

reviewed the trading histories for PAETEC common stock and Windstream common stock and a comparison of such trading histories with each other and with the trading histories of other companies BofA Merrill Lynch deemed relevant;

compared certain financial and stock market information of PAETEC and Windstream with similar information of other companies BofA Merrill Lynch deemed relevant;

compared certain financial terms of the merger to financial terms, to the extent publicly available, of other transactions BofA Merrill Lynch deemed relevant;

reviewed the merger agreement; and

performed such other analyses and studies and considered such other information and factors as BofA Merrill Lynch deemed appropriate.

In arriving at its opinion, BofA Merrill Lynch assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and relied upon the assurances of the managements of PAETEC and Windstream that they were not aware of any facts or circumstances that would make such information or data inaccurate or misleading in any material respect. With respect to the PAETEC Forecasts and the Adjusted PAETEC Forecasts, BofA Merrill Lynch was advised by PAETEC, and assumed, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of PAETEC as to the future financial performance of PAETEC under the alternative growth scenarios reflected therein. With respect to the PAETEC-Windstream Forecasts and the Adjusted PAETEC-Windstream Forecasts, BofA Merrill Lynch was advised by PAETEC, and assumed, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of PAETEC as to the future financial performance of Windstream under the alternative scenarios reflected therein. BofA Merrill Lynch and the management of PAETEC also discussed with the management of Windstream the assumptions upon which the PAETEC-Windstream Forecasts were based, and the management of Windstream confirmed that the assumptions were appropriate. With respect to the Synergies/Cost Savings, BofA Merrill Lynch was advised by PAETEC, and assumed, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of PAETEC as to the matters covered thereby and BofA Merrill Lynch assumed, with the consent of PAETEC, that such Synergies/Costs Savings would be realized in the amounts and at the times projected. BofA Merrill Lynch relied, at the direction of PAETEC, on the assessment of the management of PAETEC as to PAETEC's ability to utilize the PAETEC NOLs and assumed, at the direction of PAETEC, that the PAETEC NOLs would be utilized in the amounts and at the times projected. BofA Merrill Lynch did not make and was not provided with any independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of PAETEC or Windstream, nor did BofA Merrill Lynch make any physical inspection of the properties or assets of PAETEC or Windstream. BofA Merrill Lynch did not evaluate the solvency or fair value of PAETEC or Windstream under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. BofA Merrill Lynch assumed, at the direction of PAETEC, that the merger would be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary governmental, regulatory and other approvals, consents, releases and waivers for the merger, no delay, limitation, restriction or condition, including any divestiture requirements or amendments or modifications, would be imposed that would have an adverse effect on PAETEC, Windstream or the contemplated benefits of the merger. BofA Merrill Lynch was not requested to, and it did not, solicit indications of interest or proposals from third parties regarding a possible acquisition of all or any part of PAETEC or any alternative transaction. BofA Merrill Lynch also assumed, at the direction of PAETEC, that the merger would qualify for federal income tax purposes as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

BofA Merrill Lynch expressed no view or opinion as to any terms or other aspects of the merger (other than the exchange ratio to the extent expressly specified in its opinion), including, without limitation, the form or structure of the merger. BofA Merrill Lynch's opinion was limited to the fairness, from a financial point of view,

**Table of Contents****Index to Financial Statements**

of the exchange ratio to holders of PAETEC common stock and no opinion or view was expressed with respect to any consideration received in connection with the merger by the holders of any class of securities, creditors or other constituencies of any party. In addition, no opinion or view was expressed with respect to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to any of the officers, directors or employees of any party to the merger, or class of such persons, relative to the exchange ratio. Furthermore, no opinion or view was expressed as to the relative merits of the merger in comparison to other strategies or transactions that might be available to PAETEC or in which PAETEC might engage or as to the underlying business decision of PAETEC to proceed with or effect the merger. BofA Merrill Lynch did not express any opinion as to what the value of Windstream common stock would be when issued or the prices at which PAETEC common stock or Windstream common stock would trade at any time, including following announcement or consummation of the merger. In addition, BofA Merrill Lynch expressed no opinion or recommendation as to how any stockholder should vote or act in connection with the merger or any related matter. Except as described above, PAETEC imposed no other limitations on the investigations made or procedures followed by BofA Merrill Lynch in rendering its opinion.

BofA Merrill Lynch's opinion was necessarily based on financial, economic, monetary, market and other conditions and circumstances as in effect on, and the information made available to BofA Merrill Lynch as of, the date of its opinion. It should be understood that subsequent developments may affect its opinion, and BofA Merrill Lynch does not have any obligation to update, revise, or reaffirm its opinion. The issuance of BofA Merrill Lynch's opinion was approved by BofA Merrill Lynch's Americas Fairness Opinion Review Committee.

The following represents a brief summary of the material financial analyses presented by BofA Merrill Lynch to PAETEC's board of directors in connection with its opinion. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by BofA Merrill Lynch, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by BofA Merrill Lynch. Considering the data set forth in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by BofA Merrill Lynch.**

For purposes of the PAETEC financial analyses summarized below, the implied per share merger consideration is assumed to be \$5.62, which is the implied per share value of the consideration as of July 29, 2011, and the 10-day average implied per share merger consideration is assumed to be \$5.75, which is the implied per share value of the consideration based on the 10-day average as of July 29, 2011. For purposes of the Windstream financial analyses summarized below, the July 29th Windstream price is \$12.21, which was the closing sales price of Windstream common stock on July 29, 2011, and the 10-day average Windstream price is \$12.49, which was the average of the closing sales prices of Windstream common stock for the ten trading days ending July 29, 2011.

***PAETEC Financial Analyses***

**52-Week Trading Range.** BofA Merrill Lynch reviewed the historical trading prices of PAETEC common stock during the 52-week period ended July 29, 2011 and noted that the low and high trading prices per share of PAETEC common stock during that period were \$3.00 and \$4.95, respectively, as compared to the implied offer price of \$5.62 and the 10-day average implied offer price of \$5.75.

**Analyst Price Targets.** BofA Merrill Lynch reviewed stock price targets for PAETEC common stock in 14 recently published, publicly available Wall Street research analyst reports and observed that the range of the research analyst 12-month share price targets was \$4.20 to \$7.00, as compared to the implied offer price of \$5.62 and the 10-day average implied offer price of \$5.75. These targets reflect each analyst's estimate of the future public market trading price of PAETEC common stock and were not discounted to reflect present values.

**Table of Contents****Index to Financial Statements**

*Selected Publicly Traded Companies Analysis.* BofA Merrill Lynch reviewed publicly available financial and stock market information for PAETEC and the following four publicly traded competitive local exchange carriers, which were selected because they are publicly traded companies with businesses that for purposes of this analysis may be considered similar to that of PAETEC:

Cbeyond, Inc.

Cogent Communications Group, Inc.

EarthLink, Inc.

tw telecom inc.

BofA Merrill Lynch reviewed, among other things, enterprise values of PAETEC and the selected publicly traded companies, calculated as equity values based on closing stock prices on July 29, 2011, plus debt, less cash, plus minority interest where applicable, as a multiple of calendar year 2011 estimated earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA. BofA Merrill Lynch also derived a growth multiple by dividing the calendar year 2011 estimated EBITDA multiples by the estimated calendar year 2011 to 2013 compound adjusted growth rate, commonly referred to as CAGR, for the selected companies. The analysis indicated the following:

	Mean	PAETEC
EV/2011E EBITDA	6.0x	5.6x
EV/2011E EBITDA/Growth	0.6x	0.8x

BofA Merrill Lynch then applied calendar year 2011 estimated EBITDA multiples of 5.5x to 6.5x derived from the selected publicly traded companies to PAETEC's calendar year 2011 estimated EBITDA. BofA Merrill Lynch then also applied calendar year 2011 to calendar year 2013 estimated CAGR multiples of 0.60x to 0.85x to PAETEC's estimated CAGR. Estimated financial data of the selected publicly traded companies were based on publicly available research analysts' estimates, and estimated financial data of PAETEC were based on the PAETEC Forecasts. This analysis indicated the following approximate implied per share equity value reference ranges for PAETEC, as compared to the implied per share merger consideration and the 10-day average implied per share merger consideration:

Implied Per Share Equity Value Reference Ranges for PAETEC		EV/2011E EBITDA/Growth		Implied Per Share Merger Consideration	10-day Average Implied Per Share Merger Consideration
EV/2011E EBITDA					
\$4.25	\$6.75	\$ .75	\$4.75	\$ 5.62	\$ 5.75

No company used in this analysis is identical or directly comparable to PAETEC. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading or other values of the companies to which PAETEC was compared.

**Table of Contents****Index to Financial Statements**

*Selected Precedent Transactions Analysis.* BofA Merrill Lynch reviewed, to the extent publicly available, financial information relating to the following 11 selected transactions involving targets in the emerging telecommunications industry with businesses that for purposes of this analysis may be considered similar to that of PAETEC:

Acquiror	Target
Earthlink, Inc.	One Communications Corp.
Earthlink, Inc.	ITC^DeltaCom, Inc.
PAETEC Holding Corp.	Cavalier Telephone Corporation
NTELOS Holdings Corp.	FiberNet
Windstream Corporation	NuVox, Inc.
Platinum Equity	Covad Communications Group Inc.
Integra Telecom, Inc.	Eschelon Telecom, Inc.
Q-Comm Corporation	Norlight Telecommunications Inc.
PAETEC Holding Corp.	US LEC Corp.
Level 3 Communications, Inc.	Looking Glass Networks, Inc.
TelePacific Communications	Mpower Communications Corp.

BofA Merrill Lynch reviewed transaction values, calculated as the enterprise value implied for the target company based on the consideration payable in the selected transaction, as a multiple of the target company's one-year forward estimated EBITDA, referred to as Forward EV/EBITDA, before Synergies/Cost Savings. The analysis indicated the following:

**Forward EV/EBITDA**

High	Low	Mean	Mean for Pre-2008 Transactions	Mean for Post-2008 Transactions
9.1x	4.8x	6.8x	7.9x	5.4x

BofA Merrill Lynch then applied one-year forward EBITDA multiples of 5.5x to 7.0x, derived from the selected transactions, to PAETEC's calendar year 2011 estimated EBITDA. Estimated financial data of the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. Estimated financial data of PAETEC were based on the PAETEC Forecasts. This analysis indicated the following approximate implied per share equity value reference ranges for PAETEC, as compared to the implied per share merger consideration and the 10-day average implied per share merger consideration:

Implied Per Share Equity Value Reference Range for PAETEC 2011E EBITDA/Revenue	Implied Per Share Merger Consideration	10-day Average Implied Per Share Merger Consideration
\$4.25 \$7.75	\$ 5.62	\$ 5.75

No company, business or transaction used in this analysis is identical or directly comparable to PAETEC or the merger. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition or other values of the companies, business segments or transactions to which PAETEC and the merger were compared.

*Discounted Cash Flow Analysis.* BofA Merrill Lynch performed a discounted cash flow analysis of PAETEC to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that PAETEC was forecasted to generate during PAETEC's fiscal years 2011 through 2015 based on the PAETEC Forecasts and the Adjusted PAETEC Forecasts. For purposes of its discounted cash flow analysis, BofA Merrill Lynch adjusted these forecasts to include stock-based compensation expense. BofA Merrill Lynch calculated terminal values for PAETEC by applying perpetual growth rates ranging from 2.5% to 3.0% to PAETEC's 2015



**Table of Contents****Index to Financial Statements**

estimated unlevered free cash flow. The cash flows and terminal values were then discounted to present value as of June 30, 2011 using discount ranges ranging from 9.0% to 11.0%, which were based on an estimate of PAETEC's weighted average cost of capital. The analysis indicated the following approximate implied per share equity value reference ranges for PAETEC as compared to the implied per share merger consideration and the 10-day average implied per share merger consideration.

Implied Per Share Equity Value Reference Range for PAETEC				Implied Per Share Merger Consideration	10-day Average Implied Per Share Merger Consideration
PAETEC Forecasts		Adjusted PAETEC Forecasts			
\$4.25	\$8.75	\$ 1.25	\$4.75	\$ 5.62	\$ 5.75

***Windstream Financial Analyses***

**52-Week Trading Range.** BofA Merrill Lynch reviewed the historical trading prices of Windstream common stock during the 52-week period ended July 29, 2011 and noted that the low and high trading prices per share of Windstream common stock during that period were \$10.97 and \$14.40, respectively, as compared to the July 29th Windstream price of \$12.21 and the 10-day average Windstream price of \$12.49.

**Analyst Price Targets.** BofA Merrill Lynch reviewed stock price targets for Windstream common stock in 16 recently published, publicly available Wall Street research analyst price reports and observed that the range of the research analyst 12-month share price targets was \$13.00 to \$18.50, as compared to the July 29th Windstream price of \$12.21 and the 10-day average Windstream price of \$12.49. These targets reflect each analyst's estimate of the future public market trading price of Windstream common stock and were not discounted to reflect present values.

**Selected Publicly Traded Companies Analysis.** BofA Merrill Lynch reviewed publicly available financial and stock market information for Windstream and the following five publicly traded rural local exchange carriers, which were selected because they are publicly traded companies with businesses that for purposes of this analysis may be considered similar to that of Windstream:

Alaska Communications Systems Group, Inc.

CenturyLink, Inc.

Cincinnati Bell Inc.

Frontier Communications Corporation

NTELOS Holdings Corp.

BofA Merrill Lynch reviewed, among other things, 2011 estimated free cash flow yields per share of Windstream and the selected publicly traded companies, calculated as a percentage of the closing stock prices on July 29, 2011. BofA Merrill Lynch also calculated the dividend yield for Windstream and the selected publicly traded companies, calculated as a percentage of the estimated 2011 annual dividends per share of the closing stock prices on July 29, 2011. The analysis indicated the following:

	Low	High	Windstream
2011E FCF Yield	2.6%	15.2%	13.3%

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

2011E Dividend Yield

7.8%

11.9%

8.2%

BofA Merrill Lynch then applied a range of estimated free cash flow yields to corresponding data of Windstream from 13.0% to 15.0% and a range of estimated dividend yields to corresponding data of Windstream from 7.5% to 9.5% in order to calculate an implied per share equity reference range for Windstream. Estimated financial data of the selected publicly traded companies were based on publicly available research analysts' estimates, and estimated financial data of Windstream were based on the PAETEC-Windstream Forecasts. This



**Table of Contents****Index to Financial Statements**

analysis indicated the following approximate implied per share equity value reference ranges for Windstream, as compared to the July 29th Windstream price and the 10-day average Windstream price:

Implied Per Share Equity Value Reference Ranges for Windstream				July 29th Windstream Price	10-day Average Windstream Price
2011E FCF Yield		2011E Dividend Yield			
\$10.75	\$12.50	\$ 10.50	13.25	\$ 12.21	\$ 12.49

No company used in this analysis is identical or directly comparable to Windstream. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading or other values of the companies to which Windstream was compared.

*Discounted Cash Flow Analysis.* BofA Merrill Lynch performed a discounted cash flow analysis of Windstream to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Windstream was forecasted to generate during Windstream's fiscal years 2011 through 2015 based on the PAETEC-Windstream Forecasts and the Adjusted PAETEC-Windstream Forecasts. For purposes of its discounted cash flow analysis, BofA Merrill Lynch adjusted these forecasts to include stock-based compensation expense. BofA Merrill Lynch calculated terminal values for Windstream by applying perpetual growth rates ranging from (1.00)% to 0.00% to Windstream's 2015 estimated unlevered free cash flow. The cash flows and terminal values were then discounted to present value as of June 30, 2011 using discount ranges ranging from 6.0% to 7.0%, which were based on an estimate of Windstream's weighted average cost of capital. This analysis indicated the following approximate implied per share equity value reference ranges for Windstream, as compared to the July 29th Windstream price and the 10-day average Windstream price:

Implied Per Share Equity Value Reference Range for Windstream				July 29th Windstream Price	10-day Average Windstream Price
PAETEC-Windstream Forecasts		Adjusted PAETEC- Windstream Forecasts			
\$12.00	\$19.25	\$ 9.25	\$15.50	\$ 12.21	\$ 12.49

***Combination Analysis***

*52-Week Trading Range.* BofA Merrill Lynch calculated the range of implied exchange ratios during the 52-week period ending on July 29, 2011 by dividing the high trading price of PAETEC by the high trading price of Windstream and by dividing the low trading price of PAETEC by the low trading price of Windstream. The analysis indicated the following approximate reference range, as compared to the exchange ratio in the merger:

Implied Reference Range	Exchange Ratio
0.273x 0.344x	0.460x

*Analyst Price Targets.* BofA Merrill Lynch calculated the implied exchange ratio based on the price targets of the 13 equity research analysts who published price targets for PAETEC and the 15 research analysts who published price targets for Windstream by dividing the high target price of PAETEC by the high target price of Windstream and by dividing the low target price of PAETEC by the low target price of Windstream. The analysis indicated the following approximate reference range, as compared to the exchange ratio in the merger:

Implied Reference Range	Exchange Ratio
0.323x 0.378x	0.460x

*Selected Publicly Traded Companies Analysis.* Based on the per share price reference ranges implied for PAETEC and Windstream by the selected publicly traded companies analyses described above, BofA Merrill Lynch calculated the following implied exchange ratio reference range by dividing the high end of the PAETEC implied per share price reference range by the high end of the Windstream implied per share

price reference

**Table of Contents****Index to Financial Statements**

range and calculated the low end of the implied exchange ratio reference range by dividing the low end of the PAETEC implied per share price reference range by the low end of the Windstream implied per share price reference range. In each case, the high end and the low end of the implied per share reference ranges were calculated as the average of the high and low ends of the reference ranges implied by the selected public companies analyses described above. The analysis indicated the following approximate reference range, as compared to the exchange ratio in the merger:

Implied Reference Range	Exchange Ratio
0.236x 0.447x	0.460x

*Discounted Cash-Flow Analysis.* Based on the per share price reference ranges implied for PAETEC and Windstream by the discounted cash flow analyses described above, BofA Merrill Lynch calculated the following implied exchange ratio reference range (the high end of the implied exchange ratio reference range was calculated by dividing the high end of PAETEC's implied per share price reference range by the high end of Windstream's implied per share price reference range, and the low end of the implied exchange ratio reference range was calculated by dividing the low end of the PAETEC implied per share price reference range by the low end of the Windstream implied per share price reference range), as compared to the exchange ratio in the merger:

PAETEC Forecasts and PAETEC- Windstream Forecasts	Adjusted PAETEC Forecasts and Adjusted PAETEC-Windstream Forecasts	Exchange Ratio
0.363x 0.459x	0.138x 0.307x	0.460x

***Other Factors***

*Implied Price and Premium Analysis.* In rendering its opinion, BofA Merrill Lynch also noted that the implied per share merger consideration represented a premium to the PAETEC price per share as follows:

	PAETEC Share Price	Windstream Share Price	Implied PAETEC Offer Price	% Premium
July 29, 2011	\$ 4.42	\$ 12.21	\$ 5.62	27.1%
July 27, 2011	4.50	12.39	5.70	26.7%
Average for the two week period ending July 29, 2011	4.58	12.49	5.75	25.3%
Average for the 30 calendar days ending July 29, 2011	4.62	12.74	5.86	26.8%
Average for the 60 calendar days ending July 29, 2011	4.59	12.90	5.93	29.2%
Average for the 90 calendar days ending July 29, 2011	4.35	13.01	5.98	37.4%
High closing price for the 52-week period ending July 29, 2011	4.86	14.26	6.56	35.0%
Low closing price for the 52-week period ending July 29, 2011	3.07	11.07	5.09	65.9%

***Miscellaneous***

As noted above, the discussion set forth above is a summary of the material financial analyses presented by BofA Merrill Lynch to PAETEC's board of directors in connection with its opinion and is not a comprehensive description of all analyses undertaken by BofA Merrill Lynch in connection with its opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to partial analysis or summary description. BofA Merrill Lynch believes that its analyses summarized above must be considered as a whole. BofA Merrill Lynch



---

**Table of Contents**

**Index to Financial Statements**

further believes that selecting portions of its analyses and the factors considered or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying BofA Merrill Lynch's analyses and opinion. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was given greater weight than any other analysis referred to in the summary.

In performing its analyses, BofA Merrill Lynch considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of PAETEC and Windstream. The estimates of the future performance of PAETEC and Windstream in or underlying BofA Merrill Lynch's analyses are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those estimates or those suggested by BofA Merrill Lynch's analyses. These analyses were prepared solely as part of BofA Merrill Lynch's analysis of the fairness, from a financial point of view, of the exchange ratio to holders of PAETEC common stock and were provided to PAETEC's board of directors in connection with the delivery of BofA Merrill Lynch's opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future. Accordingly, the estimates used in, and the ranges of valuations resulting from, any particular analysis described above are inherently subject to substantial uncertainty and should not be taken to be BofA Merrill Lynch's view of the actual values of PAETEC or Windstream.

The type and amount of consideration payable in the merger was determined through negotiations between PAETEC and Windstream, rather than by any financial advisor, and was approved by PAETEC's board of directors. The decision to enter into the merger agreement was solely that of PAETEC's board of directors. As described above, BofA Merrill Lynch's opinion and analyses were only one of many factors considered by PAETEC's board of directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of PAETEC's board of directors or management with respect to the merger or the exchange ratio.

PAETEC has agreed to pay BofA Merrill Lynch for its services in connection with the merger or a similar transaction an aggregate fee of \$18 million, \$2 million of which was payable in connection with its opinion and the balance of which is contingent upon the completion of the merger. In addition, PAETEC may pay to BofA Merrill Lynch an additional discretionary fee of up to \$2 million if PAETEC so determines in its sole discretion. PAETEC also has agreed to reimburse BofA Merrill Lynch for its expenses incurred in connection with BofA Merrill Lynch's engagement and to indemnify BofA Merrill Lynch, any controlling person of BofA Merrill Lynch and each of their respective directors, officers, employees, agents and affiliates against specified liabilities, including liabilities under the federal securities laws.

BofA Merrill Lynch and its affiliates comprise a full service securities firm and commercial bank engaged in securities, commodities and derivatives trading, foreign exchange and other brokerage activities, and principal investing as well as providing investment, corporate and private banking, asset and investment management, financing and financial advisory services and other commercial services and products to a wide range of companies, governments and individuals. In the ordinary course of their businesses, BofA Merrill Lynch and its affiliates invest on a principal basis or on behalf of customers or manage funds that invest, make or hold long or short positions, finance positions or trade or otherwise effect transactions in the equity, debt or other securities or financial instruments (including derivatives, bank loans or other obligations) of PAETEC, Windstream and certain of their respective affiliates.

BofA Merrill Lynch and its affiliates in the past have provided, currently are providing, and in the future may provide investment banking, commercial banking and other financial services to PAETEC and in the past two years have received, in the aggregate, approximately \$15 million in compensation, and in the future may receive compensation, for the rendering of these services, including having acted or acting as (i) joint bookrunner on certain debt offerings, (ii) joint lead arranger, joint book runner and syndication agent for, and lender under, PAETEC's existing credit facilities and (iii) financial advisor in connection with certain mergers and acquisitions transactions.

---

**Table of Contents**

**Index to Financial Statements**

In addition, BofA Merrill Lynch and its affiliates in the past have provided, currently are providing, and in the future may provide, investment banking, commercial banking and other financial services to Windstream, and in the past two years have received, in the aggregate, approximately \$29 million in compensation, and in the future may receive compensation, for the rendering of these services, including (i) having acted or acting as joint bookrunner and/or arranger on certain debt offerings, (ii) having acted or acting as lender under certain credit facilities and term loans, (iii) having acted or acting as financial advisor in connection with certain mergers and acquisitions transactions and (iv) having provided or providing certain cash and treasury management products and services and derivatives and foreign exchange trading services. Lead members of the BofA Merrill Lynch team advising PAETEC on the merger have acted, during the past two years, as lead members of the BofA Merrill Lynch team advising Windstream in connection with several corporate transactions.

**Opinion of Deutsche Bank Securities Inc.**

Deutsche Bank has acted as a financial advisor to the PAETEC board of directors in connection with the merger. At the July 31, 2011 meeting of the PAETEC board of directors, Deutsche Bank delivered to the PAETEC board of directors its opinion to the effect that, as of such date and based upon and subject to the assumptions made, matters considered and limitations, qualifications and conditions of the review undertaken as set forth in the opinion, the exchange ratio was fair, from a financial point of view, to the holders of PAETEC common stock.

**The full text of Deutsche Bank's opinion, dated July 31, 2011, which sets forth the assumptions made, matters considered and limitations, qualifications and conditions of the review undertaken by Deutsche Bank in rendering its opinion, is attached as Annex D to this proxy statement/prospectus. PAETEC encourages the holders of PAETEC common stock to read the Deutsche Bank opinion in its entirety. Deutsche Bank provided its opinion for the information and assistance of the PAETEC board of directors in connection with its consideration of the merger. The Deutsche Bank opinion did not address any other aspect of the merger and Deutsche Bank expressed no opinion as to the merits of the underlying decision by PAETEC to engage in the merger or the relative merits of the merger as compared to any alternative business strategies or other transactions that may be available to PAETEC, and Deutsche Bank expressed no opinion or recommendation as to how any holder of PAETEC common stock should vote with respect to the merger. All summaries of the opinion of Deutsche Bank set forth in this proxy statement/prospectus are qualified in their entirety by reference to the full text of such opinion.**

In connection with Deutsche Bank's role as financial advisor to PAETEC, and in arriving at its opinion, Deutsche Bank, among other things:

reviewed certain publicly available financial and other information concerning PAETEC and Windstream;

reviewed certain internal analyses, financial forecasts and other information relating to PAETEC prepared by management of PAETEC, and held discussions with members of PAETEC's management regarding the businesses and prospects of PAETEC;

reviewed certain internal analyses, limited near-term financial forecasts and other information relating to Windstream prepared by management of Windstream, and held discussions with members of Windstream's management regarding the businesses and prospects of Windstream before and after giving effect to the merger;

reviewed certain internal analyses, financial forecasts and other information relating to Windstream prepared by management of PAETEC, and held discussions with members of PAETEC's management regarding the businesses and prospects of Windstream before and after giving effect to the merger;

reviewed certain estimates as to the amount and timing of costs savings and revenue enhancements, referred to as Synergies and Cost Savings, anticipated by PAETEC's management to result from the merger;

---

**Table of Contents**

**Index to Financial Statements**

reviewed certain net operating losses, referred to as the PAETEC NOLs, with PAETEC's management, the benefits of which are expected by PAETEC's management and its tax advisors to be available to the combined company following consummation of the merger;

reviewed the potential pro forma impact of the merger on the future financial performance of Windstream;

reviewed the reported prices and trading activity for the PAETEC common stock and the Windstream common stock;

to the extent publicly available, compared certain financial and stock market information for PAETEC and Windstream with similar information for certain other companies it considered relevant whose securities are publicly traded;

to the extent publicly available, reviewed the financial terms of certain recent business combinations which it deemed relevant;

reviewed a draft dated July 31, 2011 of the merger agreement and certain related documents, including the voting agreement; and

performed such other studies and analyses and considered such other factors as it deemed appropriate.

Deutsche Bank did not assume responsibility for the independent verification of, and did not independently verify, any information, whether publicly available or furnished to it, concerning PAETEC or Windstream, including, without limitation, any financial information considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Deutsche Bank, with the permission of the PAETEC board of directors, assumed and relied upon the accuracy and completeness of all such information. Deutsche Bank did not conduct a physical inspection of any of the properties or assets, and did not prepare or obtain any independent evaluation or appraisal of any of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities), of PAETEC or Windstream or any of their respective subsidiaries, nor did Deutsche Bank evaluate the solvency or fair value of PAETEC or Windstream under any state or federal law relating to bankruptcy, insolvency or similar matters. With respect to the financial forecasts made available to Deutsche Bank and used in its analyses, Deutsche Bank assumed with the permission of the PAETEC board of directors that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of PAETEC as to the matters covered thereby. Deutsche Bank received only limited near-term financial forecasts prepared by the management of Windstream, and at the direction of PAETEC, relied on the financial forecasts relating to Windstream prepared by management of PAETEC. With respect to the Synergies and Cost Savings, Deutsche Bank assumed with the permission of the PAETEC board of directors that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of PAETEC as to the matters covered thereby and that such Synergies and Costs Savings will be realized in the amounts and at the times projected. With respect to the PAETEC NOLs, Deutsche Bank relied, at the direction of PAETEC, on the assessment of PAETEC's management as to PAETEC's and the combined company's ability to utilize the PAETEC NOLs and assumed, at the direction of PAETEC, that the PAETEC NOLs will be utilized in the amounts and at the times projected. In rendering its opinion, Deutsche Bank expressed no view as to the reasonableness of such forecasts and projections or the assumptions on which they are based.

For purposes of rendering its opinion, Deutsche Bank assumed with the permission of the PAETEC board of directors that, in all respects material to its analysis, the merger would be consummated in accordance with its terms, without any material waiver, modification or amendment of any term, condition or agreement. Deutsche Bank also assumed that all material governmental, regulatory or other approvals and consents required in connection with the consummation of the merger will be obtained and that in connection with obtaining any necessary governmental, regulatory or other approvals and consents, no material restrictions will be imposed. In addition, the PAETEC board of directors informed Deutsche Bank, and accordingly for purposes of rendering its opinion Deutsche Bank assumed, that the merger will qualify for federal income tax purposes as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended. Deutsche Bank is not





---

**Table of Contents**

**Index to Financial Statements**

a legal, regulatory, tax or accounting expert and has relied on the assessments made by PAETEC and its advisors with respect to such issues. Representatives of PAETEC informed Deutsche Bank, and Deutsche Bank further assumed, that the final terms of the merger agreement would not differ materially from the terms set forth in the drafts it reviewed.

The Deutsche Bank opinion was approved and authorized for issuance by a fairness opinion review committee, was addressed to, and for the use and benefit of, the PAETEC board of directors and is not a recommendation to the stockholders of PAETEC to approve the merger. The Deutsche Bank opinion was limited to the fairness, from a financial point of view, of the exchange ratio to the holders of PAETEC common stock, was subject to the assumptions, limitations, qualifications and other conditions contained therein and was necessarily based on the economic, market and other conditions, and information made available to Deutsche Bank, as of the date of its opinion. Deutsche Bank was not asked to, and the Deutsche Bank opinion did not, address the fairness of the merger, or any consideration received in connection therewith, to the holders of any other class of securities, creditors or other constituencies of PAETEC, nor did it address the fairness of the contemplated benefits of the merger. Deutsche Bank expressly disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion of which it became aware after the date of its opinion. Deutsche Bank expressed no opinion as to the merits of the underlying decision by PAETEC to engage in the merger or as to how any holder of PAETEC common stock should vote with respect to the merger. In addition, Deutsche Bank did not express any view or opinion as to the fairness, financial or otherwise, of the amount or nature of any compensation payable to or to be received by any of PAETEC's officers, directors or employees, or any class of such persons, in connection with the merger relative to the amounts to be received by any other person pursuant to the merger agreement or otherwise. The Deutsche Bank opinion did not in any manner address the prices at which PAETEC common stock, Windstream's common stock or other securities of PAETEC or Windstream, respectively, will trade following the announcement or consummation of the merger.

Deutsche Bank was not requested to and did not solicit third party indications of interest in the possible acquisition of all or part of PAETEC, nor was Deutsche Bank requested to consider, and its opinion did not address, the relative merits of the merger as compared to any alternative business strategies or other transactions that may be available to PAETEC.

Set forth below is a brief summary of certain financial analyses performed by Deutsche Bank in connection with its opinion and reviewed with the PAETEC board of directors at its meeting on July 31, 2011.

The order of the analyses described below does not represent relative importance or weight given to those analyses by Deutsche Bank or the PAETEC board of directors. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Deutsche Bank's financial analyses. The tables below must be read together with the full text of each summary and are alone not a complete description of Deutsche Bank's financial analyses.

***Transaction Overview***

Based on the exchange ratio of 0.460 shares of Windstream common stock per share of PAETEC common stock, Deutsche Bank noted that the implied value of the merger consideration pursuant to the merger agreement was approximately \$5.62 per share of PAETEC common stock based on the closing price per share of Windstream common stock on July 29, 2011, referred to as the Spot Price Implied Merger Consideration Value, and approximately \$5.75 per share of PAETEC common stock based on the average closing price per share of Windstream common stock for the 10-trading day period ending July 29, 2011, referred to as the 10-Day Average Implied Merger Consideration Value.

**Table of Contents**

**Index to Financial Statements**

***PAETEC Analysis***

*Analysis of Selected Publicly Traded Companies.* Deutsche Bank reviewed and compared certain financial information for PAETEC to the corresponding financial information, ratios and public market multiples for the following publicly traded telecommunications companies, referred to as the PAETEC Selected Companies :

Cbeyond, Inc.,

Cogent Communications Group, Inc.,

EarthLink, Inc., and

tw telecom inc.

Although none of the PAETEC Selected Companies are directly comparable to PAETEC, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of PAETEC.

Accordingly, Deutsche Bank believes the analysis of publicly traded comparable companies is not simply mathematical. Rather, it involves complex considerations and qualitative judgments, reflected in the Deutsche Bank opinion, concerning differences in financial and operating characteristics of the PAETEC Selected Companies and other factors that could affect the public trading value of such companies.

In its analysis, Deutsche Bank derived and compared multiples for the PAETEC Selected Companies, calculated as follows:

the ratio of total enterprise value (calculated as the total equity value based on closing stock prices as of July 29, 2011, plus indebtedness and less cash), or TEV, to estimated earnings before interest, taxes, depreciation and amortization, or EBITDA, for calendar year 2011, referred to below as TEV/2011E EBITDA ; and

the ratio of TEV to estimated EBITDA for calendar year 2012, referred to below as TEV/2012E EBITDA.

The multiples and ratios for each of the PAETEC Selected Companies were calculated using the closing price of the PAETEC Selected Companies common stock on July 29, 2011 and were based on the most recent publicly available information, as well as equity research analyst estimates for 2011 and 2012. Using the base case PAETEC five-year forecasts (see Financial Forecasts of PAETEC s Management beginning on page 107 for a description of forecasts) and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share, Deutsche Bank also calculated the same ratios for PAETEC.

This analysis indicated the following:

Metric	Mean	Median	PAETEC
TEV/2011E EBITDA	6.1x	6.0x	5.6x
TEV/2012E EBITDA	5.7x	5.8x	5.2x

Using the base case PAETEC five-year forecasts and based on the foregoing, Deutsche Bank determined an estimated TEV/2011E EBITDA reference range of 5.0x 6.0x and applied such range to PAETEC s 2011E EBITDA. Deutsche Bank observed that the price per share for PAETEC common stock implied by this analysis ranged from \$3.05 to \$5.53, compared to the Spot Price Implied Merger Consideration Value of approximately \$5.62 per share, the 10-Day Average Implied Merger Consideration Value of approximately \$5.75 per share and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share.

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

*Discounted Cash Flow Analysis.* Deutsche Bank performed a discounted cash flow analysis for PAETEC to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that PAETEC was forecasted to generate through the fiscal year ending December 31, 2015, based on both the base case PAETEC five-year forecasts and the adjusted PAETEC five-year forecasts. For its calculations, Deutsche Bank treated

**Table of Contents****Index to Financial Statements**

stock-based compensation as a cash expense and used discount rates ranging from 9.0% to 11.0%. The discount rates applicable to PAETEC were based on Deutsche Bank's judgment of the estimated weighted average cost of PAETEC's capital. The terminal value of PAETEC was calculated using perpetuity growth rates ranging from 2.5% to 3.0%.

Deutsche Bank observed that the price per share for PAETEC common stock implied by this analysis ranged from approximately \$4.29 to \$8.81 based on the base case PAETEC five-year forecasts and approximately \$1.50 to \$4.98 based on the adjusted PAETEC five-year forecasts, in each case compared to the Spot Price Implied Merger Consideration Value of approximately \$5.62 per share, the 10-Day Average Implied Merger Consideration Value of approximately \$5.75 per share and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share.

*Analysis of Selected Precedent Transactions.* Deutsche Bank reviewed the financial terms, to the extent publicly available, of 11 selected completed business combination transactions since May 2006 involving companies in the telecommunications sector, referred to as the Selected Transactions, which were selected because they involved target companies with operations that for the purposes of analysis may be considered similar to certain operations of PAETEC. Deutsche Bank calculated various financial multiples based on certain publicly available information for each of the Selected Transactions. The transactions reviewed were as follows:

<b>Month and Year Announced</b>	<b>Target</b>	<b>Acquiror</b>
December 2010	One Communications Corp.	EarthLink, Inc.
October 2010	ITC^DeltaCom, Inc.	EarthLink, Inc.
September 2010	Cavalier Telephone Corporation	PAETEC Holding Corp.
July 2010	FiberNet	NTELOS Holdings Corp.
November 2009	NuVox, Inc.	Windstream Corporation
October 2007	Covad Communications Group, Inc.	Platinum Equity
March 2007	Eschelon Telecom, Inc.	Integra Telecom, Inc.
November 2006	Norlight Telecommunications Inc.	Q-Comm Corporation
August 2006	US LEC Corp.	PAETEC Corp.
June 2006	Looking Glass Networks Holding Co. Inc.	Level 3 Communications, Inc.
May 2006	Mpower Communications Corp.	TelePacific Communications

In its analysis, Deutsche Bank derived and compared multiples for the five Selected Transactions announced since November 2009, including the ratio of TEV for the target company implied by the consideration payable in the transaction to the last twelve months EBITDA (except in the transaction involving FiberNet, in which EBITDA for calendar year 2009 was used), both including and excluding synergies expected to result from the transaction forecasted by the acquiror, referred to below as TEV/LTM EBITDA.

This analysis indicated the following:

**Selected Transactions Valuation Multiples**

<b>Metric</b>	<b>Excluding Forecasted Synergies</b>			<b>Including Forecasted Synergies</b>		
	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>
TEV/LTM EBITDA	6.8x	4.7x	5.6x	5.2x	3.7	4.4x

Based on the foregoing, Deutsche Bank determined an estimated TEV/LTM EBITDA reference range of 5.5x to 6.8x, and applied such range to PAETEC's LTM EBITDA. Deutsche Bank observed that the price per share for PAETEC common stock implied by this analysis ranged from approximately \$3.63 to \$6.69, compared to the Spot Price Implied Merger Consideration Value of approximately \$5.62 per share, the 10-Day Average Implied Merger Consideration Value of approximately \$5.75 per share and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share.

---

**Table of Contents**

**Index to Financial Statements**

Because the reasons for, and circumstances surrounding, including without limitation differing markets and other conditions, the Selected Transactions analyzed were so diverse, and due to the inherent differences between the operations and financial conditions of PAETEC and the companies involved in the Selected Transactions, Deutsche Bank believes that a comparable transaction analysis is not simply mathematical. Rather, it involves complex considerations and qualitative judgments, reflected in the Deutsche Bank opinion, concerning differences between the characteristics of the Selected Transactions and the merger that could affect the value of the subject companies and businesses and PAETEC.

*Fifty-Two Week Trading Range.* Deutsche Bank reviewed the historical trading price for PAETEC common stock during the 52-week period ended July 29, 2011 and observed that the range of intra-day trading share prices for PAETEC common stock during this period was \$3.00 to \$4.95, compared to the Spot Price Implied Merger Consideration Value of approximately \$5.62 per share, the 10-Day Average Implied Merger Consideration Value of approximately \$5.75 per share and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share.

*Analysis of Equity Analyst Price Targets.* Deutsche Bank reviewed price targets for PAETEC common stock published by certain equity research analysts during the period from May 5, 2011 to July 12, 2011. This analysis showed that the price targets ranged from \$4.20 to \$7.00 per share of PAETEC common stock, with a mean price target of \$5.63, in each case compared to the Spot Price Implied Merger Consideration Value of approximately \$5.62 per share, the 10-Day Average Implied Merger Consideration Value of approximately \$5.75 per share and the closing price of PAETEC common stock on July 29, 2011 of \$4.42 per share.

***Windstream Analysis***

*Analysis of Selected Publicly Traded Companies.* Deutsche Bank reviewed and compared certain financial information for Windstream to the corresponding financial information, ratios and public market multiples for the following publicly traded telecommunications companies, referred to as the Windstream Selected Companies :

Alaska Communications Systems Group Inc.,

CenturyLink, Inc.,

Cincinnati Bell Inc., and

Frontier Communications Corporation

Although none of the Windstream Selected Companies are directly comparable to Windstream, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Windstream. Accordingly, Deutsche Bank believes the analysis of publicly traded comparable companies is not simply mathematical. Rather, it involves complex considerations and qualitative judgments, reflected in the Deutsche Bank opinion, concerning differences in financial and operating characteristics of the Windstream Selected Companies and other factors that could affect the public trading value of such companies.

In its analysis, Deutsche Bank derived and compared multiples for the Windstream Selected Companies, calculated as follows:

TEV/2011E EBITDA; and

TEV/2012E EBITDA.

The multiples and ratios for each of the Windstream Selected Companies were calculated using the closing price of the Windstream Selected Companies common stock on July 29, 2011 and were based on the most recent publicly available information, as well as equity research analyst estimates for 2011 and 2012. Using both the



**Table of Contents****Index to Financial Statements**

base case PAETEC five-year forecasts for Windstream, the adjusted PAETEC five-year forecasts for Windstream and the closing price of Windstream common stock on July 29, 2011 of \$12.21 per share, Deutsche Bank also calculated the same ratios for Windstream.

This analysis indicated the following:

Metric	Mean	Median	Windstream
TEV/2011E EBITDA	6.1x	6.2x	6.6x
TEV/2012E EBITDA	6.0x	6.1x	6.6x

Using the base case PAETEC five-year forecasts for Windstream and based on the foregoing, Deutsche Bank determined an estimated TEV/2011E EBITDA reference range of 6.0x - 6.6x and applied such range to Windstream's 2011E EBITDA. Deutsche Bank observed that the price per share for Windstream common stock implied by this analysis ranged from approximately \$9.75 to \$12.18, compared to the closing price of Windstream common stock of \$12.21 on July 29, 2011.

*Discounted Cash Flow Analysis.* Deutsche Bank performed a discounted cash flow analysis for Windstream to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Windstream was forecasted to generate through the fiscal year ending December 31, 2015, based on both the base case PAETEC five-year forecasts for Windstream and the adjusted PAETEC five-year forecasts for Windstream. For its calculations, Deutsche Bank treated stock-based compensation as a cash expense and used discount rates ranging from 6.0% to 7.0%. The discount rates applicable to Windstream were based on Deutsche Bank's judgment of the estimated weighted average cost of Windstream's capital. The terminal value of Windstream was calculated using perpetuity growth rates ranging from (1.0%) to 0.0%.

Deutsche Bank observed that the price per share for Windstream common stock implied by this analysis ranged from approximately \$12.01 to \$19.35 based on the base case PAETEC five-year forecasts for Windstream and approximately \$9.17 to \$15.59 based on the adjusted PAETEC five-year forecasts for Windstream, in each case compared to the closing price of Windstream common stock of \$12.21 on July 29, 2011.

*Fifty-Two Week Trading Range.* Deutsche Bank reviewed the historical trading price for Windstream common stock during the 52-week period ended July 29, 2011 and observed that the range of intra-day trading share prices for Windstream's common stock during this period was \$10.97 to \$14.40, compared to the closing price of Windstream common stock of \$12.21 on July 29, 2011.

*Analysis of Equity Analyst Price Targets.* Deutsche Bank reviewed price targets for Windstream common stock published by certain equity research analysts during the period from May 4, 2011 to July 18, 2011. This analysis showed that the price targets ranged from \$13.00 to \$18.50 per share of Windstream common stock, with a mean price target of \$14.32, in each case compared to the closing price of Windstream common stock of \$12.21 on July 29, 2011.

***Implied Exchange Ratio Analysis***

*Analysis of Selected Publicly Traded Companies.* Using the range of implied prices per share for PAETEC common stock of approximately \$3.05 to \$5.53 and the range of implied prices per share for Windstream common stock of approximately \$9.75 to \$12.18 based on the TEV/2011E EBITDA metric of the selected public company analysis for each company on a standalone basis as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.251 to 0.567, compared to the exchange ratio set forth in the merger agreement of 0.460.

---

**Table of Contents****Index to Financial Statements**

*Discounted Cash Flow Analysis The Base Case PAETEC Five-Year Forecasts and the Base Case PAETEC Five-Year Forecasts for Windstream.* Using the range of implied prices per share for PAETEC common stock of approximately \$4.29 to \$8.81 and the range of implied prices per share for Windstream common stock of approximately \$12.01 to \$19.35, based on the discounted cash flow analysis for each company on a standalone basis using, for PAETEC, the base case PAETEC five-year forecasts and, for Windstream, the base case PAETEC five-year forecasts for Windstream, as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.222 to 0.733, compared to the exchange ratio set forth in the merger agreement of 0.460.

*Discounted Cash Flow Analysis The Adjusted PAETEC Five-Year Forecasts and the Adjusted PAETEC Five-Year Forecasts for Windstream.* Using the range of implied prices per share for PAETEC common stock of approximately \$1.50 to \$4.98 and the range of implied prices per share for Windstream common stock of approximately \$9.17 to \$15.59, based on the discounted cash flow analysis for each company on a standalone basis using, for PAETEC, the adjusted PAETEC five-year forecasts and, for Windstream, the adjusted PAETEC five-year forecasts for Windstream, as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.096 to 0.543, compared to the exchange ratio set forth in the merger agreement of 0.460.

*Analysis of Selected Precedent Transactions.* Using the range of implied prices per share for PAETEC common stock of approximately \$3.63 to \$6.69 based on the TEV/LTM EBITDA metric of the precedent transaction analysis for PAETEC on a standalone basis as described above, and the range of implied prices per share for Windstream common stock of approximately \$9.75 to \$12.18 based on the TEV/2011E EBITDA metric of the selected public company analysis for Windstream on a standalone basis as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.298 to 0.686, compared to the exchange ratio set forth in the merger agreement of 0.460.

*Fifty-Two Week Trading Range.* Using the range of intra-day trading share prices for PAETEC common stock of \$3.00 to \$4.95 and the range of intra-day trading share prices for Windstream common stock of \$10.97 to \$14.40 based on the review of the historical trading prices of each company during the 52-week period ending July 29, 2011 as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.208 to 0.451, compared to the exchange ratio set forth in the merger agreement of 0.460.

*Analysis of Equity Analyst Price Targets.* Using the range of prices per share for PAETEC common stock of \$4.20 to \$7.00 and the range of prices per share for Windstream common stock of \$13.00 to \$18.50 based on the review of the price targets of certain equity research analysts as described above, Deutsche Bank calculated implied exchange ratios by (i) dividing the lowest implied price per share of PAETEC common stock by the



---

**Table of Contents**

**Index to Financial Statements**

highest implied price per share of Windstream common stock to arrive at the low end of the implied exchange ratio range and (ii) dividing the highest implied price per share of PAETEC common stock by the lowest implied price per share of Windstream common stock to arrive at the high end of the implied exchange ratio range. This analysis indicated a range of implied exchange ratios of 0.227 to 0.538, compared to the exchange ratio set forth in the merger agreement of 0.460.

***Implied Historical Exchange Ratio Analysis***

Based on the daily closing price per share of PAETEC common stock and Windstream common stock over the 2-year period ending on July 29, 2011, Deutsche Bank reviewed the implied historical exchange ratios calculated by dividing the daily closing price per share of PAETEC common stock by the daily closing price per share of Windstream. Deutsche Bank noted that the average implied historical exchange ratio over the 1-year period ending July 29, 2011 was 0.315 and the average implied exchange ratio over the 2-year period ending July 29, 2011 was 0.342, in each case compared to the exchange ratio set forth in the merger agreement of 0.460.

Deutsche Bank also noted that the exchange ratio set forth in the merger agreement of 0.460 represented a premium of:

27.1% over the implied exchange ratio of 0.362 based on the closing prices per share of PAETEC common stock and Windstream common stock on July 29, 2011 of \$4.42 and \$12.21, respectively,

25.3% over the implied exchange ratio of 0.367 based on the average closing prices per share of PAETEC common stock and Windstream common stock for the 10-day period ending July 29, 2011 of \$4.58 and \$12.49, respectively,

26.4% over the implied exchange ratio of 0.364 based on the volume weighted average prices per share, or VWAP, of PAETEC common stock and Windstream common stock for the 30-day period ending July 29, 2011 of \$4.64 and \$12.74, respectively,

29.1% over the implied exchange ratio 0.356 based on the VWAP of PAETEC common stock and Windstream common stock for the 60-day period ending July 29, 2011 of \$4.59 and \$12.90, respectively,

37.3% over the implied exchange ratio of 0.335 based on the VWAP of PAETEC common stock and Windstream common stock for the 90-day period ending July 29, 2011 of \$4.35 and \$12.99, respectively,

33.8% over the implied exchange ratio of 0.344 based on the high intra-day trading prices per share of PAETEC common stock and Windstream common stock for the 52-week period ending July 29, 2011 of \$4.95 and \$14.40, respectively, and

68.2% over the implied exchange ratio of 0.273 based on the low intra-day trading prices per share of PAETEC common stock and Windstream common stock for the 52-week period ending July 29, 2011 of \$3.00 and \$10.97, respectively.

***Accretion Dilution Analysis***

Using estimated financial data provided by PAETEC management, Deutsche Bank reviewed the potential pro forma financial effect of the merger on Windstream's estimated leveraged free cash flows for calendar year 2012, referred to as 2012E LFCF. This analysis indicated that the merger would be accretive to Windstream's 2012E LFCF, both including and excluding the Synergies and Cost Savings provided by PAETEC management. The actual results achieved by the combined company may vary from the projected results and the variations may be material.



**Table of Contents**

**Index to Financial Statements**

***Other Factors***

In rendering its opinion, Deutsche Bank also reviewed and considered the historical trading prices for the PAETEC common stock and Windstream common stock for the period from July 29, 2010 to July 29, 2011, both separately and in relation to the S&P 500 composite index.

The foregoing summary describes all analyses and factors that Deutsche Bank deemed material in its presentation to the PAETEC board of directors, but is not a comprehensive description of all analyses performed and factors considered by Deutsche Bank in connection with preparing its opinion. The preparation of a fairness opinion is a complex process involving the application of subjective business judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Deutsche Bank believes that its analyses must be considered as a whole and that considering any portion of such analyses and of the factors considered without considering all analyses and factors could create a misleading view of the process underlying the opinion. In arriving at its fairness determination, Deutsche Bank did not assign specific weights to any particular analyses.

In conducting its analyses and arriving at its opinion, Deutsche Bank utilized a variety of generally accepted valuation methods. The analyses were prepared solely for the purpose of enabling Deutsche Bank to provide its opinion to the PAETEC board of directors as to the fairness of the exchange ratio to the holders of PAETEC common stock and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty. In connection with its analyses, Deutsche Bank made, and was provided by PAETEC management with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond PAETEC's control. Analyses based on estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of PAETEC or its advisors, neither PAETEC nor Deutsche Bank nor any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

The terms of the merger were determined through negotiations between PAETEC and Windstream and were approved by the PAETEC board of directors. Although Deutsche Bank provided advice to the PAETEC board of directors during the course of these negotiations, the decision to enter into the merger was solely that of the PAETEC board of directors. As described above, the opinion of Deutsche Bank to the PAETEC board of directors was only one of a number of factors taken into consideration by the PAETEC board of directors in making its determination to approve the merger. The Deutsche Bank opinion was provided to the PAETEC board of directors to assist it in connection with its consideration of the merger and does not constitute a recommendation to any holder of PAETEC common stock as to how to vote with respect to the merger.

***Additional Information***

The PAETEC board of directors selected Deutsche Bank as a financial advisor in connection with the merger based on Deutsche Bank's qualifications, expertise, reputation and experience in mergers and acquisitions, and its familiarity with PAETEC and its business. Pursuant to its engagement letter with PAETEC, Deutsche Bank will be paid a fee for its services as financial advisor to PAETEC in connection with the merger in the amount of approximately \$8 million, \$2 million of which was payable upon delivery of its opinion and the balance of which is payable contingent upon consummation of the merger or similar transaction. In addition, PAETEC may pay to Deutsche Bank an additional discretionary fee of up to \$2 million if PAETEC so determines in its sole discretion. PAETEC also agreed to reimburse Deutsche Bank for its expenses, and to indemnify Deutsche Bank against certain liabilities, in connection with its engagement.

---

**Table of Contents**

**Index to Financial Statements**

Deutsche Bank is an internationally recognized investment banking firm experienced in providing advice in connection with mergers and acquisitions and related transactions. Deutsche Bank is an affiliate of Deutsche Bank AG, which, together with its affiliates, is referred to as the DB Group. In the past two years, one or more members of the DB Group have, from time to time, provided investment banking, commercial banking (including extension of credit) and other financial services to Windstream and PAETEC or their respective affiliates for which it has received compensation, including (i) having served as joint bookrunner on PAETEC's \$300 million senior secured notes offering, (ii) having served as financial advisor to PAETEC in its acquisition of Cavalier Telephone Corporation and provided committed financing in connection therewith, (iii) having served as lead bookrunner on PAETEC's \$450 million senior notes offering, (iv) having served as joint bookrunner on Windstream's \$400 million senior notes offering, (v) having served as joint bookrunner on Windstream's \$200 million senior notes offering and (vi) having served as joint bookrunner on Windstream's \$450 million senior notes offering. During the two years prior to the date of Deutsche Bank's opinion, PAETEC paid aggregate fees of approximately \$21 million to DB Group and Windstream paid aggregate fees of approximately \$3 million to DB Group. DB Group may also provide investment and commercial banking services to Windstream and PAETEC in the future, for which Deutsche Bank would expect the DB Group to receive compensation. In the ordinary course of its business, members of the DB Group may actively trade in the securities and other instruments and obligations of Windstream and PAETEC for their own accounts and for the accounts of their customers. Accordingly, the DB Group may at any time hold a long or short position in such securities, instruments and obligations.

**Opinion of Houlihan Lokey Financial Advisors, Inc.**

On July 31, 2011, Houlihan Lokey rendered an oral opinion to the PAETEC board of directors (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated July 31, 2011), to the effect that, as of July 31, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion, the consideration to be received by the holders of PAETEC common stock in the merger was fair, from a financial point of view, to the holders of PAETEC common stock.

**Houlihan Lokey's opinion was directed to the PAETEC board of directors and only addressed the fairness from a financial point of view of the consideration to be received by the holders of PAETEC common stock in the merger and does not address any other aspect or implication of the merger. The summary of Houlihan Lokey's opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex E to this proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. PAETEC encourages its stockholders to carefully read the full text of Houlihan Lokey's written opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this proxy statement/prospectus are intended to be, and do not, constitute advice or a recommendation to the PAETEC board of directors, any PAETEC stockholder or any other party as to how to act or vote with respect to the merger or related matters.**

In arriving at its opinion, Houlihan Lokey, among other things:

reviewed the following agreements and documents:

a draft dated July 31, 2011 of the merger agreement; and

a draft dated July 31, 2011 of the voting agreement;

reviewed certain publicly available business and financial information relating to PAETEC and Windstream that Houlihan Lokey deemed to be relevant, including certain publicly available research analyst estimates with respect to the future financial performance of PAETEC and Windstream;

Edgar Filing: WINDSTREAM CORP - Form S-4/A

reviewed certain information relating to the historical, current and future operations, financial condition and prospects of PAETEC and Windstream made available to Houlihan Lokey by PAETEC and

---

**Table of Contents**

**Index to Financial Statements**

Windstream, including financial projections prepared by the management of PAETEC relating to PAETEC for the fiscal years ending 2011 through 2015;

spoke with certain members of the management of PAETEC and certain of its representatives and advisors regarding the respective businesses, operations, financial condition and prospects of PAETEC and Windstream, the merger and related matters;

compared the financial and operating performance of PAETEC and Windstream with that of other public companies that Houlihan Lokey deemed to be relevant;

considered the publicly available financial terms of certain transactions that Houlihan Lokey deemed to be relevant;

reviewed the current and historical market prices and trading volumes for certain of PAETEC's and Windstream's publicly traded securities; and

conducted such other financial studies, analyses and inquiries and considered such other information and factors as Houlihan Lokey deemed appropriate.

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available, and did not assume any responsibility with respect to such data, material and other information. In addition, management of PAETEC advised Houlihan Lokey, and Houlihan Lokey assumed, that the financial projections reviewed by Houlihan Lokey were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such management as to the future financial results and condition of PAETEC, and Houlihan Lokey expressed no opinion with respect to such projections or the assumptions on which they are based. With respect to the publicly available research analyst estimates for Windstream referred to above, Houlihan Lokey reviewed and discussed such estimates with the management of PAETEC and such management advised Houlihan Lokey, and Houlihan Lokey assumed, that such estimates represented reasonable estimates and judgments of the future financial results and condition of Windstream, and Houlihan Lokey expressed no opinion with respect to such estimates or the assumptions on which they are based. Houlihan Lokey relied upon and assumed, without independent verification, that there was no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of PAETEC or Windstream since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Houlihan Lokey that would be material to its analyses or its opinion, and that there was no information or any facts that would make any of the information reviewed by Houlihan Lokey incomplete or misleading.

Houlihan Lokey relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the agreements identified above and all other related documents and instruments that are referred to therein were true and correct, (b) each party to all such agreements and other related documents and instruments would fully and timely perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the merger will be satisfied without waiver thereof, and (d) the merger would be consummated in a timely manner in accordance with the terms described in all such agreements and other related documents and instruments, without any amendments or modifications thereto. Houlihan Lokey also assumed, with PAETEC's consent, that the merger would be treated as a tax-free transaction. Houlihan Lokey also relied upon and assumed, without independent verification, that (i) the merger would be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations, and (ii) all governmental, regulatory, and other consents and approvals necessary for the consummation of the merger would be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would result in the disposition of any assets of PAETEC or Windstream, or otherwise have an effect on the merger, PAETEC or Windstream or any expected benefits of the merger that would be material to Houlihan Lokey's analyses or its opinion. In addition, Houlihan Lokey relied upon and assumed, without independent verification, that the final forms of any draft documents identified above would not differ in any respect from the drafts of such documents.

---

**Table of Contents**

**Index to Financial Statements**

Furthermore, in connection with its opinion, Houlihan Lokey was not requested to make, and did not make, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of PAETEC, Windstream or any other party, nor was Houlihan Lokey provided with any such appraisal or evaluation. Houlihan Lokey did not estimate, and did not express any opinion regarding, the liquidation value of any entity or business. Houlihan Lokey did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which PAETEC or Windstream is or may be a party or are or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which PAETEC or Windstream is or may be a party or is or may be subject.

Houlihan Lokey was not requested to, and did not, (a) initiate or participate in any discussions or negotiations with, or solicit any indications of interest from, third parties with respect to the merger, the securities, assets, businesses or operations of PAETEC or any other party, or any alternatives to the merger, (b) negotiate the terms of the merger, or (c) advise the PAETEC board of directors or any other party with respect to alternatives to the merger, including, but not limited to, any other inquiries from third parties involving a possible business combination. The opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Houlihan Lokey as of, the date of the opinion. Houlihan Lokey did not undertake, and was under no obligation, to update, revise, reaffirm or withdraw the opinion, or otherwise comment on or consider events occurring or coming to its attention after the date of the opinion. Houlihan Lokey did not express any opinion as to what the value of Windstream common stock actually would be when issued pursuant to the merger or the price or range of prices at which PAETEC common stock or Windstream common stock may be purchased or sold at any time. Houlihan Lokey assumed that the Windstream common stock to be issued in the merger to holders of PAETEC common stock will be listed on the NASDAQ Global Select Market.

The Houlihan Lokey opinion was furnished for the use and benefit of the PAETEC board of directors (in its capacity as such) in connection with its evaluation of the merger and may not be used for any other purpose without the prior written consent of Houlihan Lokey. The opinion should not be construed as creating any fiduciary duty on Houlihan Lokey's part to any party. Houlihan Lokey's opinion was not intended to be, and does not constitute, a recommendation to the PAETEC board of directors, any security holder or any other party as to how to act or vote with respect to any matter relating to the merger.

Houlihan Lokey was not requested to opine as to, and did not express an opinion as to or otherwise address, among other things: (i) the underlying business decision of PAETEC, Windstream, their respective security holders or any other party to proceed with or effect the merger, (ii) the terms of any arrangements, understandings, agreements or documents related to, or the form, structure or any other portion or aspect of, the merger or otherwise (other than the merger consideration to the extent expressly specified therein), (iii) the fairness of any portion or aspect of the merger to the holders of any class of securities, creditors or other constituencies of PAETEC or Windstream, or to any other party, except if and only to the extent expressly set forth in the last sentence of its opinion, (iv) the relative merits of the merger as compared to any alternative business strategies that might exist for PAETEC, Windstream or any other party or the effect of any other transaction in which PAETEC, Windstream or any other party might engage, (v) the fairness of any portion or aspect of the merger to any one class or group of PAETEC's, Windstream's or any other party's security holders or other constituents vis-à-vis any other class or group of PAETEC's, Windstream's or such other party's security holders (including, without limitation, the allocation of any consideration amongst or within such classes or groups of security holders or other constituents), (vi) whether or not PAETEC, Windstream, their respective security holders or any other party is receiving or paying reasonably equivalent value in the merger, (vii) the solvency, creditworthiness or fair value of PAETEC, Windstream or any other participant in the merger, or any of their respective assets, under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or (viii) the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the merger, any class of such persons or any other party, relative to the merger consideration or otherwise.

---

**Table of Contents**

**Index to Financial Statements**

Furthermore, no opinion, counsel or interpretation was intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. Houlihan Lokey assumed that such opinions, counsel or interpretations would be obtained from the appropriate professional sources. Furthermore, Houlihan Lokey relied, with the consent of PAETEC, on the assessments by PAETEC and its advisors as to all legal, regulatory, accounting, insurance and tax matters with respect to PAETEC, Windstream and the merger. The issuance of its opinion was approved by a committee of Houlihan Lokey authorized to approve opinions of this nature.

In preparing its opinion to the PAETEC board of directors, Houlihan Lokey performed a variety of analyses, including those described below. The summary of Houlihan Lokey's analyses is not a complete description of the analyses underlying Houlihan Lokey's opinion. The preparation of a fairness opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytical methods employed and the adaptation and application of these methods to the unique facts and circumstances presented. As a consequence, neither a fairness opinion nor its underlying analyses is readily susceptible to summary description. Houlihan Lokey arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, methodology or factor. Accordingly, Houlihan Lokey believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, methodologies and factors or focusing on information presented in tabular format, without considering all analyses, methodologies and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Houlihan Lokey's analyses and opinion. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques.

In performing its analyses, Houlihan Lokey considered general business, economic, industry and market conditions, financial and otherwise, and other matters as they existed on, and could be evaluated as of, the date of the opinion. Houlihan Lokey's analyses involved judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of PAETEC and Windstream, such as the impact of competition on the businesses of PAETEC and Windstream and on the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of PAETEC and Windstream or the industry or in the markets generally. No company, transaction or business used in Houlihan Lokey's analyses for comparative purposes is identical to PAETEC, Windstream or the proposed merger and an evaluation of the results of those analyses is not entirely mathematical. Houlihan Lokey believes that mathematical derivations (such as determining average and median) of financial data are not by themselves meaningful and should be considered together with qualities, judgments and informed assumptions. The estimates contained in PAETEC's analyses and the implied reference range values indicated by Houlihan Lokey's analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, any analyses relating to the value of assets, businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold, which may depend on a variety of factors, many of which are beyond the control of PAETEC and Windstream. Much of the information used in, and accordingly the results of, Houlihan Lokey's analyses are inherently subject to substantial uncertainty.

Houlihan Lokey's opinion was provided to the PAETEC board of directors in connection with its consideration of the proposed merger and was only one of many factors considered by the PAETEC board of directors in evaluating the proposed merger. Neither Houlihan Lokey's opinion nor its analyses were determinative of the merger consideration or of the views of the PAETEC board of directors or management with respect to the merger or the merger consideration. The type and amount of merger consideration payable in the merger were determined through negotiation between PAETEC and Windstream, and the decision to enter into the merger was solely that of the PAETEC board of directors.



**Table of Contents****Index to Financial Statements**

The following is a summary of the material analyses reviewed by Houlihan Lokey with the PAETEC board of directors in connection with Houlihan Lokey's opinion rendered on July 31, 2011. The order of the analyses does not represent relative importance or weight given to those analyses by Houlihan Lokey. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the underlying methodologies, and the assumptions, qualifications and limitations affecting, each analysis, could create a misleading or incomplete view of Houlihan Lokey's analyses.

For purposes of its analyses, Houlihan Lokey reviewed a number of financial metrics, including:

Enterprise value, calculated as the value of the relevant company's outstanding equity securities (taking into account its outstanding warrants and other convertible securities) based on the relevant company's closing stock price as of a specified date, or equity value, plus net debt (calculated as outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet), as of a specified date.

Earnings before interest, taxes, depreciation, and amortization, or EBITDA.

Earnings before interest, taxes, depreciation, and amortization, adjusted for certain non-recurring and non-cash items, or Adjusted EBITDA.

Adjusted EBITDA less capital expenditures, or Adjusted Free Cash Flow.

Unless the context indicates otherwise, the analyses performed below were calculated using the closing price of PAETEC common stock and the closing prices of selected telecommunications companies as of July 29, 2011, and transaction values for the target companies derived from the selected transactions analysis described below were calculated as of the announcement date of the relevant transaction based on the estimated purchase prices announced on such date for the selected transactions. Accordingly, this information may not reflect current or future market conditions. The calculations of Adjusted EBITDA for the most recently completed quarter for which financial information has been made public, annualized (LQA) for PAETEC and the selected telecommunications companies were based on publicly available information for PAETEC and those telecommunications companies. Estimates for each of (i) Adjusted EBITDA for the next fiscal year for which financial information has not been made public (NFY), and (ii) Adjusted EBITDA for the next fiscal year following NFY (NFY + 1), for PAETEC were based on estimates provided by PAETEC management. LQA information for PAETEC is pro forma for the acquisition of XETA, which was completed on May 31, 2011. Estimates for each of NFY Adjusted EBITDA and NFY + 1 Adjusted EBITDA for the selected telecommunications companies listed below were based on certain publicly available research analyst estimates for those telecommunications companies. For purposes of certain analyses described below, the term per share merger consideration refers to the implied per share value of the merger consideration of \$5.75 based on the merger exchange ratio of 0.46 and the 10-day average closing price of Windstream common stock as of July 29, 2011 of \$12.49.

***PAETEC Financial Analyses***

*Historical Trading Analysis.* Houlihan Lokey reviewed certain historical stock price information for PAETEC common stock. This review indicated that for the one-year period ended July 29, 2011, PAETEC common stock traded on an intraday basis in a range between \$3.00 and \$4.95 per share, with an average per share closing price for the period of \$4.02, as compared to the implied per share merger consideration value of \$5.75 per share.

**Table of Contents****Index to Financial Statements**

Houlihan Lokey also reviewed certain historical volume weighted prices for PAETEC common stock. The review indicated that for the certain periods ended July 29, 2011 set forth below, the volume weighted average prices ( VWAP ) for PAETEC common stock and the high and low intraday prices for PAETEC common stock were as follows:

	<b>1 Day Period</b>	<b>5 Day Period</b>	<b>10 Day Period</b>	<b>1 Month Period</b>	<b>2 Month Period</b>	<b>3 Month Period</b>
<b>VWAP Average</b>	\$ 4.43	\$ 4.62	\$ 4.60	\$ 4.64	\$ 4.59	\$ 4.35
<b><u>Intraday Prices</u></b>						
<b>High</b>	\$ 4.50	\$ 4.85	\$ 4.95	\$ 4.95	\$ 4.95	\$ 4.95
<b>Low</b>	\$ 4.40	\$ 4.40	\$ 4.26	\$ 4.26	\$ 4.26	\$ 3.21

*Selected Companies Analysis.* Houlihan Lokey calculated enterprise value to Adjusted EBITDA multiples based on certain financial data for PAETEC, and for the following small and medium enterprise ( SME ) CLEC and fiber-based CLEC companies based upon the closing prices of common stock of the following companies as of July 26, 2011. These companies were selected because they have similar operational and/or financial characteristics to PAETEC. The calculated multiples included (i) enterprise value to LQA Adjusted EBITDA, (ii) enterprise value to estimated NFY Adjusted EBITDA and (iii) enterprise value to estimated NFY + 1 Adjusted EBITDA. The list of selected companies and the related high, low, mean and median multiples for such selected companies and for PAETEC were as follows:

**SME CLEC Companies**

Cbeyond, Inc.

EarthLink, Inc.

	<b>Enterprise Value to Adjusted EBITDA</b>		
	<b>LQA</b>	<b>NFY</b>	<b>NFY + 1</b>
High	5.0x	4.8x	4.2x
Low	3.4x	3.6x	4.2x
Mean	4.2x	4.2x	4.2x
Median	4.2x	4.2x	4.2x
PAETEC as of 7/29/11	5.6x	5.4x	5.1x
PAETEC at Implied Merger Consideration	6.2x	6.0x	5.7x

**Fiber-based CLEC Companies**

AboveNet, Inc.

Global Crossing Ltd.

Cogent Communications Group, Inc.

Level 3 Communications, Inc.

tw telecom inc.

	<b>Enterprise Value to Adjusted EBITDA</b>		
	<b>LQA</b>	<b>NFY</b>	<b>NFY + 1</b>
High	9.5x	8.9x	8.6x
Low	7.0x	5.9x	5.4x
Mean	8.5x	8.0x	7.2x
Median	8.4x	8.0x	7.3x
PAETEC as of 7/29/11	5.6x	5.4x	5.1x
PAETEC at Implied Merger Consideration	6.2x	6.0x	5.7x

**Table of Contents****Index to Financial Statements**

From this data, Houlihan Lokey selected an implied per share reference range for PAETEC based on using LQA Adjusted EBITDA multiples of 5.25x to 6.25x, NFY Adjusted EBITDA multiples of 5.00x to 6.00x and NFY + 1 Adjusted EBITDA multiples of 4.50x to 5.50x. This analysis indicated the following implied per share reference range for PAETEC, as compared to the proposed implied per share merger consideration value:

Implied Per Share Equity Reference Range for			Implied Per Share Merger Consideration Value
LQA Adjusted EBITDA	PAETEC based on:		\$ 5.75
	2011E Adjusted EBITDA	2012E Adjusted EBITDA	
\$3.48-\$5.86	\$ 3.31-\$5.77	\$ 2.72-\$5.32	\$ 5.75

*Selected Transactions Analysis.* Houlihan Lokey selected the following publicly announced SME CLEC transactions involving an unaffiliated third-party announced since January 2009 for which Houlihan Lokey deemed the target's size and operations to be sufficiently similar to PAETEC's for comparative purposes, and calculated enterprise value to Adjusted EBITDA multiples based on the estimated announced purchase prices, where such information was publicly available.

Announcement Date	Acquiror	Target
12/20/10	EarthLink, Inc.	One Communications Corp.
10/1/10	EarthLink, Inc.	ITC^DeltaCom, Inc.
9/13/10	PAETEC Holding Corp.	Cavalier Telephone Corporation
6/10/10	Covad Communications Company	Speakeasy, Inc. <sup>(1)</sup>
3/31/10	Covad Communications Company	MegaPath Inc. <sup>(1)</sup>
11/3/09	Windstream Corporation	NuVox, Inc.
10/7/09	Comcast Corporation	Cimco Communication <sup>(1)</sup>
7/12/09	Royal KPN, N.V.	iBasis, Inc.

(1) Financial data for this transaction was not available.

The calculated multiples included implied enterprise value of the target company as a multiple of LQA Adjusted EBITDA for which information had been made public as of the announcement date of the relevant transaction. This analysis indicated the following high, low, mean and median multiples for the selected transactions:

	Transaction Value to Adjusted EBITDA LQA
High	5.8x
Low	4.7x
Mean	5.4x
Median	5.5x

Houlihan Lokey also selected the following publicly announced fiber-based CLEC transactions involving an unaffiliated third-party announced since January 2009 for which Houlihan Lokey deemed the target's size and operations to be sufficiently similar to PAETEC's for comparative purposes, and calculated enterprise value to Adjusted EBITDA multiples based on the announced estimated purchase prices, where such information was publicly available.

Edgar Filing: WINDSTREAM CORP - Form S-4/A

**Announcement Date**

4/11/11  
12/13/10

**Acquiror**

Level 3 Communications, Inc.  
Lightower Fiber Networks

**Target**

Global Crossing Ltd.  
Open Access Inc.<sup>(1)</sup>

**Table of Contents****Index to Financial Statements**

<b>Announcement Date</b>	<b>Acquiror</b>	<b>Target</b>
12/10/10	Sidera Networks, Inc.	Long Island Fiber Exchange, Inc. <sup>(1)</sup>
9/14/10	Lightower Fiber Networks	Lexent Metro Connect, LLC
8/31/10	Ridgemont Equity Partners	Unite Private Networks LLC <sup>(1)</sup>
8/26/10	Court Square Capital Partners	Fibertech Networks, LLC
8/17/10	Windstream Corporation	Q-Comm Corporation
7/20/10	NTELOS Holding Corp.	FiberNet assets of One Communications Corp.
6/30/10	Zayo Group LLC	American Fiber Systems Holding Corporation <sup>(1)</sup>
6/25/10	Alinda Capital Partners LLC	DukeNet Communications, LLC <sup>(1)</sup>
5/25/10	Lightower Fiber Networks	Verosity Technology Partners
3/23/10	Zayo Group LLC	AGL Networks, LLC
3/5/10	ABRY Partners LLC	RCN Corporation
10/6/09	NTELOS Holdings Corp.	Allegheny Energy, Inc. <sup>(2)</sup>
5/28/09	Zayo Group LLC	FiberNet Telecom Group, Inc.

(1) Financial data for this transaction was not available.

(2) Select fiber assets of Target were acquired. LQA Adjusted EBITDA data for Target was not available.

The calculated multiples included implied enterprise value of the target company as a multiple of LQA Adjusted EBITDA for which information had been made public as of the announcement date of the relevant transaction. This analysis indicated the following high, low, mean and median multiples for the selected transactions:

	<b>Transaction Value to Adjusted EBITDA LQA</b>
High	12.2x
Low	5.5x
Mean	8.3x
Median	8.3x

From this data, Houlihan Lokey selected an implied per share reference range for PAETEC based on using LQA Adjusted EBITDA multiples of 5.50x to 6.50x. This analysis indicated the following implied per share reference range for PAETEC, as compared to the proposed implied per share merger consideration value:

**Implied Per Share****Equity Reference Range for**

<b>PAETEC</b>	<b>Implied Per Share Merger Consideration Value</b>
\$4.07-\$6.45	\$5.75

*Discounted Cash Flow Analysis.* Houlihan Lokey performed a discounted cash flow analysis of PAETEC by calculating the estimated net present value of the unlevered, after-tax free cash flows that PAETEC was forecasted to generate through the fiscal year ended 2015 based on internal estimates provided by PAETEC's management. For purposes of conducting its discounted cash flow analysis, Houlihan Lokey did not deduct stock-based compensation from the adjusted EBITDA provided by PAETEC's management. See Financial Forecasts of PAETEC's Management beginning on page 107. Houlihan Lokey calculated terminal values for PAETEC by applying a range of terminal value EBITDA multiples of 5.0x to 5.5x to PAETEC's fiscal year 2015 estimated EBITDA. The present values of the cash flows and terminal values were then calculated using discount rates ranging from 9.0% to 11.0% and adjusted to reflect the estimated present value of PAETEC NOLs. Houlihan Lokey selected the discount rates based upon a review of PAETEC's observed weighted average cost of capital ( WACC ) and the observed WACCs of the selected companies referred to above. The discounted cash flow analysis indicated the following implied per share reference range for PAETEC, as compared to the proposed implied per share merger consideration value:

**Implied Per Share**

**Equity Reference Range for**

	<b>Implied Per Share Merger Consideration Value</b>
<b>PAETEC</b>	
\$5.38-\$7.39	\$5.75

**Table of Contents****Index to Financial Statements*****Windstream Financial Analysis***

*Historical Trading Analysis.* Houlihan Lokey reviewed certain historical stock price information for Windstream common stock. This review indicated that for the one-year period ended July 29, 2011, Windstream common stock traded on an intraday basis in a range between \$10.97 and \$14.40 per share, with an average per share closing price for the period of \$12.80.

Houlihan Lokey also reviewed certain historical volume weighted prices for Windstream common stock. The review indicated that for certain periods ended July 29, 2011 set forth below, the VWAP for Windstream common stock and high and low intraday prices for Windstream common stock were as follows:

	<b>1 Day Period</b>	<b>5 Day Period</b>	<b>10 Day Period</b>	<b>1 Month Period</b>	<b>2 Month Period</b>	<b>3 Month Period</b>
<b>VWAP Average</b>	\$ 12.13	\$ 12.39	\$ 12.49	\$ 12.74	\$ 12.90	\$ 12.99
<b><u>Intraday Trading</u></b>						
<b>High</b>	\$ 12.28	\$ 12.61	\$ 12.75	\$ 13.25	\$ 13.51	\$ 13.57
<b>Low</b>	\$ 11.82	\$ 11.82	\$ 11.82	\$ 11.82	\$ 11.82	\$ 11.82

*Selected Companies Analysis.* Houlihan Lokey calculated enterprise value to Adjusted EBITDA multiples and Adjusted Free Cash Flow multiples based on certain financial data for Windstream and the following telecommunications companies selected by Houlihan Lokey because they have similar operational and/or financial characteristics to Windstream. LQA Adjusted EBITDA and Adjusted Free Cash Flow calculations for Windstream were based on Windstream's fiscal year 2011 second-quarter financial information. LQA Adjusted EBITDA and Adjusted Free Cash Flow calculations for each of the following telecommunications companies were based on publicly available 2011 first-quarter financial information for such companies. Estimates for (i) NFY Adjusted EBITDA and Adjusted Free Cash Flow and (ii) NFY + 1 Adjusted EBITDA and Adjusted Free Cash Flow were based on certain publicly available research analyst estimates for Windstream. The list of selected companies was as follows:

CenturyLink, Inc.

Cincinnati Bell Inc.

Consolidated Communications Holdings, Inc.

Fairpoint Communications, Inc.

Frontier Communications Corporation

The calculated multiples included (i) implied enterprise value to LQA Adjusted EBITDA, (ii) implied enterprise value to estimated NFY Adjusted EBITDA, (iii) implied enterprise value to estimated NFY + 1 Adjusted EBITDA, (iv) implied enterprise value to LQA Adjusted Free Cash Flow, (v) implied enterprise value to estimated NFY Adjusted Free Cash Flow and (vi) implied enterprise value to estimated NFY + 1 Adjusted Free Cash Flow. Houlihan Lokey observed the following implied trading multiples for Windstream common stock as compared to the corresponding high, low, mean and median multiples for the selected companies:

	<b>Enterprise Value to</b>	
<b>Adjusted EBITDA</b>		<b>Adjusted Free Cash Flow</b>



Edgar Filing: WINDSTREAM CORP - Form S-4/A

	<b>LQA</b>	<b>NFY</b>	<b>NFY+1</b>	<b>LQA</b>	<b>NFY</b>	<b>NFY+1</b>
High	7.3x	7.4x	7.6x	9.3x	11.7x	11.1x
Low	5.2x	5.3x	5.3x	7.6x	7.9x	7.9x
Mean	6.0x	6.3x	6.3x	8.8x	9.5x	9.2x
Median	5.8x	6.1x	6.1x	9.1x	9.3x	8.9x
Windstream	6.6x	6.6x	6.6x	10.0x	9.4x	9.2x

**Table of Contents****Index to Financial Statements**

*Historical Trading Ratio Analysis.* Houlihan Lokey reviewed certain historical data concerning the relative closing prices of PAETEC common stock and Windstream common stock between July 29, 2010 and July 29, 2011. Houlihan Lokey reviewed the ratio of average closing share prices of PAETEC common stock to average closing share prices of Windstream common stock over certain periods within the 52-week period in order to determine historical trading ratios and to compare such ratios to the merger exchange ratio of 0.46. The following table reflects the results of this analysis:

	<b>1 Day Period</b>	<b>10 Day Period</b>	<b>1 Month Period</b>	<b>3 Month Period</b>	<b>1 Year Period</b>
PAETEC common stock average price	\$ 4.42	\$ 4.58	\$ 4.62	\$ 4.35	\$ 4.02
Windstream common stock average price	\$ 12.21	\$ 12.49	\$ 12.74	\$ 13.01	\$ 12.80
Historical trading ratio	0.362	0.367	0.363	0.335	0.314

Houlihan Lokey also reviewed the implied transaction price based on the implied per share merger consideration value and the closing prices for the PAETEC common stock over certain periods between July 29, 2010 and July 29, 2011 in order to compare the implied premium to holders of PAETEC common stock over such closing prices reflected in the implied per share merger consideration value. The following table reflects the results of this analysis:

<b>Trading Period Prior to 7/29/2011</b>	<b>Average Closing Stock Price</b>	<b>Implied Premium of per share Merger Consideration at \$5.75</b>
1 day period	\$ 4.42	30.0%
5 day period	\$ 4.57	25.7%
10 day period	\$ 4.58	25.3%
1 month period	\$ 4.62	24.3%
3 month period	\$ 4.35	32.0%
6 month period	\$ 4.02	43.1%
1 year period	\$ 4.02	43.1%

***Other Matters***

Houlihan Lokey was engaged by PAETEC to provide an opinion to the PAETEC board of directors regarding the fairness from a financial point of view of the consideration to be received by the holders of PAETEC common stock in the merger. PAETEC engaged Houlihan Lokey based on Houlihan Lokey's experience and reputation. Houlihan Lokey is regularly engaged to render financial opinions in connection with mergers, acquisitions, divestitures, leveraged buyouts, recapitalizations, and for other purposes. Pursuant to the engagement letter, PAETEC paid Houlihan Lokey \$1,500,000 for its services, a portion of which became payable upon the execution of Houlihan Lokey's engagement letter and the balance of which became payable upon the delivery of Houlihan Lokey's opinion, regardless of the conclusion reached therein. No portion of Houlihan Lokey's fee is contingent upon the successful completion of the merger. PAETEC has also agreed to reimburse Houlihan Lokey for certain expenses and to indemnify Houlihan Lokey, its affiliates and certain related parties against certain liabilities and expenses, including certain liabilities under the federal securities laws arising out of or relating to Houlihan Lokey's engagement.

In the ordinary course of business, certain of Houlihan Lokey's affiliates, as well as investment funds in which they may have financial interests, may acquire, hold or sell long or short positions, or trade or otherwise effect transactions in debt, equity, and other securities and financial instruments (including loans and other obligations) of, or investments in, PAETEC, Windstream or any other party that may be involved in the merger and their respective affiliates or any currency or commodity that may be involved in the merger.

Houlihan Lokey in the past provided investment banking, financial advisory and other financial services to PAETEC and/or one or more of their respective affiliates, for which Houlihan Lokey received compensation. Houlihan Lokey has not received any compensation from PAETEC during the two years prior to the date of the

---

**Table of Contents**

**Index to Financial Statements**

Houlihan Lokey opinion. Houlihan Lokey and certain of its affiliates may provide investment banking, financial advisory and other financial services to PAETEC, Windstream, other participants in the merger or certain of their respective affiliates in the future, for which Houlihan Lokey and such affiliates may receive compensation. In addition, a member of the Houlihan Lokey deal team for the merger owns PAETEC common stock constituting less than 0.01% of outstanding PAETEC common stock.

**Interests of PAETEC's Directors and Executive Officers in the Merger**

Certain of PAETEC's directors and executive officers have interests in the merger that are different from, or in addition to, the interests generally of PAETEC's stockholders. As discussed below, these interests include receipt of the following types of payments and benefits that are triggered by or otherwise relate to the merger:

cash payments and other benefits under executive officer severance agreements;

accelerated vesting of executive officer and director equity awards;

the assumption by Windstream of a non-compensatory warrant to purchase common stock;

the provision of indemnification and insurance arrangements pursuant to the merger agreement; and

related benefits.

***Executive Officer Severance Agreements***

PAETEC is required to provide payments to each executive officer in certain circumstances upon the termination of the officer's employment with PAETEC, including a termination occurring after a change of control of PAETEC, under the officer's existing executive confidentiality, non-solicitation, non-competition and severance agreement with PAETEC. The merger will constitute a change of control of PAETEC for purposes of each such severance agreement.

The executive officers of PAETEC who are parties to a severance agreement as of the date of the merger agreement are Arunas A. Chesonis (Chairman of the Board, President and Chief Executive Officer), Keith M. Wilson (Executive Vice President and Chief Financial Officer), Robert D. Moore, Jr. (Executive Vice President and Chief Information Officer), Mario DeRiggi (Executive Vice President and President, National Sales and Service), Mary K. O'Connell (Executive Vice President, General Counsel and Secretary) and Algimantas K. Chesonis (Senior Vice President, Chief Accounting Officer and Controller). This summary also includes a discussion of the interests of two former executive officers of PAETEC, Edward J. Butler, Jr. (formerly Executive Vice President and President of PAETEC's Energy Business), whose employment with PAETEC terminated in November 2010, and Laurie L. Zaucha (formerly Senior Vice President Human Resources), whose employment with PAETEC terminated in March 2011. Neither Mr. Butler nor Ms. Zaucha was serving as an executive officer of PAETEC as of the end of PAETEC's last fiscal year on December 31, 2010.

The principal payment terms of the severance agreements are summarized below, and the amounts payable to the officers in accordance with the terms of the agreements are set forth under Quantification of Payments and Benefits.

*Severance Payments and Benefits, including after a Change of Control.* Subject to compliance with certain non-solicitation and non-competition covenants described below, if the employment of Mr. Arunas Chesonis, Mr. Wilson or Mr. Algimantas Chesonis is terminated by PAETEC without cause (as described below) or such officer terminates employment for good reason (as described below) within one year following the merger, PAETEC will be obligated to make payments to such officer for each of the two years after termination of such officer's employment (or one year in the case of Mr. Algimantas Chesonis) in an amount equal to 1.5 times the highest annualized base salary paid to such officer at any time during the one-year period immediately preceding the employment termination date. If the employment of Mr. Moore, Mr. DeRiggi or

Edgar Filing: WINDSTREAM CORP - Form S-4/A

Ms. O'Connell is terminated by PAETEC without cause or such officer terminates employment for good reason at any time, including

---

**Table of Contents**

**Index to Financial Statements**

following the merger, PAETEC will be obligated to make payments to such officer for each of the two years after termination of the officer's employment in an amount equal to the highest annualized base salary paid to such officer at any time during the one-year period immediately preceding the employment termination date.

If an officer complies with the non-solicitation and non-competition covenants, following termination of the officer's employment for any reason other than death, disability or cause, and notwithstanding whether there was a change of control transaction, the officer also will be entitled to receive payment of a portion of COBRA premiums for medical and dental plan benefits, if elected, during the covenant period, as well as the premiums for company-provided life insurance that the officer elects to continue after the officer's employment terminates. Further, if the employment of an officer is terminated by such officer for good reason or by PAETEC without cause within one year following the merger, such officer will be entitled to an additional severance payment for each annual bonus period ending during the applicable covenant period equal to the target bonus amount which the officer would have been eligible to receive under PAETEC's annual bonus plan if the officer had been employed during the entire bonus year and the particular bonus target had been fully achieved at the target level (as opposed to the maximum level). In the event of a termination by PAETEC for cause following the merger, if PAETEC elects to waive the officer's compliance with the non-solicitation and non-competition covenants, the executive will not be entitled to receive any of the severance payments and benefits described in this paragraph.

In addition to being subject to compliance with the non-solicitation and non-competition covenants, all severance payments are subject to the officer executing and not revoking a full and unconditional release in favor of PAETEC and its affiliates of all obligations other than those set forth in the applicable severance agreement.

As defined in the severance agreements, cause means the termination of the officer's employment as a result of any of the following events:

the officer's material failure or refusal to perform the duties assigned to the officer, so long as the duties are not materially inconsistent with those of other individuals reporting directly to the officer of PAETEC to whom the officer directly reports (or to the board of directors, in the case of the chief executive officer);

the officer's refusal to follow the reasonable directives of the board of directors, the chief executive officer or the other officer to whom the officer directly reports, as applicable, so long as the directives are not materially inconsistent with those applicable to other individuals reporting directly to the officer of the company to whom the officer directly reports (or to the board of directors, in the case of the chief executive officer); or

the officer's conviction of a felony.

Subject to specified conditions, an officer will be deemed to have terminated the officer's employment for good reason as the result of any of the following events:

any action by PAETEC to reduce the responsibilities, duties or position of the officer to a materially lesser status or degree;

any action by PAETEC to reduce the officer's base salary by a material amount;

any action by PAETEC to reduce the officer's target annual bonus opportunity, expressed as a percentage of the officer's annual base salary, by a material amount; or

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

a requirement by PAETEC that the officer be based anywhere other than within 50 miles of the officer's current location without the officer's consent.

*Terms of All Payments.* The salary continuation payments will be made in installments during the applicable covenant period described below in accordance with PAETEC's customary payroll practices, while the payments equal to the annual bonus amounts will be made in accordance with PAETEC's annual bonus payout practices.

---

**Table of Contents**

**Index to Financial Statements**

PAETEC may elect to discontinue the payments and provision of other severance benefits described above if:

it determines in good faith that the officer has violated the terms of any of the non-solicitation and non-competition covenants described below; or

a court determines in an action initiated by the officer that any of the following covenants is void or unenforceable. *Non-Solicitation and Non-Competition Covenants.* Each officer's severance agreement conditions the payments and other benefits described above on continued compliance by the officer with two-year non-solicitation and non-competition covenants, except in the case of Mr. Algimantas Chesonis, whose severance agreement contains one-year non-solicitation and non-competition covenants. The covenants provide that, for two years (or one year in the case of Mr. Algimantas Chesonis) after the termination of such officer's employment for any reason, the officer will not:

solicit, recruit or hire any of the employees or sales agents of PAETEC or any of its subsidiaries;

serve as an officer, director, employee, 1% or greater stockholder, consultant, contractor, partner, joint venturer, agent, manager or other representative of any enterprise that is competitive with PAETEC's business or the business of any of its subsidiaries in any geographical area in which the companies are then conducting operations, or that would divert business from PAETEC or any subsidiary in any such geographical area; or

take any action to influence the customers, prospective customers, vendors or suppliers of PAETEC or any of its subsidiaries to divert their business to a competitive enterprise, or solicit or accept business from any customer or prospective customer of PAETEC or any subsidiary on behalf of any competitive enterprise.

If an applicable final judgment is obtained that an officer violated the terms of these covenants, PAETEC may, in addition to all other available remedies, discontinue the provision of the payments and benefits described above.

***Treatment of Director and Executive Officer Common Stock***

PAETEC's directors and executive officers will receive 0.460 shares of Windstream common stock for each share of PAETEC common stock that they own at the effective time of the merger, in the same manner as other PAETEC stockholders. For information regarding beneficial ownership of PAETEC common stock by each of PAETEC's current directors and certain executive officers and all directors and executive officers as a group, see *The Special Meeting PAETEC Security Ownership of Management and Certain Beneficial Owners* beginning on page 46. In addition to Mr. Arunas Chesonis, the current members of PAETEC's board of directors include Richard T. Aab, Shelley Diamond, H. Russell Frisby, Jr., Tansukh V. Ganatra, Michael C. Mac Donald, William R. McDermott, Alex Stadler, Mr. Wilson and Mark Zupan.

***Accelerated Vesting of Executive Officer Equity Awards***

PAETEC's executive officers are entitled to accelerated vesting of equity awards in connection with the completion of the merger under provisions of the severance agreements described above and of PAETEC's incentive plans and the award agreements under which the awards were granted.

As of August 30, 2011, PAETEC's executive officers held unvested stock options and unvested restricted stock units awarded under the PAETEC Holding Corp. 2007 Omnibus Incentive Plan (the 2007 omnibus incentive plan) and the PAETEC Holding Corp. 2011 Omnibus Incentive Plan (the 2011 omnibus incentive plan) in the amounts set forth below under *Quantification of Payments and Benefits Potential Change of Control Payments to Named Executive Officers Table* and *Quantification of Payments and Benefits Potential Change of Control Payments to Other Current and Former Executive Officers Table*.





**Table of Contents**

**Index to Financial Statements**

Each severance agreement requires the equity-based awards made to such officers under the 2007 omnibus incentive plan and the 2011 omnibus incentive plan to include terms providing that:

immediately before the consummation of a change of control transaction, all restricted stock, restricted stock unit and similar awards will vest and the shares subject to the awards will be delivered to the officer; and

15 days before the scheduled consummation of a change of control transaction, all stock options, stock appreciation rights and similar awards will become exercisable and will remain exercisable until the transaction is consummated.

***Accelerated Vesting of Director Equity Awards***

PAETEC's non-employee directors are entitled to accelerated vesting of equity awards before the completion of the merger pursuant to a resolution adopted by the compensation committee of the board of directors.

As of August 30, 2011, each of PAETEC's directors held unvested stock options and unvested restricted stock units awarded under the 2007 omnibus incentive plan and the 2011 omnibus incentive plan in the amounts set forth under Quantification of Payments and Benefits Payments to Non-Employee Directors in Respect of Unvested Equity Awards Table.

***Parachute Payment Restrictions***

Awards under the 2007 omnibus incentive plan and the 2011 omnibus plan will not vest or become exercisable (1) if the vesting or exercisability of awards would cause any payment or benefit to the grantee under the plan to be a parachute payment within the meaning of Section 280G(b)(2) of the Code and (2) if, as a result of receiving a parachute payment, the aggregate after tax-amounts the grantee is entitled to receive are less than the maximum after-tax amounts that the grantee could receive. PAETEC has made no changes to these restrictions in connection with the merger.

***Quantification of Payments and Benefits***

The following three tables and the related footnotes present information about the amounts of the payments and benefits that each executive officer and director of PAETEC would receive in connection with the merger, after giving effect to the merger as if it had occurred on September 12, 2011, the latest practicable date prior to the filing of this proxy statement/prospectus, and, in the case of the executive officers, assuming that the employment of each such officer was terminated by the surviving corporation without cause or by the officer for good reason on such date.

**Table of Contents****Index to Financial Statements***Potential Change of Control Payments to Named Executive Officers Table*

The table below and the related footnotes present information about the compensation payable to PAETEC's chief executive officer, chief financial officer and the three other most highly compensated executive officers, as determined for purposes of the company's most recent annual proxy statement, who are referred to as PAETEC's named executive officers, after giving effect to the merger. The compensation shown in the table below is subject to an advisory (nonbinding) vote of PAETEC's stockholders at the special meeting, as described in this proxy statement/prospectus under Advisory Vote on Golden Parachute Compensation.

<b>Name</b>	<b>Cash (\$)<sup>(1)</sup></b>	<b>Equity (\$)<sup>(2)</sup></b>	<b>Perquisites/ Benefits (\$)<sup>(3)</sup></b>	<b>Total (\$)<sup>(4)</sup></b>
Arunas A. Chesonis	3,850,000	4,503,820	31,609	8,385,429
Keith M. Wilson	2,000,000	5,177,550	31,609	7,209,159
Robert D. Moore, Jr.	780,000	1,628,635	31,609	2,440,244
Mario DeRiggi	1,155,000	1,641,040	31,609	2,827,649
Mary K. O'Connell	990,000	1,659,890	17,590	2,667,480

- (1) As described above under Executive Officer Severance Agreements, the amounts set forth under the column captioned Cash for each named executive officer consist of double-trigger payment obligations for (a) continued salary payments (A) to each of Mr. Arunas Chesonis and Mr. Wilson, for each of the two years after termination of such officer's employment, in an amount equal to 1.5 times such officer's base salary immediately prior to the employment termination date, and (B) to each of Mr. Moore, Mr. DeRiggi and Ms. O'Connell, for each of the two years after termination of such officer's employment, in an amount equal to such officer's base salary immediately prior to the employment termination date, and (b) bonus payments for each annual bonus period ending during the applicable non-solicitation/non-competition covenant period equal to the target bonus amount which the officer would have been eligible to receive. These payments also would be due in connection with a termination event regardless of whether there occurred a change of control of PAETEC, except that (a) the continued salary payments to each of Mr. Arunas Chesonis and Mr. Wilson would be in an amount equal to one times base salary rather than 1.5 times base salary if the termination of employment is not preceded by a change of control, so that the incremental severance compensation resulting from a termination after the merger as compared to a termination that is not preceded by a change of control would be \$700,000 for Mr. Arunas Chesonis and \$400,000 for Mr. Wilson, and (b) the bonus payments to each named executive officer would be made at the lesser of (A) the target bonus amount which the executive officer would have been eligible to receive under PAETEC's annual bonus plan if the officer had been employed during the entire bonus year and the particular bonus target had been fully achieved at the target level (as opposed to the maximum level) or (B) if the amount achieved is less than the target level, the bonus amount corresponding to the amount that is achieved. The amounts set forth in the table are based on the compensation and benefit levels in effect on September 12, 2011. The obligations would be payable over time, would be subject to compliance with certain non-solicitation and non-competition covenants and would be subject to the execution and non-revocation of a release of claims as described under Executive Officer Severance Agreements Severance Payments and Benefits, including after a Change of Control. The following table shows the salary and bonus components of the amounts set forth under the column captioned Cash in the table above for each named executive officer:

<b>Name</b>	<b>Salary Due (\$)</b>	<b>Bonus Due (\$)</b>
Arunas A. Chesonis	2,100,000	1,750,000
Keith M. Wilson	1,200,000	800,000
Robert D. Moore, Jr.	520,000	260,000
Mario DeRiggi	660,000	495,000
Mary K. O'Connell	660,000	330,000

**Table of Contents****Index to Financial Statements**

- (2) As described above under Accelerated Vesting of Executive Officer Equity Awards, the amounts set forth under the column captioned Equity consist of (a) the value of the accelerated vesting of unvested stock options and (b) the value of the accelerated vesting of restricted stock units for each named executive officer. The acceleration of both types of equity awards is deemed to be single-trigger because it will occur before the completion of the merger irrespective of whether the named executive officer's employment is terminated. The following is a summary of the calculation of the value of the acceleration of the unvested stock options and the unvested restricted stock units of each named executive officer.

After giving effect to the merger as if it had been completed on September 12, 2011, the latest practicable date prior to the filing of this proxy statement/prospectus, the number and value of stock options and restricted stock units that would have been entitled to accelerated vesting under the 2007 omnibus incentive plan and the 2011 omnibus incentive plan are set forth below. The value of the stock options is calculated in accordance with SEC rules as the difference between (a) the value of PAETEC common stock based on the \$5.15 average closing price of PAETEC shares as reported on NASDAQ for the first five business days following public announcement of the merger, and (b) the exercise price of each of the unvested options that would be subject to accelerated vesting. The value of the restricted stock units is calculated in accordance with SEC rules based on the \$5.15 average closing price of PAETEC shares as reported on NASDAQ for the first five business days following public announcement of the merger. The actual value on the vesting date of the stock options and restricted stock units subject to accelerated vesting will depend on the value of PAETEC's common stock on that date.

Name	Number of Unvested Stock Options (#)	Change of Control Accelerated Vesting		
		Value of Stock Options (\$)	Number of RSUs (#)	Value of RSUs (\$)
Arunas A. Chesonis	98,750	70,525	860,834	4,433,295
Keith M. Wilson	447,500	529,675	902,500	4,647,875
Robert D. Moore, Jr.	47,750	38,995	308,668	1,589,640
Mario DeRiggi	42,500	35,950	311,668	1,605,090
Mary K. O'Connell	63,250	79,695	306,834	1,580,195

- (3) The amounts set forth under the column captioned Perquisites/Benefits assume continuation for the non-solicitation/non-competition covenant period of elected COBRA premiums for a family health insurance contract and premium payments based on continued life insurance for two years in the amount of base salary at the date of termination.
- (4) Payments and benefits to a named executive officer may be less than those shown above if any payments or benefits provided under a named executive officer's severance agreement or otherwise result in an excess parachute payment within the meaning of Section 280G of the Code and the total amount of such payments and benefits is reduced to result in an increase in the aggregate after-tax value of payments and benefits to be provided to such named executive officer. The amount of such reduction, if any, will not be finally determined until shortly before the completion of the merger.

*Potential Change of Control Payments to Other Current and Former Executive Officers Table*

The table below and the related footnotes present information about the compensation payable to PAETEC's other current executive officer, Mr. Algimantas Chesonis, and PAETEC's former executive officers who served during the fiscal year ended December 31, 2010, Mr. Butler and Ms. Zaucha, and is not subject to an advisory vote of PAETEC's stockholders at the special meeting. Although SEC rules do not require presentation of this information in this format, it has been included to permit a uniform presentation of the quantification of the potential change of control payments and benefits that could be received by all of PAETEC's executive officers in connection with the merger.

**Table of Contents****Index to Financial Statements**

Name	Cash (\$) <sup>(1)</sup>	Equity (\$) <sup>(2)</sup>	Perquisites/ Benefits (\$) <sup>(3)</sup>	Total (\$)
Algimantas Chesonis	418,000	1,482,590	17,671	1,918,261
Edward J. Butler, Jr. (former executive officer)		354,063		354,063
Laurie Zaucha (former executive officer)				

- (1) As described above under Executive Officer Severance Agreements, the amounts set forth under the column captioned Cash for Mr. Algimantas Chesonis consist of (a) continued salary payments of \$330,000 for the one-year period after termination of employment in an amount equal to 1.5 times his base salary immediately prior to the employment termination date, and (b) a bonus payment of \$88,000 for the annual bonus period ending during the applicable non-solicitation/non-competition covenant period equal to the target bonus amount which Mr. Algimantas Chesonis would have been eligible to receive. These payments would be due in connection with a termination event regardless of whether there is a change of control of PAETEC, except that (a) the continued salary payments to Mr. Algimantas Chesonis would be in an amount equal to one times base salary rather than 1.5 times base salary if the termination of employment is not preceded by a change of control, so that the incremental severance compensation resulting from a termination after the merger as compared to a termination that is not preceded by a change of control is \$110,000, and (b) the bonus payments to Mr. Algimantas Chesonis would be made at the lesser of (A) the target bonus amount which he would have been eligible to receive under PAETEC's annual bonus plan if he had been employed during the entire bonus year and the particular bonus target had been fully achieved at the target level (as opposed to the maximum level) or (B) if the amount achieved is less than the target level, the bonus amount corresponding to the amount that is achieved. The amounts set forth in the table are based on the compensation and benefit levels in effect on August 30, 2011. The obligations would be payable over time, would be subject to compliance with certain non-solicitation and non-competition covenants and would be subject to the execution and non-revocation of a release of claims as described under Executive Officer Severance Agreements Severance Payments and Benefits, including after a Change of Control. No additional cash payments will be made to Mr. Butler or Ms. Zaucha, who are no longer employees of PAETEC, and who were no longer executive officers of PAETEC as of December 31, 2010.
- (2) As described above under Accelerated Vesting of Executive Officer Equity Awards, the amounts set forth under the column captioned Equity consist of (a) the value of the accelerated vesting of unvested stock options, and (b) the value of the accelerated vesting of restricted stock units for each individual. The acceleration of both types of equity awards is deemed to be single-trigger because it will occur before the completion of the merger irrespective of whether employment is terminated.

The value of the acceleration of the unvested stock options and the unvested restricted stock units of each individual is calculated in the same manner set forth above in footnote (2) to the table entitled Potential Change of Control Payments to Named Executive Officers Table.

Name	Change of Control Accelerated Vesting			
	Number of Unvested Stock Options (#)	Value of Stock Options (\$)	Number of RSUs (#)	Value of RSUs (\$)
Algimantas Chesonis	31,500	25,995	282,834	1,456,595
Edward J. Butler, Jr. (former executive officer)	11,250	19,313	65,000	334,750
Laurie Zaucha (former executive officer)				

- (3) The amount set forth under the column captioned Perquisites/Benefits for Mr. Algimantas Chesonis assumes continuation for the non-solicitation/non-competition covenant period of elected COBRA premiums for a family health insurance contract and premium payments based on continued life insurance for one year in the amount of base salary at the date of termination.

**Table of Contents****Index to Financial Statements***Payments to Non-Employee Directors in Respect of Unvested Equity Awards Table*

The table below shows the outstanding unvested stock options and restricted stock units held by each of PAETEC's non-employee directors and the value of the single-trigger acceleration of such awards in connection with the merger. Such values are calculated in the manner set forth above in footnote (2) to the table entitled Potential Change of Control Payments to Named Executive Officers Table. The compensation shown in the table below is not subject to an advisory vote of PAETEC's stockholders at the special meeting.

<b>Name</b>	<b>Number of Unvested Stock Options (#)</b>	<b>Value of Stock Options (\$)</b>	<b>Number of RSUs (#)</b>	<b>Value of RSUs (\$)</b>
Richard T. Aab	22,834	34,862	22,834	117,595
Shelley Diamond	55,001	172,734	17,501	90,130
H. Russell Frisby, Jr.	17,501	24,709	17,501	90,130
Tansukh V. Ganatra	20,501	30,975	20,501	105,580
Michael C. Mac Donald	29,001	35,744	29,001	149,355
William R. McDermott	22,834	34,862	22,834	117,595
Alex Stadler	55,001	158,378	17,501	90,130
Mark Zupan	27,501	42,635	27,501	141,630

***Warrant Held by Non-Employee Director***

Except as set forth below, directors and executive officers of PAETEC do not hold any of the outstanding warrants to purchase PAETEC common stock that will be assumed under the merger agreement.

Mr. Aab, Vice Chairman of PAETEC's board of directors, holds a non-compensatory warrant to purchase common stock that was issued by US LEC Corp. and assumed by PAETEC Holding Corp. in connection with PAETEC Corp.'s merger with US LEC Corp. in February 2007. The warrant was exercisable for 789,473 shares of PAETEC common stock as of the date of this proxy statement/prospectus. Pursuant to the terms of the merger agreement, each unexercised and outstanding PAETEC warrant, including the warrant held by Mr. Aab, will be assumed by Windstream and converted into a warrant to purchase the number of shares of Windstream common stock equal to the product of the exchange ratio of 0.460 multiplied by the number of shares of PAETEC common stock underlying the warrant, at an exercise price per share equal to the exercise price for each share of PAETEC common stock subject to the warrant divided by the exchange ratio. The other pre-existing terms of the assumed warrant will continue in effect following the merger.

***Director and Officer Indemnification and Insurance***

The merger agreement provides that, for at least six years after the effective time of the merger, Windstream will indemnify and hold harmless the present and former officers, directors and employees of PAETEC and its subsidiaries for acts or omissions occurring at or before the effective time of the merger as provided in the respective organizational documents of PAETEC and its subsidiaries or in certain indemnification agreements. For at least six years after the effective time of the merger, Windstream and the surviving corporation will be obligated to honor and keep current the provisions relating to indemnification and advancement contained in the respective organizational documents of PAETEC and its subsidiaries, maintain existing indemnification agreements, and indemnify and advance expenses to the present and former officers, directors and employees of PAETEC and its subsidiaries to the fullest extent permitted by applicable law. Windstream generally has agreed to provide officers and directors liability insurance with respect to acts or omissions occurring before the effective time of the merger, to cover a period of six years from the effective time, with at least the same coverage and amounts as PAETEC's current officers and directors liability insurance and containing terms at least as favorable as such insurance currently maintained by PAETEC. For additional information concerning the indemnification and insurance arrangements, see The Merger Agreement Covenants Indemnification and Insurance.

**Table of Contents**

**Index to Financial Statements**

***Benefit Arrangements with the Surviving Corporation***

The merger agreement requires that, from the effective time of the merger until the first anniversary of the merger, Windstream will provide, or cause the surviving corporation to provide, to each PAETEC employee who continues in employment with the surviving corporation or its subsidiaries, (1) salary, wage, bonus, and non-equity based incentive compensation that is comparable in the aggregate to such compensation provided to such employee immediately prior to the effective time of the merger, and (2) employee benefit plans and arrangements that are substantially similar in the aggregate to those provided to similarly situated employees of Windstream or its subsidiaries.

In addition, Windstream and the surviving corporation have agreed to honor and keep in effect severance plans that are applicable to employees and officers of PAETEC and its subsidiaries until the first anniversary of the effective time of the merger.

**No Change of Control Payments to Windstream Named Executive Officers**

None of Windstream's executive officers will receive any type of golden parachute compensation that is based on or otherwise related to the merger.

**Windstream's Reasons for the Merger**

Windstream's board of directors has unanimously approved and adopted the merger agreement. In evaluating the merger, Windstream's board of directors consulted with Windstream's management, as well as with Windstream's legal and financial advisors, and, in reaching its conclusions, Windstream's board of directors considered, among other things, the following material factors:

the merger will create a national telecommunications provider with more than \$6 billion in total revenue and a nationwide network with approximately 100,000 fiber route miles;

the expectation that the merger will accelerate Windstream's revenue and free cash flow growth profile with approximately 70 percent of revenues from business and broadband services;

the merger will provide a diverse, attractive customer base of medium-sized and large businesses;

the merger will result in enhanced capabilities in strategic growth areas, including IP-based services, data centers, cloud computing and managed services;

the expectation that the merger will provide approximately \$100 million in annual pre-tax operating cost synergies, which are expected to be fully realized by the third year after the merger;

the expectation that the merger will allow net operating loss utilization of approximately \$130 million in each of the first five years after the merger;

the expectation that the merger will be accretive on a free cash flow per share basis, excluding merger and integration costs, in the first year following the closing of the transaction;

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

the expectation that the merger will improve Windstream's growth profile and Windstream's dividend payout ratio; and

the expectation that the merger will be slightly de-leveraging after synergies.

Windstream's board of directors considered the above reasons together with various other reasons for approving and adopting the merger agreement. Windstream's board of directors did not assign relative weights to the above reasons or the other reasons considered by it. Further, individual members of Windstream's board of directors may have given different weight to different reasons.

**Table of Contents****Index to Financial Statements****Litigation**

On August 8, 2011, a purported stockholder of PAETEC filed a complaint styled as a class action lawsuit in the Court of Chancery of the State of Delaware. The case caption of this complaint is: David Mattucci, individually and on behalf of all others similarly situated, v. PAETEC Holding Corp., Windstream Corporation, Peach Merger Sub, Inc., Arunas A. Chesonis, Richard T. Aab, Shelley Diamond, H. Russell Frisby, Jr., Tansukh V. Ganatra, Michael C. Mac Donald, William R. McDermott, Alex Stadler, Keith M. Wilson and Mark Zupan. On August 9, 2011, a purported stockholder of PAETEC filed a similarly styled complaint in the Supreme Court of the State of New York, Monroe County. The case caption of this complaint is: Tim O Leary, individually and on behalf of all others similarly situated, v. PAETEC Holding Corp., Windstream Corporation, Peach Merger Sub, Inc., Arunas A. Chesonis, Richard T. Aab, Shelley Diamond, H. Russell Frisby, Jr., Tansukh V. Ganatra, Michael C. MacDonald, William R. McDermott, Alex Stadler, Keith M. Wilson and Mark Zupan. The complaints allege, among other things, that the board of directors of PAETEC conducted an unfair sales process resulting in an unfair merger price. They assert that PAETEC's board members breached their fiduciary duties in agreeing to the merger and that Windstream aided and abetted in the breaches of fiduciary duties. The lawsuits seek to enjoin the merger and seek unspecified monetary damages.

On September 10, 2011, plaintiff David Mattucci filed a motion for class certification seeking to certify a class of all disinterested PAETEC stockholders and appoint himself as lead plaintiff for the class and his counsel as lead counsel for the class. On September 14, 2011, plaintiff Tim O Leary filed the Delaware Complaint in the Court of Chancery of the State of Delaware. It contained an identical caption to his New York complaint. In addition to alleging the same items as in the earlier filed actions, the Delaware Complaint alleges that the board of directors of PAETEC breached their fiduciary duties by issuing a false and misleading proxy statement. PAETEC and Windstream believe these lawsuits are without merit and plan to vigorously defend against these claims.

**Accounting Treatment**

The merger will be accounted for by applying the acquisition method, with PAETEC considered the acquiree and Windstream the acquirer for accounting and financial reporting purposes. PAETEC's assets, liabilities and other items will be adjusted to their estimated fair value on the closing date of the merger and combined with the historical book values of the assets and liabilities of Windstream. Applicable income tax effects of these adjustments will be included as a component of the combined company's deferred tax assets or liabilities. To the extent the purchase price exceeds the estimated fair value of the assets, liabilities and other items (adjusted as discussed above), the difference will be recorded as goodwill. Financial statements of Windstream issued after the merger will reflect the values and will not be restated retroactively to reflect the historical financial position or results of operations of PAETEC.

**Financial Forecasts of PAETEC's Management**

In connection with the merger discussions between Windstream and PAETEC, the management of PAETEC provided to Windstream, Windstream's and PAETEC's respective financial advisors, and Houlihan Lokey, certain non-public, internal financial forecasts regarding the anticipated future operations of PAETEC and of Windstream, each on a stand-alone basis.

In connection with its confirmatory diligence review, Windstream requested, and PAETEC's management provided to Windstream and Windstream's financial advisors, PAETEC's internal budget for PAETEC's 2011 fiscal year, which incorporates financial forecasts for that fiscal year (the 2011 budget forecasts). PAETEC did not provide any additional financial forecasts to Windstream or Windstream's financial advisors.

PAETEC's management provided the 2011 budget forecasts and two sets of internal financial forecasts for PAETEC's 2011, 2012, 2013, 2014 and 2015 fiscal years (the PAETEC five-year forecasts) to PAETEC's financial advisors, BofA Merrill Lynch and Deutsche Bank. The first set of PAETEC five-year forecasts represented base case financial forecasts by PAETEC's management, while the second set of PAETEC five-year forecasts represented PAETEC management's adjusted financial forecasts reflecting more conservative assumptions about future performance. The base case PAETEC five-year forecasts also were provided to Houlihan Lokey.



**Table of Contents****Index to Financial Statements**

PAETEC's management provided two sets of financial forecasts with respect to Windstream's 2011, 2012, 2013, 2014 and 2015 fiscal years (the PAETEC five-year forecasts for Windstream) to PAETEC's financial advisors, BofA Merrill Lynch and Deutsche Bank. The first set of PAETEC five-year forecasts for Windstream represented base case financial forecasts by PAETEC's management, while the second set of PAETEC five-year forecasts for Windstream represented PAETEC management's adjusted financial forecasts, reflecting more conservative assumptions about future performance.

PAETEC has presented below in summary form these internal financial forecasts to give its stockholders access to this non-public financial information because the 2011 budget forecasts were provided to Windstream and Windstream's financial advisors and because the 2011 budget forecasts and the five-year forecasts were considered by PAETEC's board of directors for purposes of evaluating the merger, by BofA Merrill Lynch and Deutsche Bank for purposes of their respective opinions to PAETEC's board of directors as to the fairness, from a financial point of view, of the exchange ratio to the holders of PAETEC common stock, and, in the case of the 2011 budget forecasts and the base case PAETEC five-year forecasts, by Houlihan Lokey for purposes of its opinion to PAETEC's board of directors as to the fairness, from a financial point of view, of the consideration to be received by the holders of PAETEC common stock in the merger. The summary of these internal financial forecasts is not being included in this proxy statement/prospectus to influence your decision whether to vote for adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

Except with respect to the current fiscal year's revenue and adjusted EBITDA, PAETEC does not, as a matter of course, make public its management's projections as to future results. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information or published guidelines of the SEC regarding forward-looking statements.

The prospective financial information has been prepared by, and is the responsibility of, PAETEC's management. Deloitte & Touche LLP, PAETEC's independent registered public accounting firm, and PricewaterhouseCoopers LLP, Windstream's independent registered public accounting firm, have neither examined, compiled nor performed any procedures with respect to the accompanying prospective financial information and, accordingly, Deloitte & Touche LLP and PricewaterhouseCoopers LLP do not express an opinion or any other form of assurance with respect thereto. The Deloitte & Touche LLP report included in this proxy statement/prospectus and the PricewaterhouseCoopers LLP reports incorporated by reference into this proxy statement/prospectus relate to PAETEC's and Windstream's historical financial information, respectively. They do not extend to the prospective financial information and should not be read to do so.

*2011 Budget Forecasts.* The following table presents in summary form the financial forecasts for PAETEC's 2011 fiscal year provided by PAETEC's management to Windstream and Windstream's financial advisors. The 2011 budget forecasts were prepared as of March 21, 2011. Certain items in the 2011 budget forecasts differ from items in the PAETEC five-year forecasts due to the timing of preparation of the forecasts. All amounts shown are rounded to the nearest million dollars.

**Summary of 2011 Budget Forecasts Provided****to Windstream and Windstream's Financial Advisors****Projected****2011**

(in millions of dollars)

Revenue	2,081
Gross margin	1,095
Adjusted EBITDA <sup>(1)</sup>	388
Net loss	(43)
Capital expenditures	195
Levered free cash flow <sup>(2)</sup>	51

**Table of Contents****Index to Financial Statements**

- (1) Adjusted EBITDA is a non-GAAP financial measure. For purposes of the 2011 budget forecasts, PAETEC defined this measure to mean net loss before depreciation and amortization, interest expense, provision for income taxes, stock-based compensation, and acquisition, integration and separation costs.
- (2) Levered free cash flow is a non-GAAP financial measure. For purposes of the 2011 budget forecasts, PAETEC defined this measure to mean adjusted EBITDA minus capital expenditures and interest expense.

The 2011 budget forecasts were prepared using primarily the same methodologies, to the extent applicable, as those used to prepare PAETEC's historical financial statements. Significant assumptions underlying the 2011 budget forecasts included the following:

realization of costs savings from the Cavalier and XETA acquisitions of \$25 million for Cavalier in 2011 and \$2 million for XETA in 2011;

contributions to operating results, including costs savings, from the XETA acquisition beginning on April 30, 2011 (rather than beginning on the actual closing date of the XETA acquisition of May 31, 2011);

capital spending at between 9% and 10% of total revenue, reflecting a slight increase compared to PAETEC's historical capital spending due to ongoing facilities-based initiatives and investments related to PAETEC's product-based growth initiatives;

expected revenue growth in the PAETEC business, excluding revenue generated by Cavalier, offset in part by a nominal decrease in revenue from the Cavalier business;

continued growth in gross margins as a result of planned network optimization activities; and

a slight reduction in selling, general and administrative expense due to continued cost-saving initiatives.

*PAETEC Five-Year Forecasts.* PAETEC's management presented the base case and adjusted PAETEC five-year forecasts to PAETEC's financial advisors, BofA Merrill Lynch and Deutsche Bank. The base case PAETEC five-year forecasts also were provided to Houlihan Lokey. The base case PAETEC five-year forecasts were prepared in early February 2011 and reaffirmed as of July 14, 2011, and the adjusted PAETEC five-year forecasts were prepared as of July 14, 2011. All amounts shown are rounded to the nearest million dollars.

Base Case PAETEC Five-Year Forecasts. The following table presents in summary form PAETEC management's base case PAETEC five-year forecasts provided to PAETEC's financial advisors and Houlihan Lokey.

**Summary of Base Case PAETEC Five-Year Forecasts Provided**

**to PAETEC's Financial Advisors and Houlihan Lokey<sup>(1)</sup>**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
	(in millions of dollars)				
Revenue	2,072	2,171	2,243	2,319	2,400
Adjusted EBITDA <sup>(2)</sup>	386	410	440	465	486

Edgar Filing: WINDSTREAM CORP - Form S-4/A

Capital expenditures	190	187	187	193	198
Depreciation and amortization	252	242	232	222	212
Stock-based compensation	11	14	16	18	18
Decrease in net working capital	18	1	2	2	3

- (1) For purposes of their respective discounted cash flow calculations, PAETEC's financial advisors and Houlihan Lokey assumed a tax rate of 40% for PAETEC based on discussions with PAETEC management.

**Table of Contents****Index to Financial Statements**

(2) Adjusted EBITDA is a non-GAAP financial measure. For purposes of the base case PAETEC five-year forecasts, PAETEC defined this measure to mean net (loss) income before depreciation and amortization, interest expense, provision for (benefit from) income taxes, stock-based compensation, and acquisition, integration and separation costs (other than \$2.5 million in integration expenses in 2011 related to the XETA acquisition).

The base case PAETEC five-year forecasts were prepared using primarily the same methodologies, to the extent applicable, as those used to prepare PAETEC's historical financial statements. Significant assumptions underlying the base case PAETEC five-year forecasts included the following:

PAETEC's entry into four new markets;

revenue growth estimated at a compound annual growth rate of 3.7% over the period of 2011 through 2015;

adjusted EBITDA growth estimated at a compound annual growth rate of 5.9% over the period of 2011 through 2015;

realization of costs savings from the Cavalier and XETA acquisitions at a \$30 million run rate from Cavalier and a \$9 million run rate from XETA, with such costs savings first fully achieved in 2012 and with cost savings for 2011 estimated to be \$25 million from Cavalier and \$2 million from XETA;

capital spending maintained at \$187 million to \$198 million per year over the period of 2011 through 2015, with a focus on product-based growth initiatives;

no significant acquisitions of other companies;

no repurchases of PAETEC's outstanding common stock; and

no significant increase in PAETEC's outstanding indebtedness over the levels outstanding at the end of 2010.

Adjusted PAETEC Five-Year Forecasts. The following table presents in summary form PAETEC management's adjusted PAETEC five-year forecasts provided to PAETEC's financial advisors, reflecting more conservative assumptions about PAETEC's future performance.

**Summary of Adjusted PAETEC Five-Year Forecasts Provided**

**to PAETEC's Financial Advisor<sup>(4)</sup>**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
	(in millions of dollars)				
Revenue	2,025	2,035	2,055	2,086	2,128
Adjusted EBITDA <sup>(2)</sup>	375	382	391	402	415
Capital expenditures	190	187	187	193	198

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

- (1) PAETEC's forecasts for depreciation and amortization, stock-based compensation and change in net working capital were unchanged from those used in the base case PAETEC five-year forecasts.
- (2) Adjusted EBITDA is a non-GAAP financial measure. For purposes of the adjusted PAETEC five-year forecasts, PAETEC defined this measure to mean net (loss) income before depreciation and amortization, interest expense, provision for (benefit from) income taxes, stock-based compensation, and acquisition, integration and separation costs (other than \$2.5 million in integration expenses in 2011 related to the XETA acquisition).

The adjusted PAETEC five-year forecasts were prepared using primarily the same methodologies, to the extent applicable, as those used to prepare PAETEC's historical financial statements. Significant assumptions

**Table of Contents**

**Index to Financial Statements**

underlying the adjusted PAETEC five-year forecasts, compared to the base case PAETEC five-year forecasts, included the following:

revenue growth slowing to a compound annual growth rate of 1.2%, rather than the 3.7% compound annual growth rate forecast in the base case, due to, among other factors,

weaker recovery of the United States economy,

higher customer attrition,

lower usage-based fees, and

lower sales productivity; and

slower growth in adjusted EBITDA due to, among other factors, the potential impact of lower revenue on operating leverage.

*PAETEC Five-Year Forecasts for Windstream.* The PAETEC five-year forecasts for Windstream were prepared as of July 14, 2011 and reflect PAETEC management's estimates of Windstream's future performance on a stand-alone basis. PAETEC's management presented the base case and adjusted PAETEC five-year forecasts for Windstream to PAETEC's financial advisors, BofA Merrill Lynch and Deutsche Bank. Windstream's management did not participate in the preparation of these financial forecasts, or approve them, and Windstream assumes no responsibility for, and disclaims any association with, such financial forecasts. The base case PAETEC five-year forecasts for Windstream were based largely on equity research consensus estimates of Windstream's future performance. All amounts shown are rounded to the nearest million dollars.

Base Case PAETEC Five-Year Forecasts for Windstream. The following table presents in summary form PAETEC management's base case five-year forecasts for Windstream provided to PAETEC's financial advisors.

**Summary of Base Case PAETEC Five-Year Forecasts for Windstream Provided  
to PAETEC's Financial Advisors**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
	(in millions of dollars)				
Revenue	4,093	4,080	4,109	4,114	4,133
Adjusted EBITDA <sup>(1)</sup>	2,062	2,079	2,088	2,092	2,108
Capital expenditures	607	561	518	519	521

(1) Adjusted EBITDA is a non-GAAP financial measure. For purposes of the base case PAETEC five-year forecasts for Windstream, PAETEC defined this measure to mean net (loss) income before depreciation and amortization, interest expense, provision for (benefit from) income taxes, pension expense, stock-based compensation expense, acquisition, integration and separation costs, and restructuring charges.

Significant assumptions underlying the base case PAETEC five-year forecasts for Windstream included the following:

revenue growth estimated at a compound annual growth rate of 0.2% over the period of 2011 through 2015;

adjusted EBITDA growth estimated at a compound annual growth rate of 0.5% over the period of 2011 through 2015;

capital spending decreasing by approximately \$85 million over the period of 2011 through 2015;

no significant acquisitions of other companies;

**Table of Contents****Index to Financial Statements**

no significant increase in Windstream's outstanding indebtedness over the levels outstanding at the end of 2010; and

no change in Windstream's dividend policy and practices.

Adjusted PAETEC Five-Year Forecasts for Windstream. The following table presents in summary form PAETEC management's adjusted five-year forecasts for Windstream provided to PAETEC's financial advisors, reflecting more conservative assumptions about Windstream's future performance.

**Summary of Adjusted PAETEC Five-Year Forecasts for Windstream Provided  
to PAETEC's Financial Advisors**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
	(in millions of dollars)				
Revenue	4,091	3,929	3,862	3,791	3,736
Adjusted EBITDA <sup>(1)</sup>	2,061	2,003	1,964	1,930	1,909
Capital expenditures	607	561	518	519	521
Unlevered free cash flow <sup>(2)</sup>	1,454	1,443	1,446	1,411	1,388

- (1) Adjusted EBITDA is a non-GAAP financial measure. For purposes of the adjusted PAETEC five-year forecasts for Windstream, PAETEC defined this measure to mean net (loss) income before depreciation and amortization, interest expense, provision for (benefit from) income taxes, pension expense, stock-based compensation expense, acquisition, integration and separation costs, and restructuring charges.
- (2) Unlevered free cash flow is a non-GAAP financial measure. For purposes of the adjusted PAETEC five-year forecasts for Windstream, PAETEC defined this measure to mean adjusted EBITDA minus capital expenditures.

Significant assumptions underlying the adjusted PAETEC five-year forecasts for Windstream, compared to the base case PAETEC five-year forecasts for Windstream, included the following:

revenue decreasing at a compound annual declining rate of (2.2%) rather than growing at a compound annual growth rate of 0.2% due to, among other factors,

weaker recovery of the United States economy,

higher than expected access line loss,

slower growth in enterprise revenue, and

higher customer attrition; and

adjusted EBITDA decreasing at a compound annual declining rate of (1.9%) rather than growing at a compound annual growth rate of 0.5% due to, among other factors, the potential impact of lower revenue on operating leverage.



## Edgar Filing: WINDSTREAM CORP - Form S-4/A

The foregoing estimates and assumptions underlying the accompanying prospective financial information are inherently uncertain and, though considered reasonable by PAETEC's management as of the date of use, are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results of PAETEC and Windstream to differ materially from those contained or implied in such prospective financial information, including, among others, risks and uncertainties discussed under "Risk Factors" beginning on page 29, under "Information About PAETEC," including the matters set forth under "Information About PAETEC PAETEC's Business Risk Factors," and under "Risk Factors" in Windstream's Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference into this proxy statement/prospectus. The prospective results may not be indicative of the future performance of PAETEC or Windstream, whose actual results may differ materially from those presented in the prospective financial

---

**Table of Contents**

**Index to Financial Statements**

information. Inclusion of the prospective financial information in this proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved. In light of the foregoing, and considering that the PAETEC special meeting of stockholders will be held months after the date on which the latest financial forecasts presented above were prepared, as well as the uncertainties inherent in any forecasted information, stockholders are cautioned not to place undue reliance on the financial forecasts. The financial forecasts constitute forward-looking statements and the actual results of PAETEC or Windstream may differ materially and adversely from the results presented in the financial forecasts. See Special Note Concerning Forward-Looking Statements on page 41 for cautionary statements relating to forward-looking statements.

**PAETEC has not updated, and does not intend to update or otherwise revise, the accompanying prospective financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, PAETEC has not updated, and does not intend to update or otherwise revise, the accompanying prospective financial information to reflect any changes in general economic or industry conditions since its preparation.**

**Material United States Federal Income Tax Consequences**

The following is a summary of certain material United States federal income tax consequences of the merger to United States holders (as defined below) of PAETEC common stock who hold their stock as a capital asset under the Internal Revenue Code of 1986, as amended (the Code). The summary is based on the Code, the Treasury regulations issued under the Code, and administrative rulings and court decisions in effect as of the date of this proxy statement/prospectus, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term United States holder means:

a citizen or resident of the United States;

a corporation created or organized under the laws of the United States or any of its political subdivisions;

a trust that (1) is subject to the supervision of a court within the United States and the control of one or more United States persons or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate the income of which is subject to United States federal income tax regardless of its source.

If a partnership (or any entity or arrangement treated as a partnership for United States federal income tax purposes) holds PAETEC common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If a United States holder is a partner in a partnership holding PAETEC common stock, the United States holder should consult its tax advisors.

This summary is not a complete description of all the tax consequences of the merger and, in particular, does not address United States federal income tax considerations applicable to holders of PAETEC common stock who are subject to special treatment under United States federal income tax law (including, for example, holders who are not United States holders, financial institutions, dealers or brokers in securities, commodities or foreign currencies, insurance companies or tax-exempt entities, traders in securities that elect to apply a mark-to-market method of accounting, holders who acquired PAETEC common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, and holders who hold PAETEC common stock as part of a hedge, straddle or conversion transaction). This summary does not address the tax consequences of any transaction other than the merger. Also, this summary does not address United States federal income tax considerations applicable to holders of options to purchase PAETEC common stock or holders of PAETEC

---

**Table of Contents**

**Index to Financial Statements**

restricted stock. In addition, no information is provided with respect to the tax consequences of the merger under applicable state, local or non-United States laws.

*General.* It is a condition to closing of the merger that Windstream receive an opinion of its counsel, Skadden, Arps, Slate, Meagher & Flom LLP, and that PAETEC receive an opinion of its counsel, Hogan Lovells US LLP, in each case dated as of the effective date of the merger, to the effect that for United States federal income tax purposes the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and each of Windstream, Merger Sub and PAETEC will be treated as a party to the reorganization within the meaning of Section 368(b) of the Code. The opinions of counsel will assume (1) that the statements and facts concerning the merger set forth in the merger agreement and described in this proxy statement/prospectus are true, correct and complete, (2) that the merger will be consummated in the manner contemplated by, and in accordance with the terms set forth in, the merger agreement and described in this proxy statement/prospectus, and (3) certain customary factual assumptions, including assumptions regarding the absence of changes in existing facts. In addition, the tax opinions will be based on representations and covenants made in representation letters provided by Windstream and PAETEC and will assume that these representations are true, correct and complete without regard to any knowledge limitation and that these covenants will be complied with. If any of these assumptions or representations is inaccurate in any way, or the covenants are not complied with, the tax consequences of the merger could differ from those described here. The opinions of counsel to be delivered in connection with the merger represent the legal judgment of counsel to Windstream and counsel to PAETEC and are not binding on the Internal Revenue Service or the courts. Neither Windstream nor PAETEC has requested or will request a ruling from the Internal Revenue Service as to the tax consequences of the merger and there can be no assurance that the Internal Revenue Service will agree with the conclusions in the above-described opinions or in the discussion below.

The following discussion assumes that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code and that each of Windstream, Merger Sub and PAETEC will be treated as a party to the reorganization within the meaning of Section 368(b) of the Code.

*Tax Consequences of the Merger to United States Holders of PAETEC Common Stock.* A United States holder of PAETEC common stock will not recognize any gain or loss as a result of the receipt of Windstream common stock in the merger other than with respect to cash received in lieu of a fractional share of Windstream common stock. In the case of cash received in lieu of a fractional share, a United States holder will be treated as receiving such fractional share of Windstream common stock in the merger and as then immediately transferring such common stock for cash in a taxable transaction. Such United States holder will have an adjusted tax basis in the Windstream common stock received in the merger, including any fractional share for which cash is received, equal to the adjusted tax basis of PAETEC common stock surrendered by that holder in the merger. A United States holder's holding period for Windstream common stock received in the merger, including any fractional share for which cash is received, will include the holding period for the PAETEC common stock surrendered therefor. A United States holder will recognize gain or loss in respect of any cash received in lieu of a fractional share of Windstream common stock equal to the difference between the amount of cash received in lieu of the fractional share and the portion of the holder's adjusted tax basis that is allocable to such fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period in such fractional share is more than one year as of the closing date of the merger.

In the case of a holder of PAETEC common stock that holds shares of PAETEC common stock with differing tax basis and/or holding periods, the preceding rules must be applied to each identifiable block of PAETEC common stock.

*Backup Withholding; Information Reporting.* A United States holder of PAETEC common stock may be subject to information reporting and backup withholding in respect of certain cash payments received in lieu of a fractional share of Windstream common stock unless such holder provides proof of an applicable exemption or a correct taxpayer identification number and otherwise complies with the applicable requirements of the backup

---

**Table of Contents**

**Index to Financial Statements**

withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the holder's United States federal income tax liability, provided the required information is properly furnished.

**THE FOREGOING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. TAX MATTERS ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND UPON THE FACTS OF YOUR PARTICULAR SITUATION. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, YOU SHOULD CONSULT YOUR TAX ADVISOR REGARDING THE APPLICABILITY TO YOU OF THE RULES DISCUSSED ABOVE AND THE PARTICULAR TAX EFFECTS TO YOU OF THE MERGER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS.**

**Regulatory Matters**

*Federal Communications Commission.* In order to obtain required FCC approvals, PAETEC, each of PAETEC's subsidiaries that holds authorizations from the FCC that need to be transferred, and Windstream are required to file applications with the FCC seeking approval of the transfer of control to Windstream of the FCC licenses and authorizations held by PAETEC and its subsidiaries. On August 23, 2011, PAETEC and Windstream jointly filed such applications seeking the requisite FCC approvals. A condition to the obligation of Windstream and PAETEC to complete the merger is that the requisite FCC consents be granted and any conditions thereof be satisfied and that such FCC consents be in full force and effect.

*Public Service Commissions.* In order to receive required approvals from the PSCs in the states of Arizona, California, Colorado, Delaware, Georgia, Hawaii, Indiana, Louisiana, Maryland, Minnesota, Mississippi, New Jersey, New York, Ohio, Pennsylvania, Texas, Utah, Virginia and West Virginia, PAETEC's subsidiaries that hold authorizations from such PSCs, Windstream, and in some instances also PAETEC are required to file applications with such PSCs seeking approval of the indirect transfer of control to Windstream of the PAETEC subsidiaries that hold the PSC licenses and authorizations. By August 19, 2011, PAETEC and Windstream jointly filed applications seeking requisite PSC approvals in the foregoing states. A condition to the obligation of Windstream and PAETEC to complete the merger is that the PSC consents in each of the states listed above be granted and any conditions thereof be satisfied and that such PSC consents be in full force and effect.

*Antitrust Authorities.* As a condition to the merger, the HSR Act requires PAETEC and Windstream to comply with the HSR Act's notification and waiting period. The HSR Act provides for an initial 30-calendar-day waiting period following the necessary filings by the parties to the merger, which were completed on August 11, 2011 by filing of notification and report forms with the DOJ and the FTC. On August 29, 2011, the DOJ and the FTC granted early termination of the waiting period under the HSR Act.

*Commitment to Obtain Approvals.* PAETEC and Windstream have agreed to use reasonable best efforts to obtain all consents and approvals of any governmental entity or third party required in connection with the merger. Any regulators could object to the merger and/or impose conditions or restrictions on their approvals that are materially adverse to Windstream and PAETEC. Under the terms of the merger agreement, Windstream and PAETEC are obligated to use all reasonable best efforts to resolve any such objections to the merger raised by regulators but are not required to take any action that would be materially adverse to the business, financial condition or the expected benefits of the merger to Windstream and its subsidiaries, taken as a whole, or PAETEC and its subsidiaries, taken as a whole.

**Windstream Stock Exchange Listing**

Windstream has agreed to use commercially reasonable efforts to cause the shares of Windstream common stock issuable pursuant to the merger in exchange for PAETEC common stock to be authorized for listing on the

---

**Table of Contents**

**Index to Financial Statements**

NASDAQ Stock Market before completion of the merger. The trading symbol for Windstream common stock on the NASDAQ is WIN.

**Delisting and Deregistration of PAETEC Common Stock**

If the merger is completed, shares of PAETEC common stock will be delisted from the NASDAQ and deregistered under the Securities and Exchange Act of 1934, as amended (the Exchange Act). Consequently, following completion of the merger, PAETEC stockholders will no longer be able to trade shares of PAETEC common stock on the NASDAQ or on any other exchange.

**Financing Arrangements**

Contemporaneously with the execution of the merger agreement, Windstream entered into a commitment letter with J.P. Morgan Securities LLC and JPMorgan Chase Bank, N.A. (the Commitment Letter) pursuant to which JPMorgan Chase Bank, N.A. committed to provide to Windstream credit facilities of up to \$1,100,000,000, which, together with cash on hand at Windstream and PAETEC and the expected existing capacity under Windstream's revolving credit facility, would be sufficient to pay off all amounts outstanding under PAETEC's credit facility and to repay or purchase all of PAETEC's outstanding 9.5% Senior Notes due 2015, PAETEC's 7.8% Senior Secured Notes due 2017, and PAETEC's 8% Senior Notes due 2018 (collectively, the Notes).

In connection with the merger agreement, on August 9, 2011, Windstream received consent from the requisite lenders to amend certain provisions of its existing senior secured credit facilities and security agreement pursuant to that certain Amendment No. 3 to Credit Agreement and Amendment No. 2 to the Security Agreement, dated as of August 11, 2011, by and among Windstream and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and the consenting lenders. This Amendment No. 3 reduces Windstream's potential financing requirements in connection with the merger by providing Windstream with the flexibility to leave the Notes outstanding following the completion of the merger as a result of credit facility amendments that waive any breach due to the change of control provisions of the Notes and waive guaranty and security requirements with regard to PAETEC and its subsidiaries. This Amendment No. 3 also amended the credit agreement to, among other things, (1) permit the issuance of bridge loans with customary terms, (2) permit the issuance and repayment of escrow notes, and (3) delete the capital expenditures covenant. In addition, Windstream amended its security agreement to, among other things, waive the obligation to grant security on accounts relating to escrow notes and the proceeds of notes held in such accounts.

On August 16, 2011, PAETEC received consents from the requisite holders of the Notes to proposed amendments to the indentures governing each series of Notes. The amendments, which went into effect on August 16, 2011 after receipt of the required consents, provide that PAETEC's obligation under each indenture to make an offer to purchase all of the outstanding Notes of the applicable series upon a change of control of PAETEC (as defined in such indenture) will not apply as a result of the merger, and clarify PAETEC's obligations under the reporting covenant in each indenture.

As a result of the receipt of the amendments to (1) Windstream's credit facilities described above and (2) the indentures governing the Notes, the Commitment Letter terminated in accordance with its terms.

Following completion of the merger, Windstream currently intends to repay all amounts outstanding under PAETEC's credit facilities and to leave the Notes outstanding.

---

**Table of Contents**

**Index to Financial Statements**

**THE MERGER AGREEMENT**

The following is a summary of selected material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, which is incorporated by reference in its entirety and attached to this proxy statement/prospectus as Annex A. The rights and obligations of the parties are governed by the express terms and conditions of the merger agreement and not by this summary or any other information contained in this document. PAETEC stockholders are urged to read the merger agreement carefully and in its entirety as well as this document before making any decisions regarding the merger. In reviewing the merger agreement, you should understand that it is included to provide you with information regarding its terms and is not intended to provide any other factual information about Windstream or PAETEC.

The merger agreement contains representations, warranties, covenants and other agreements, each as of specific dates. You should not rely on these representations, warranties, covenants and other agreements as statements of fact. These representations, warranties, covenants and other agreements are qualified by information contained in confidential disclosure letters exchanged by Windstream and PAETEC in connection with their execution of the merger agreement. The disclosure letters contain information that modifies, qualifies and creates exceptions to the representations, warranties, covenants and other agreements set forth in the merger agreement. Moreover, some of these representations, warranties, covenants and/or other agreements may not be accurate or complete as of a specific date because they are subject to a contractual standard of materiality that may be different from the standard generally applied under the federal securities laws and/or were used for the purpose of allocating risk between Windstream and PAETEC rather than establishing matters as facts. Finally, information concerning the subject matter of these representations, warranties, covenants and other agreements may have changed since the date of the merger agreement, which may or may not be fully reflected in Windstream's and PAETEC's public disclosures.

Windstream and PAETEC acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, they are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this document not misleading. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read together with the information provided elsewhere in this proxy statement/prospectus and in the documents incorporated by reference into this proxy statement/prospectus. See *Where You Can Find More Information* on page 203 for information on how you can view Windstream's incorporated documents.

**Form of the Merger**

If the holders of PAETEC common stock adopt the merger agreement and all other conditions to the merger are satisfied or waived, Merger Sub, a newly formed and wholly-owned subsidiary of Windstream, will be merged with and into PAETEC. PAETEC will survive the merger as a direct, wholly-owned subsidiary of Windstream. Windstream and PAETEC anticipate that the closing of the merger will occur as promptly as practicable after the adoption of the merger agreement by the PAETEC stockholders at the special meeting and after the satisfaction or waiver of all other conditions described below under the heading *Conditions to the Merger* beginning on page 131. Windstream and PAETEC currently expect the closing of the merger to occur by December 31, 2011.

**Merger Consideration**

At the effective time of the merger, each share of PAETEC common stock (other than shares owned by PAETEC, Windstream, Merger Sub or their respective wholly-owned subsidiaries) will be converted into the

**Table of Contents**

**Index to Financial Statements**

right to receive 0.460 shares of Windstream common stock. For information regarding the treatment of stock options, restricted stock units and warrants, see Stock Options, Restricted Stock Units and Warrants.

**Potential Adjustment to Merger Consideration**

The amount and form of the merger consideration will be adjusted in the event that there is a change in the outstanding shares of PAETEC common stock or Windstream common stock as a result of any reclassification, recapitalization, stock split (including reverse stock split) or combination, exchange or readjustment of shares, or any stock dividend or stock distribution with a record date during the period from the date of the merger agreement to the effective time of the merger. However, there will be no adjustment to the merger consideration as a result of the issuance of additional shares of Windstream's common stock prior to the effective time of the merger.

**Conversion of Shares; Exchange Agent; Exchange Procedures; Fractional Shares**

At the effective time of the merger, each outstanding share of PAETEC common stock (other than shares held by PAETEC, Windstream, Merger Sub or their respective wholly-owned subsidiaries) will be automatically converted into the right to receive the merger consideration. From time to time as needed at or after the effective time of the merger, Windstream will cause the merger consideration to be provided to the exchange agent. Windstream has appointed Computershare Investor Services, LLC to act as exchange agent for the merger.

The merger agreement provides that as soon as reasonably practicable after the effective time of the merger, but not later than the second business day after the effective time, the exchange agent will mail a letter of transmittal to each holder of record of shares of the PAETEC common stock. The letter of transmittal will contain instructions on how to surrender certificates that immediately prior to the effective time of the merger represented shares of PAETEC common stock, or shares of common stock of PAETEC represented by book-entry, in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

After receiving the letter of transmittal, each holder of certificates formerly representing shares of PAETEC common stock or of book-entry shares of PAETEC common stock will be able to surrender the certificates or book-entry shares to the exchange agent, together with a duly signed and completed letter of transmittal and such other documents as the exchange agent may reasonably require, and receive the merger consideration and cash in lieu of fractional shares of Windstream common stock.

After the effective time of the merger, each certificate that previously represented shares of PAETEC common stock and each book-entry share of PAETEC common stock (other than certificates or book-entry shares held by PAETEC, Windstream, Merger Sub or their respective wholly-owned subsidiaries) will represent only the right to receive the merger consideration. Windstream will not issue any fractional shares of Windstream common stock to any PAETEC stockholder upon surrender of its certificates. Each holder of PAETEC common stock who would have otherwise been entitled to receive a fraction of a share of Windstream common stock will receive cash in lieu of a fractional share of Windstream common stock. The amount of cash will be equal to the product obtained by multiplying the fractional share interest to which such holder would otherwise be entitled by the closing price for a share of Windstream common stock as reported on NASDAQ on the day of the effective time of the merger.

Former holders of PAETEC common stock may only be paid whole shares of Windstream common stock and any cash in lieu of any fractional shares after surrender of certificates or book-entry shares to the exchange agent, together with a duly signed and completed letter of transmittal and such other documents as the exchange agent may reasonably require. No interest will be paid or will accrue on the cash payable upon surrender of those certificates or book-entry shares.

If there is a transfer of ownership of PAETEC common stock that is not registered in the transfer records of PAETEC, exchange and payment may be made to the transferee if the certificate (if applicable) representing

## **Table of Contents**

### **Index to Financial Statements**

those shares of PAETEC common stock is properly endorsed or otherwise in proper form for transfer and is presented to the exchange agent, accompanied by any payment of applicable stock transfer and other non-income taxes or such documentation or evidence as Windstream may require to establish to its reasonable satisfaction that all such transfer or non-income taxes have been paid.

Shares of PAETEC common stock owned by PAETEC, Windstream, Merger Sub or their respective wholly-owned subsidiaries will be cancelled in the merger without payment of any merger consideration.

### **Stock Options, Restricted Stock Units and Warrants**

The merger agreement provides for the assumption and conversion of outstanding PAETEC equity compensation awards (which consist of stock options, restricted stock units and warrants) and certain non-compensatory warrants into Windstream stock options, restricted stock units and warrants as more fully described below.

With respect to stock options, each PAETEC stock option will be assumed by Windstream and converted into an option to purchase (A) the number of shares of Windstream common stock equal to (x) 0.460 multiplied by (y) the number of shares of PAETEC common stock which could have been obtained prior to the effective time of the merger upon the exercise of each such stock option rounded down to the nearest whole share (B) at an exercise price per share equal to the exercise price for each such share of PAETEC common stock subject to such option divided by 0.460 rounded up to the nearest cent.

With respect to restricted stock units, each PAETEC restricted stock unit award will be assumed by Windstream and converted into a restricted stock unit with respect to the number of shares of Windstream common stock equal to the number of shares of PAETEC common stock subject to such PAETEC restricted stock unit award multiplied by 0.460 rounded down to the nearest whole share.

With respect to warrants, each outstanding warrant to purchase or acquire a share of PAETEC common stock will be assumed by Windstream and converted into a warrant to purchase (A) the number of shares of Windstream common stock equal to the product of (x) 0.460 multiplied by (y) the number of shares of PAETEC common stock underlying such PAETEC warrant rounded down to the nearest whole share (B) at an exercise price per share equal to the exercise price for each such share of PAETEC common stock subject to such warrant divided by 0.460 rounded up to the nearest cent.

PAETEC equity awards assumed and converted as described above will be subject to the same restrictions, terms and conditions otherwise applicable to such awards immediately prior to the merger. Equity awards held by senior officers of PAETEC will vest in connection with the consummation of the merger pursuant to the agreements granting such awards. Equity awards held by PAETEC's non-management directors will vest in connection with the consummation of the merger pursuant to a resolution adopted by the compensation committee of the board of directors, as described under Merger Agreement Interests of PAETEC's Directors and Executive Officers in the Merger Accelerated Vesting of Director Equity Awards.

In addition, as of the date of this proxy statement/prospectus, there are outstanding purchase plan rights to purchase shares of PAETEC common stock under the PAETEC Employee Stock Purchase Plan (the PAETEC ESPP). The number of shares of PAETEC common stock to be issued for any offering period under the PAETEC ESPP is not determinable until after the offering period is completed. The number of shares will depend on the trading price of the shares at the end of the offering period and the aggregate contributions by employees during the period. No new offering periods under the PAETEC ESPP will commence after the date of this proxy statement/prospectus, and the PAETEC ESPP will be terminated prior to the effective time of the merger.

### **Effective Time of the Merger**

The merger will become effective at the time the certificate of merger relating to the merger is filed with the Secretary of State of the State of Delaware, or such later date and time as is agreed upon by the parties and



## **Table of Contents**

### **Index to Financial Statements**

specified in the certificate of merger. The filing of the certificate of merger will take place only after the fulfillment or waiver of the conditions described below under Conditions to the Merger.

### **Management and Organizational Documents after the Merger**

*Management.* The directors of Merger Sub immediately prior to the merger will become the initial directors of the surviving corporation immediately following the merger. The officers of PAETEC immediately prior to the merger will become the initial officers of the surviving corporation immediately following the merger. Each such individual will hold office in accordance with the bylaws of the surviving corporation.

*Organizational Documents.* The certificate of incorporation of PAETEC immediately prior to the merger will be amended to read in the form attached to the merger agreement and will become the certificate of incorporation of the surviving corporation immediately following the merger. Subject to the provisions summarized below under Covenants Indemnification and Insurance, the bylaws of Merger Sub immediately prior to the merger will be the bylaws of the surviving corporation immediately following the merger, except that the bylaws will be amended to reflect the name of PAETEC or a variation thereof as the name of the surviving entity.

### **Representations and Warranties**

The merger agreement contains a number of representations and warranties made by the parties to each other, including those regarding:

qualification and organization;

capital stock;

authority to enter into the merger agreement and to consummate the transactions thereunder;

accuracy of documents filed with the SEC and financial statements;

no conflicts with or violations of governance documents, contracts or laws;

internal controls and procedures;

no undisclosed liabilities;

conduct of business in the ordinary course and absence of certain changes since December 31, 2010, and no events having occurred which would have a material adverse effect;

no litigation or investigations;

Edgar Filing: WINDSTREAM CORP - Form S-4/A

accuracy of information supplied in connection with this proxy statement/prospectus and the registration statement of which it is a part;

tax matters;

regulatory matters;

compliance with laws and permits;

compliance with environmental laws;

lack of stock ownership in the other party;

voting requirements; and

finders or brokers fees.

In addition, PAETEC made representations and warranties to Windstream as to:

employee benefit plan matters and other employment and labor matters;

**Table of Contents**

**Index to Financial Statements**

title and condition of assets and networks;

intellectual property;

material contracts;

affiliate transactions;

insurance;

swap agreements;

no rights plan;

state takeover statutes;

customer and vendor disputes;

restricted payment capacity under existing PAETEC indebtedness; and

the receipt of opinions from BofA Merrill Lynch, Deutsche Bank and Houlihan Lokey.

Windstream also represented and warranted to PAETEC as to certain financing commitments obtained in connection with the merger.

Certain of PAETEC's representations and warranties are qualified as to materiality or material adverse effect. When used with respect to PAETEC, material adverse effect means any material adverse effect, change, fact, event, occurrence, development or circumstance on or with respect to the financial condition, properties, business or results of operations of PAETEC and all of its subsidiaries, taken as a whole, or that prohibits or materially restricts or impedes the consummation of the merger in the manner contemplated in the merger agreement prior to the outside date after which the parties have the right to terminate the merger agreement.

Effects, changes, facts, events, occurrences, developments or circumstances will not constitute a material adverse effect or be taken into account in determining whether a material adverse effect with respect to PAETEC has occurred or would reasonably be expected to occur, if they are caused by or result from:

general changes or developments in the United States rural, urban, regional or nationwide telecommunications and data communications industry or the segments thereof in which PAETEC or its subsidiaries operate;

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

geopolitical conditions, the outbreak or escalation of hostilities, any acts of war, sabotage or terrorism, or any escalation or worsening of any acts of war, sabotage or terrorism threatened or underway as of July 31, 2011;

any change affecting the financial or securities markets in the United States or changes affecting the United States economy generally or the economy of any region in which PAETEC or any of its subsidiaries conducts business;

any change in any applicable law, rule or regulation or generally accepted accounting principles, or any interpretation thereof, after July 31, 2011;

any hurricane, tornado, flood, earthquake or other natural disaster;

any change in PAETEC's stock price or trading volume or credit rating or any failure of PAETEC to meet financial projections or forecasts (it being understood that the facts or occurrences giving rise to or contributing to such change in stock price, trading volume or credit rating or such failure to meet financial projections or forecasts may be deemed to constitute, or be taken into account in determining whether there has been or would reasonably be expected to be, a material adverse effect);

---

**Table of Contents**

**Index to Financial Statements**

the announcement or performance (in accordance with its terms) of the merger agreement, or the pendency or the consummation of the merger, including the impact thereof on the relationships of PAETEC and its subsidiaries with their employees, independent sales agents, customers, vendors and partners;

any claim or threatened claim involving PAETEC relating to the merger agreement, the merger or any other transaction contemplated by the merger agreement, including without limitation, any such claim or threatened claim arising from allegations of breach of fiduciary duty or other violation of applicable law; or

the performance of or compliance with the express terms of the merger agreement;

unless, in the case of the first five bullets above, such effects, changes, facts, occurrences, developments or circumstances have not had and would not reasonably be expected to have a materially disproportionate adverse impact on the financial condition, properties, business or results of operations of PAETEC and its subsidiaries, taken as a whole, relative to other affected persons operating in the same industries as PAETEC and its subsidiaries. In addition, since the representations and warranties of PAETEC are qualified by information contained in the confidential disclosure letter provided by PAETEC to Windstream in connection with the execution of the merger agreement, the inclusion of matters in such disclosure letter may create additional exceptions as to what would be deemed a material adverse effect with respect to PAETEC.

Certain of Windstream's representations and warranties are qualified as to materiality or material adverse effect. When used with respect to Windstream, material adverse effect means any material adverse effect, change, fact, event, occurrence, development or circumstance on or with respect to the financial condition, properties, business or results of operations of Windstream and all of its subsidiaries, taken as a whole, or that prohibits or materially restricts or impedes the consummation of the merger in the manner contemplated in the merger agreement prior to the outside date after which the parties have the right to terminate the merger agreement.

Effects, changes, facts, events, occurrences, developments or circumstances will not constitute a material adverse effect or be taken into account in determining whether a material adverse effect with respect to Windstream has occurred or would reasonably be expected to occur, if they are caused by or result from:

general changes or developments in the United States rural, urban, regional or nationwide telecommunications and data communications industry or the segments thereof in which Windstream or its subsidiaries operate;

geopolitical conditions, the outbreak or escalation of hostilities, any acts of war, sabotage or terrorism, or any escalation or worsening of any acts of war, sabotage or terrorism threatened or underway as of July 31, 2011;

any change affecting the financial or securities markets in the United States or changes affecting the United States economy generally or the economy of any region in which Windstream or any of its subsidiaries conducts business;

any change in any applicable law, rule or regulation or generally accepted accounting principles, or any interpretation thereof, after July 31, 2011;

any hurricane, tornado, flood, earthquake or other natural disaster;

any change in Windstream's stock price or trading volume or credit rating or any failure of Windstream to meet financial projections or forecasts (it being understood that the facts or occurrences giving rise to or contributing to such change in stock price, trading volume or credit rating or such failure to meet financial projections or forecasts may be deemed to constitute, or be taken into

account in determining whether there has been or would reasonably be expected to be, a material adverse effect);

---

**Table of Contents**

**Index to Financial Statements**

the announcement or performance (in accordance with its terms) of the merger agreement, or the pendency or the consummation of the merger, including the impact thereof on the relationships of Windstream and its subsidiaries with their employees, independent sales agents, customers, vendors and partners;

any claim or threatened claim involving Windstream relating to the merger agreement, the merger or any other transaction contemplated by the merger agreement, including without limitation, any such claim or threatened claim arising from allegations of breach of fiduciary duty or other violation of applicable law; or

the performance of or compliance with the express terms of the merger agreement;

unless, in the case of the first five bullets above, such effects, changes, facts, occurrences, developments or circumstances have not had and would not reasonably be expected to have a materially disproportionate adverse impact on the financial condition, properties, business or results of operations of Windstream and its subsidiaries taken as a whole, relative to other affected persons operating in the same industries as Windstream and its subsidiaries. In addition, since the representations and warranties of Windstream are qualified by information contained in the confidential disclosure letter provided by Windstream to PAETEC in connection with the execution of the merger agreement, the inclusion of matters in such disclosure letter may create additional exceptions as to what would be deemed a material adverse effect with respect to Windstream.

**Covenants**

*Conduct of Business Pending Merger.* PAETEC has agreed that until the effective time of the merger or the termination of the merger agreement, unless Windstream otherwise consents in writing or as may be required by law or expressly permitted or required by the merger agreement, it will, and will cause each of its subsidiaries to, conduct their respective businesses in the ordinary course of business, consistent with past practice, and use commercially reasonable efforts to preserve substantially intact their business organizations and goodwill, keep available the services of their officers, employees and consultants who are integral to the operation of their businesses and maintain satisfactory relationships with significant customers and suppliers and other persons with whom PAETEC and its subsidiaries have significant business relations.

In addition, PAETEC has agreed that, until the effective time of the merger or the termination of the merger agreement, PAETEC and its subsidiaries will not take the following actions (each as more fully described in, and subject to the exceptions set forth in, the merger agreement or in the confidential disclosure letter provided by PAETEC to Windstream) without Windstream's prior written consent or as may be required by law or expressly permitted or required by the merger agreement:

declare, set aside or pay dividends or make any other distributions in respect of its capital stock;

split, combine, subdivide or reclassify any of its capital stock;

repurchase, redeem, or otherwise acquire, or offer to repurchase, redeem, or otherwise acquire, its capital stock;

issue, deliver, sell, grant, pledge or otherwise encumber PAETEC's capital stock, or the capital stock of any subsidiary of PAETEC, any other equity interests or voting securities of PAETEC or its subsidiaries, any securities or rights convertible into or exchangeable for capital stock, equity interests or voting securities of PAETEC or its subsidiaries;

issue, deliver, sell, grant, pledge or otherwise encumber any warrants, calls, options or other rights to acquire capital stock, equity interests or voting securities of PAETEC or its subsidiaries, or any rights that are linked in any way to the price of PAETEC's capital

Edgar Filing: WINDSTREAM CORP - Form S-4/A

stock or the capital stock of PAETEC's subsidiaries, the value of PAETEC or its subsidiaries or any dividends or distributions declared or paid on the capital stock of PAETEC or its subsidiaries;



**Table of Contents**

**Index to Financial Statements**

amend its certificate of incorporation or bylaws or the organizational documents of any subsidiary in a manner which would limit the surviving corporation's ability to remove or replace directors or officers or be likely to have a materially adverse effect on PAETEC, except as required by law or SEC or NASDAQ rules;

grant to any current or former director or employee any increase in compensation, bonus or fringe or other benefits or grant any type of compensation or benefit to any such person not previously receiving or entitled to receive such compensation, except to the extent expressly required under any benefit plan as in effect on July 31, 2011 and certain other ordinary course awards;

grant to any person any severance, retention, change in control or termination compensation or benefits or any increase therein, except to the extent expressly required under any benefit plan as in effect on July 31, 2011;

amend or modify the terms of any existing equity grants or award additional equity grants;

enter into or adopt any material benefit plan or amend in any material respect any material benefit plan, except in the ordinary course of business in order to comply with changes in law to the extent such amendments do not increase costs;

enter into or make any loans to any of its officers, directors, employees, affiliates, agents or consultants;

make any material change in financial accounting methods, principles or practices, except insofar as may have been required by a change in GAAP or as required by applicable law;

directly or indirectly acquire or agree to acquire in any transaction any equity interest in, or business of, any entity;

(1) acquire any tangible properties or assets, or (2) sell, lease (as lessor), license, mortgage, sell and leaseback or otherwise dispose of, tangible properties or assets or any interests therein, in each case other than purchases and sales of inventory and supplies in the ordinary course of business, consistent with past practice;

encumber any tangible properties or assets or any interests therein;

make or change any material tax election or settle or compromise any material tax liability, or change its fiscal year;

grant or acquire, or dispose of or permit to lapse, any rights to any material intellectual property;

incur any indebtedness other than ordinary course capitalized lease obligations that do not exceed \$1,500,000 individually;

take any action inconsistent with PAETEC's cash management policies, or repay or refinance any indebtedness other than payments of principal and interest when due;

make, or agree or commit to make, any capital expenditure (1) in 2011 except in accordance with the capital plan for 2011 plus a 10% variance or (2) in 2012 except in an amount not to exceed 110% of the capital plan for 2011;

enter into or amend any contract if such contract or amendment would reasonably be expected to prevent or materially impede, interfere with, hinder or delay the consummation of the merger;

enter into any material contract that is not terminable without penalty on 90 days' notice or enter into or amend any material contract to the extent consummation of the merger or compliance by PAETEC or its subsidiaries with the provisions of the merger agreement would reasonably be expected to conflict with such contract;

enter into any collective bargaining agreement or other labor union contract;

enter into any pension plan or post-retirement benefit plan or arrangement;

**Table of Contents**

**Index to Financial Statements**

enter into a new line of business or engage in the conduct of any business in any new geographic area which would require the receipt or transfer of governmental approval;

seek any permit or approval the receipt of which would reasonably be likely to prevent or materially impair or delay the consummation of the transactions contemplated by the merger agreement;

settle, compromise, dismiss, discharge or otherwise dispose of litigation or proceedings;

adopt a plan of liquidation, dissolution, merger, consolidation, restructuring or other reorganization;

amend the terms of any outstanding rights, warrants or options to acquire PAETEC capital stock;

take actions that would result in or increase the amount of any deferred income or gain from intercompany transactions or any excess loss account;

take any action that would reasonably be expected to materially restrict or impede the consummation of the transactions contemplated by the merger agreement or cause any of the conditions to the closing of the merger as set forth in the merger agreement to fail to be satisfied as of the closing date; or

authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

Windstream has agreed that until the effective time of the merger or the termination of the merger agreement, Windstream and its subsidiaries will not take the following actions (each as more fully described in, and subject to, the exceptions set forth in the merger agreement or the confidential disclosure letter provided by Windstream to PAETEC) without PAETEC's prior written consent or as required by law or expressly permitted or required by the merger agreement:

amend its charter or bylaws in a manner that would cause holders of PAETEC stock that receive Windstream common stock pursuant to the merger to be treated differently than other holders of Windstream common stock;

adopt a plan of liquidation or dissolution;

acquire a substantial portion of the assets of or equity in any business if such acquisition would reasonably be expected to impose a material delay in, or materially increase the risk of not obtaining, any consent of any governmental entity necessary to consummate the transactions contemplated by the merger agreement, materially increase the risk of a governmental entity seeking to prohibit or successfully prohibiting the consummation of the merger, or materially impede the consummation of the merger;

enter into or amend any contract if such action would reasonably be expected to materially restrict or impede the consummation of the merger;

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

take any action that would reasonably be expected to materially restrict or impede the consummation of the transactions contemplated by the merger agreement or cause any of the conditions to the closing of the merger as set forth in the merger agreement to fail to be satisfied as of the closing date;

apply for any new license the receipt of which would reasonably be likely to prevent or materially impair or delay the consummation of the merger; or

authorize, commit or agree to take any of the foregoing actions.

*Tax-Free Reorganization.* Each of Windstream and PAETEC agree not to take any action that would reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

*Investigation.* The parties have agreed that, during the period from the signing of the merger agreement until the completion of the merger:

PAETEC will provide Windstream and its representatives reasonable access during normal business hours to its and its subsidiaries properties, contracts, commitments, books and records and to furnish to Windstream such financial and operating data and other information regarding its business and properties as reasonably requested by Windstream;

**Table of Contents**

**Index to Financial Statements**

PAETEC will use commercially reasonable efforts to furnish to Windstream certain monthly financial and operating reports;

Windstream will afford PAETEC and its representatives access to its properties, contracts, commitments and books at a level consistent with such access provided for due diligence purposes, or in the event of a material development at a level reasonable under the circumstances; and

PAETEC will cooperate and participate in Windstream's efforts to oversee integration of the parties' operations, including providing customer billing and data files and compensation and payroll data files.

Any such information received by either party will be treated in accordance with a nondisclosure agreement executed between Windstream and PAETEC.

*No Solicitation.* The merger agreement precludes PAETEC, its subsidiaries, officers, directors, employees, investment bankers, financial advisors, attorneys, accountants and other representatives from, directly or indirectly:

soliciting or knowingly encouraging (including by way of furnishing any non-public information to any person) any inquiries with respect to, or the making, submission or announcement of, any Alternative Transaction Proposal (defined as summarized below);

engaging in negotiations concerning, or furnishing any information with respect to, any possible Alternative Transaction Proposal except as discussed below under "Change of Recommendation";

withdrawing or modifying, or publicly proposing to withdraw or modify, the recommendation of the board of directors of PAETEC that the stockholders of PAETEC adopt the merger agreement in a manner adverse to Windstream except as discussed below under "Change of Recommendation";

approving, endorsing or recommending, or publicly proposing to approve or recommend, any Alternative Transaction except as discussed below under "Change of Recommendation" (any actions referred to in this or the preceding bullet, an "Adverse Recommendation Change");

entering into any letter of intent, agreement in principle or similar document or any contract, agreement or commitment (whether binding or not) contemplating or otherwise relating to any Alternative Transaction Proposal (other than a confidentiality agreement that PAETEC is permitted to enter into as discussed below); or

taking any action to exempt any person or any action taken by such person from any state takeover statute or similarly restrictive provisions of PAETEC's certificate of incorporation or bylaws.

PAETEC is also required to notify Windstream after receipt of any Alternative Transaction Proposal, request for non-public information or inquiry that would reasonably be expected to lead to an Alternative Transaction Proposal. The notice is due within two business days after PAETEC's receipt of such Alternative Transaction Proposal, request or inquiry and must detail the identity of the person or group of persons making such Alternative Transaction Proposal, request or inquiry and the material terms and conditions thereof and must include a copy of all written materials provided to it in connection with such Alternative Transaction Proposal, request or inquiry. PAETEC must provide Windstream as promptly as reasonably practicable (and in any event within two business days) with notice setting forth all such information as is reasonably necessary to keep Windstream informed in all material respects of all communications regarding, and the status and material details (including material amendments or proposed material amendments) of, any such Alternative Transaction Proposal, request or inquiry, and promptly provide to Windstream a copy of all written materials subsequently provided by it in connection with such Alternative Transaction

Proposal, request or inquiry.

Prior to the adoption by PAETEC stockholders of the merger agreement, however, PAETEC's board of directors may (upon (1) receipt of an executed confidentiality agreement from the person or group of persons to

---

**Table of Contents**

**Index to Financial Statements**

whom information is to be furnished containing terms at least as restrictive with respect to such person or group of persons as the terms of the nondisclosure agreement between PAETEC and Windstream are with respect to Windstream and (2) the furnishing of the same information contemporaneously to Windstream) furnish non-public information to, and engage in discussions and negotiations with, any person or group of persons regarding an unsolicited, bona fide written Alternative Transaction Proposal if:

the board of directors of PAETEC determines in accordance with the definition of "Superior Proposal" below that such Alternative Transaction Proposal is, or in the PAETEC board's good faith determination is reasonably likely to lead to, a Superior Proposal;

the board of directors of PAETEC concludes in good faith (after consultation with its financial advisors and outside legal advisors) that the failure to take such action would be inconsistent with its fiduciary duties under applicable laws;

PAETEC has given Windstream at least two business days' prior written notice of its intention to take such actions, the identity of the person or group of persons making the Alternative Transaction Proposal and a summary of its material terms and conditions; and

PAETEC has not breached in any material respect any of its non-solicitation obligations under the merger agreement.

*Change of Recommendation.* Notwithstanding the foregoing, PAETEC's board of directors may (1) make an Adverse Recommendation Change, and (2) in the event such decision relates to an Alternative Transaction Proposal that the board of directors of PAETEC determines constitutes a Superior Proposal, terminate the merger agreement as described below under "Termination" and "Termination Fee" if, prior to making such Adverse Recommendation Change:

the stockholders of PAETEC have not yet adopted the merger agreement;

the board of directors of PAETEC concludes in good faith (after consultation with its financial advisors and outside legal advisors) that the failure to take such action would be inconsistent with its fiduciary duties under applicable laws;

PAETEC has notified Windstream and Merger Sub in writing that the PAETEC board of directors intends to take such actions and specifying the reasons therefor, including, in the event the decision relates to an Alternative Transaction Proposal, a summary of the material terms and conditions of such Alternative Transaction Proposal and other information required to be included in the notice as described above;

during the three business day period following delivery of the foregoing notice (subject to extension as set forth in the merger agreement in the event of material changes in the Alternative Transaction Proposal during such period), PAETEC has, and has directed its financial advisors and outside legal advisors to, negotiate in good faith with Windstream (to the extent Windstream desires to negotiate) to make such adjustments in the terms and conditions of the merger agreement so that such Alternative Transaction Proposal ceases to constitute (in the good faith judgment of the PAETEC board of directors after consultation with its financial advisors and outside legal advisors) a Superior Proposal; and

the PAETEC board of directors has determined in good faith, after considering the results of the negotiations in the immediately preceding bullet and giving effect to the proposals made by Windstream and Merger Sub, that the Alternative Transaction Proposal, if applicable, continues to constitute a Superior Proposal (in the event that the PAETEC board of directors does not make such determination but thereafter determines to make an Adverse Recommendation Change, the procedures referred to in this bullet and in

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

the third and fourth bullets above will apply anew and will apply to any subsequent withdrawal, amendment or change). In the event of an Adverse Recommendation Change that does not involve an Alternative Transaction Proposal, then during the three business day period referred to in the fourth bullet above, PAETEC must, and must direct



---

**Table of Contents**

**Index to Financial Statements**

its financial advisors and outside legal advisors to, negotiate in good faith with Windstream (to the extent Windstream desires to negotiate) to make such adjustments in the terms and conditions of the merger agreement so that such Adverse Recommendation Change is no longer necessary.

If PAETEC receives a written Alternative Transaction Proposal from a third party, PAETEC or its representatives may contact the third party in writing solely for the purpose of clarifying the Alternative Transaction Proposal, provided that PAETEC provides Windstream with a copy of the written request at least 24 hours prior to sending the written request and gives Windstream an opportunity to provide comments.

Notwithstanding any Adverse Recommendation Change, unless the Adverse Recommendation Change is with respect to an Alternative Transaction Proposal and PAETEC terminates the merger agreement upon payment of the termination fee as described below under Termination and Termination Fee, PAETEC is required to submit the merger agreement to its stockholders for adoption at the special meeting.

PAETEC's board of directors may (1) take or disclose to its stockholders a position contemplated by Rule 14e-2(a) or Rule 14d-9 under the Exchange Act or (2) make a disclosure to the stockholders of PAETEC if, in the good faith judgment of the PAETEC board of directors (after consultation with its financial advisors and outside legal advisors) failure to so disclose would be inconsistent with its fiduciary duties, but PAETEC shall not withdraw, modify or change the recommendation by its directors that the PAETEC stockholders adopt the merger agreement unless specifically permitted as described in the foregoing discussion under Change of Recommendation.

For purposes of the preceding discussion, the following terms have the meanings stated below:

**Alternative Transaction** means any of the following transactions: (1) any transaction or series of related transactions with one or more third persons involving: (A) any purchase from PAETEC or acquisition (whether by way of a merger, share exchange, consolidation, business combination, consolidation or similar transaction) by any person or group of persons of more than a 20% interest in the total outstanding voting securities of PAETEC or its subsidiaries or any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 20% or more of the total outstanding voting securities of PAETEC or its subsidiaries or any merger, consolidation, business combination or similar transaction involving PAETEC or its subsidiaries, or (B) any sale, lease exchange, transfer, license, acquisition or disposition of more than 20% of the fair market value of the assets, net income, net revenues or cash flows of PAETEC and its subsidiaries, taken as a whole, immediately prior to such transaction, (2) any liquidation or dissolution of PAETEC, or (3) any combination of the foregoing.

**Alternative Transaction Proposal** means any offer, inquiry, proposal or indication of interest (whether binding or nonbinding) to any person or its stockholders relating to an Alternative Transaction.

**Superior Proposal** means an unsolicited, bona fide written Alternative Transaction Proposal made by a third person to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination or acquisition transaction, (1) all or substantially all of the assets of PAETEC or (2) over 50% of the outstanding voting securities of PAETEC and as a result of which the stockholders of PAETEC immediately preceding such transaction would hold less than 50% of the aggregate equity interests in the surviving or resulting entity of such transaction (or its ultimate parent), which PAETEC's board of directors has in good faith determined (taking into account, among other things, (A) its consultation with its financial advisors and outside legal advisors, (B) all terms and conditions of such Alternative Transaction Proposal and the merger agreement (as it may be proposed to be amended by Windstream), and (C) the feasibility and certainty of consummation of the Alternative Transaction Proposal on the terms proposed, taking into account all legal, financial (including the financing terms of any such proposal), regulatory and other aspects of such Alternative Transaction Proposal (including conditions to consummation)) to be more favorable, from a financial point of view, to PAETEC's stockholders, than the terms of the merger agreement (as it may be proposed to be amended by Windstream).

---

**Table of Contents**

**Index to Financial Statements**

*Preparation of SEC Documents; PAETEC Stockholders Meeting.* PAETEC agreed to deliver to Windstream the proxy statement included in this registration statement on Form S-4 of which this proxy statement/prospectus is a part. Windstream agreed to prepare and file the registration statement on Form S-4 of which this proxy statement/prospectus is a part with the SEC and use commercially reasonable efforts to have the registration statement declared effective by the SEC. PAETEC is required under the merger agreement to use commercially reasonable efforts to give notice of and schedule the special meeting to be held within 45 days after the registration statement is declared effective by the SEC, subject to the limitations discussed above under *Change of Recommendation*. Additionally, subject to the limitations discussed above under *Change of Recommendation*, PAETEC has agreed to recommend that PAETEC stockholders vote in favor of adoption of the merger agreement. Except as described above under *Change of Recommendation*, PAETEC's board of directors may not withdraw, amend or modify in any manner adverse to Windstream the recommendation of its board of directors that PAETEC stockholders vote in favor of adoption of the merger agreement.

*Employee Matters.* For a period of one year following the effective time of the merger, Windstream has agreed to:

provide each PAETEC employee who continues in employment with the surviving corporation a base salary or hourly wage rate and commission, bonus opportunity and non-equity based incentives that are comparable in the aggregate to those provided to such employees prior to the effective time; and

welfare and employee benefits arrangements that are substantially similar in the aggregate to those provided to substantially similarly situated employees of Windstream and its subsidiaries.

Under the terms of the merger agreement, Windstream has agreed to keep in effect the severance plans of PAETEC for one year following the effective time of the merger and to honor PAETEC's benefits plans. Windstream will recognize service of PAETEC employees prior to the merger as service with Windstream for purposes of any 401(k) savings plan and welfare benefit plan or policy maintained by Windstream. Windstream is not required to duplicate any payments or benefits payable pursuant to any benefit plans or individual agreements or other compensation or benefits plans, policies, programs, agreements or other arrangements of the surviving corporation.

Windstream has agreed to use commercially reasonable efforts to (1) waive, or cause its insurance carriers to waive, all limitations as to pre-existing and at-work conditions applicable to employees of PAETEC under any group health care plan made available to such employees unless such conditions would not have been waived under the comparable plans of PAETEC and its subsidiaries in which such employees participated prior to the effective time of the merger, and (2) provide credit to employees of PAETEC for any co-payments, deductibles and out-of-pocket expenses paid by such employees under any group health plan of PAETEC and its subsidiaries during the portion of the relevant plan year including the effective time of the merger.

PAETEC is entitled to pay, as of the merger date, a pro-rata portion of the annual cash incentive bonuses earned by employees of PAETEC and its subsidiaries in respect of PAETEC's fiscal year ending December 31, 2011, based on actual performance through the last day of the calendar month preceding the month in which the merger date occurs extrapolated through the merger date, but otherwise determined consistent with past practice. The pro-rata portion of the bonus is to be determined by multiplying the full bonus for each bonus-eligible employee by the quotient of the number of days elapsed in the calendar year through the merger date divided by 365. If the merger date occurs in 2012, the annual cash incentive bonuses for fiscal year 2011 will be based on actual performance through December 31, 2011 and will be paid in accordance with past practice, and PAETEC will not be entitled to pay any annual cash incentive bonuses in respect of fiscal year 2012 as of the merger date.

PAETEC has agreed, as soon as reasonably practicable after expiration or termination of the HSR waiting period, to provide, solely to personnel in Windstream's human resources and information technology departments, access to information with respect to each employee of PAETEC regarding such employee's name, position, market location, date of hire, current annual salary, hourly rate of pay and commission and/or bonus arrangement.

---

**Table of Contents**

**Index to Financial Statements**

*Notification of Certain Matters.* PAETEC is required to notify Windstream of the occurrence of any event that has had or would reasonably be expected to have a material adverse effect on PAETEC or that has caused or would reasonably be expected to cause a condition to the closing of the merger not to be satisfied, as well as any action, proceeding or inquiry questioning or challenging the validity of the merger agreement.

*Filings; Other Actions.* Both Windstream and PAETEC are required to use reasonable best efforts to take promptly all actions, and do promptly all things necessary, proper or advisable under applicable laws to consummate and make effective the merger, including, without limitation, obtaining all necessary consents and approvals, and effecting all necessary registrations and filings (including filings pursuant to the HSR Act and any filings required by the FCC or the PSCs). Windstream and PAETEC have agreed to take any and all steps necessary to avoid or eliminate impediments to the merger and to proceed with the merger as soon as reasonably practicable, except that in no event will Windstream or PAETEC be required to take any action that would be materially adverse to the business, financial condition or the expected benefits of the merger to Windstream and its subsidiaries, taken as a whole, or PAETEC and its subsidiaries, taken as a whole. Windstream has primary control and responsibility, with the assistance of PAETEC, with respect to all filings with the FCC and the PSCs, but PAETEC will be a joint applicant as appropriate.

*Publicity.* Both Windstream and PAETEC have agreed, subject to certain exceptions, to consult with each other and mutually agree upon any press release or public announcement pertaining to the merger before the issuance of such press release or public announcement.

*Indemnification and Insurance.* Under the terms of the merger agreement, Windstream has agreed that all rights to exculpation and indemnification for acts or omissions occurring at or prior to the effective time of the merger as provided in the certificate of incorporation or bylaws of PAETEC or any of its subsidiaries in favor of persons who are or were directors, officers or employees of PAETEC or its subsidiaries (collectively, the Indemnified Parties ), will survive for a period of six years following the merger. Windstream also agreed that for a period of six years following the merger, it and the surviving corporation in the merger will jointly and severally indemnify, and advance expenses to, the Indemnified Parties to the fullest extent permitted by applicable law. The merger agreement further obligates Windstream, prior to the merger, to purchase a tail policy providing coverage to directors and officers for six years following the effective time of the merger with at least the same coverage as under PAETEC's existing directors' and officers' liability insurance policy and fiduciary insurance policies. Windstream will not be required to pay more than 300% of the 2011 annual premium for any such insurance policy.

*Financing Provisions.* Under the merger agreement, Windstream agreed to seek consent from the lenders under its credit agreement to an amendment that would waive the obligation to cause PAETEC and its subsidiaries to become guarantors under the credit agreement and waive any breach of the credit agreement due to the change of control provisions under the indentures governing PAETEC's outstanding senior notes and senior secured notes. PAETEC agreed to solicit consents from the holders of such notes to amendments to such indentures that would provide that PAETEC's obligation under each indenture to make an offer to purchase all of the outstanding notes of the applicable series upon a change of control of PAETEC would not apply as a result of the merger. The parties agreed to cooperate with one another in effecting these transactions. The credit agreement amendment and consents relating to PAETEC's notes have each been obtained, as described under The Merger Financing Arrangements at page 116.

*Certain Agreements.* PAETEC has agreed to use commercially reasonable efforts to cause certain agreements to be terminated at or shortly after the effective time of the merger without any liability being imposed upon Windstream or the surviving corporation in the merger.

**Table of Contents**

**Index to Financial Statements**

**Conditions to the Merger**

*Conditions to the Obligations of Each Party.* The obligations of each party to complete the merger are subject to the satisfaction of the following conditions:

the adoption of the merger agreement by PAETEC stockholders;

the absence of any statute, rule, regulation, executive order, decree, ruling, or injunction prohibiting the consummation of the merger or the issuance of Windstream common stock in the merger;

the effectiveness of the registration statement on Form S-4 of which this proxy statement/prospectus is a part;

the approval of the shares of Windstream common stock to be issued in connection with the merger for listing on the NASDAQ Stock Market;

the expiration or termination of the applicable waiting periods pursuant to the HSR Act;

the receipt of approvals from the FCC and the PSCs, all conditions of which have been satisfied; and

the receipt by PAETEC, from its legal counsel, and by Windstream, from its legal counsel, of a written opinion to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

*Additional Conditions to the Obligations of PAETEC.* The obligations of PAETEC to consummate the merger are subject to the satisfaction of the following further conditions:

the representations and warranties of Windstream and Merger Sub relating to:

corporate authority, and due authorization and enforceability of the merger agreement, and

capitalization of Windstream and its subsidiaries,

shall be true and correct in all material respects as of the effective time of the merger as if made at and as of such time, or if such representations and warranties are made as of a specific date, then as of such date;

all the other representations and warranties of Windstream and Merger Sub contained in the merger agreement shall be true and correct (disregarding all exceptions for materiality or material adverse effect) as of the effective time of the merger as if made as of such time except for those representations made as of a specific date, then as of such date, or where the failure of the representations and warranties to be true and correct would not reasonably be expected to have a material adverse effect on Windstream;

Windstream and Merger Sub shall have performed and complied with, in all material respects, their obligations under the merger agreement to be performed or complied with prior to the effective time of the merger;

Windstream shall not have experienced a material adverse effect; and

PAETEC shall have received a certificate from the Chief Executive Officer or any Executive Vice President of Windstream as to certain matters.

*Additional Conditions to the Obligations of Windstream.* The obligations of Windstream to consummate the merger are subject to the satisfaction of the following further conditions:

the representations and warranties of PAETEC relating to:

corporate authority, and due authorization and enforceability of the merger agreement,

the capitalization of PAETEC and its subsidiaries,

**Table of Contents**

**Index to Financial Statements**

the subsidiaries of PAETEC holding permits, and

restricted payment capacity under existing PAETEC indebtedness, shall be true and correct in all material respects as of the effective time of the merger as if made at and as of such time, or if such representations and warranties are made as of a specific date, then as of such date;

all the other representations and warranties of PAETEC contained in the merger agreement shall be true and correct (disregarding all exceptions for materiality or material adverse effect) as of the effective time of the merger as if made as of such time except for those representations made as of a specific date, then as of such date, or where the failure of the representations and warranties in the aggregate to be true and correct would not reasonably be expected to have a material adverse effect on PAETEC;

PAETEC shall have performed and complied with, in all material respects, its obligations under the merger agreement to be performed or complied with prior to the effective time of the merger;

PAETEC shall not have experienced a material adverse effect;

Windstream shall have received a certificate from the Chief Executive Officer or any Executive Vice President of PAETEC as to certain matters; and

Windstream shall have received a certificate from the Secretary of PAETEC as to certain matters.

**Termination**

*Termination by the Parties.* Windstream and PAETEC may mutually agree to terminate the merger agreement before completing the merger, even after PAETEC stockholders have approved and adopted the merger agreement.

In addition, either Windstream or PAETEC may decide to terminate the merger agreement if:

a governmental entity of competent jurisdiction has issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the merger, and such order, decree, ruling or other action shall have become final and non-appealable;

PAETEC stockholders fail to adopt the merger agreement at the special meeting or at any adjournment, postponement or continuation thereof;

subject to certain restrictions, the other party is in breach of the merger agreement; or

subject to certain restrictions, the merger is not consummated by January 31, 2012 (which date will be automatically extended to March 30, 2012, if the merger has not occurred because of failure to obtain approval from one or more regulatory authorities).

## Edgar Filing: WINDSTREAM CORP - Form S-4/A

Windstream also may terminate the merger agreement in the event of any Adverse Recommendation Change prior to adoption of the merger agreement by PAETEC stockholders. PAETEC may also terminate the merger agreement at any time prior to adoption of the merger agreement by the stockholders of PAETEC if:

PAETEC receives an Alternative Transaction Proposal that PAETEC's board of directors determines in accordance with the discussion above under Covenants Change of Recommendation constitutes a Superior Proposal;

PAETEC's board of directors authorizes PAETEC, subject to complying with the terms of the merger agreement, to enter into a binding written agreement concerning such Superior Proposal;

---

**Table of Contents**

**Index to Financial Statements**

PAETEC has complied with its non-solicitation obligations under the merger agreement as discussed above under Covenants No Solicitation and Covenants Change of Recommendation ; and

at or prior to such termination, PAETEC pays to Windstream a termination fee of \$40 million as described below under Termination Fee.

**Termination Fee**

PAETEC is required to pay to Windstream a termination fee of \$40 million if:

Windstream terminates the merger agreement in the event of any Adverse Recommendation Change prior to adoption of the merger agreement by PAETEC stockholders;

PAETEC terminates the merger agreement at any time prior to adoption of the merger agreement by the stockholders of PAETEC if (1) PAETEC receives an Alternative Transaction Proposal that PAETEC's board of directors determines in accordance with the discussion above under Covenants Change of Recommendation constitutes a Superior Proposal, (2) PAETEC's board of directors authorizes PAETEC, subject to complying with the terms of the merger agreement, to enter into a binding written agreement concerning such Superior Proposal, and (3) PAETEC has complied with its non-solicitation obligations under the merger agreement as discussed above under Covenants No Solicitation and Covenants Change of Recommendation ; or

any person has made an Alternative Transaction Proposal which has been publicly disclosed and not withdrawn and, thereafter, the merger agreement is terminated by Windstream or PAETEC because either (1) PAETEC stockholders have failed to adopt the merger agreement at the special meeting or at any adjournment, postponement or continuation thereof or (2) the merger has not been consummated by January 31, 2012 (as such date may have been extended as described above) and within nine months after such termination an Alternative Transaction (substituting a 50% threshold for each 20% threshold included in the definition of Alternative Transaction for purposes of this provision) shall have been consummated or a definitive agreement with respect thereto shall have been entered into.

In the event that Windstream or PAETEC has terminated the merger agreement under the circumstances set forth under the third bullet point above, then at the time of such termination PAETEC will be required to pay to Windstream an amount equal to all reasonably documented fees and expenses incurred by Windstream in connection with the merger agreement up to a maximum of \$15 million. In the event that the \$40 million termination fee later becomes payable as described above, any fees and expenses so paid will be credited against the amount of the termination fee then payable by PAETEC.

The parties to the merger agreement have agreed that the payment of the termination fee is not a penalty, but rather constitutes liquidated damages in a reasonable amount that will compensate Windstream in the circumstances in which the termination fee is payable. Notwithstanding the foregoing, payment of the termination fee will not limit Windstream's rights with respect to any liabilities or damages incurred or suffered by Windstream by reason of PAETEC's intentional breach of the merger agreement.

**Amendment or Supplement; Waiver**

*Amendment or Supplement.* The merger agreement may be amended or supplemented by the written agreement of PAETEC and Windstream at any time prior to the effective time of the merger, whether before or after adoption of the merger agreement by PAETEC's stockholders. After PAETEC's stockholders have adopted the merger agreement, no amendment of the merger agreement may be made which requires further approval of PAETEC's stockholders under any applicable laws without such further approval.

*Waiver.* At any time prior to the effective time of the merger, Windstream or PAETEC may waive compliance with any of the conditions to its obligation to consummate the merger which may be legally waived or extend the time for performance of any obligations or acts of the other party.





**Table of Contents**

**Index to Financial Statements**

**Fees and Expenses**

Other than as described above under Termination Fee, the merger agreement provides that each party will pay its own fees and expenses in connection with the merger agreement, except that (1) expenses incurred in connection with the printing, filing and mailing of this proxy statement/prospectus (including applicable SEC filing fees) will be payable by PAETEC, and (2) expenses incurred in connection with compliance with and filings under the HSR Act and with respect to certain financing-related activities will be payable by Windstream.

**Table of Contents**

**Index to Financial Statements**

**ADVISORY VOTE ON GOLDEN PARACHUTE COMPENSATION**

**(PROPOSAL NO. 2)**

As required by Section 14A of the Exchange Act and the SEC's rules thereunder, PAETEC is asking its stockholders to cast an advisory (nonbinding) vote on the golden parachute compensation that may be payable to its named executive officers in connection with the merger, as described in this proxy statement/prospectus under The Merger Interests of PAETEC's Directors and Executive Officers in the Merger Quantification of Payments and Benefits Potential Change of Control Payments to Named Executive Officers Table, including in the associated narrative discussion. In accordance with these requirements, PAETEC is asking its stockholders to vote on the adoption of the following resolution:

RESOLVED, that the compensation that may be payable to PAETEC's named executive officers in connection with the merger, as disclosed in the table captioned Potential Change of Control Payments to Named Executive Officers Table on page 102 under The Merger Interests of PAETEC's Directors and Executive Officers in the Merger Quantification of Payments and Benefits, including the associated narrative discussion, and the agreements or understandings pursuant to which such compensation may be payable, are hereby APPROVED.

**The PAETEC board of directors unanimously recommends that you vote FOR the approval of this proposal.**

The vote on the golden parachute compensation payable in connection with the merger is a vote separate and apart from the vote to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement. Accordingly, you may vote to approve this proposal and vote not to adopt the merger agreement, or you may vote against this proposal and vote to adopt the merger agreement. Because the vote on this proposal is advisory in nature only, it will not be binding on PAETEC. Accordingly, because PAETEC is contractually obligated to pay the compensation covered by this proposal, such compensation will be payable, subject only to the applicable conditions, if the merger is approved and regardless of the outcome of the advisory vote.

**The affirmative vote of the holders of a majority of shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal will be required to approve the proposal.**

Table of Contents

Index to Financial Statements

**ADJOURNMENT PROPOSAL**

**(PROPOSAL NO. 3)**

PAETEC is asking its stockholders to consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of adoption of the merger agreement and approval of the merger and the other transactions contemplated by the merger agreement.

If the number of shares of common stock present in person or represented by proxy at the special meeting voting in favor of proposal 1 to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement is insufficient to approve proposal 1 at the time of the special meeting, then PAETEC may move to adjourn the special meeting in order to enable its board of directors to solicit additional proxies in respect of such proposal. In that event, PAETEC stockholders will be asked to vote only upon the adjournment proposal, and not on any other proposal, including proposal 1.

In this proposal, you are being asked to authorize the holder of any proxy solicited by PAETEC's board of directors to vote in favor of granting discretionary authority to the proxy or attorney-in-fact to adjourn the special meeting one or more times for the purpose of soliciting additional proxies. If PAETEC's stockholders approve the adjournment proposal, PAETEC could adjourn the special meeting and any adjourned session of the special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from stockholders that have previously returned properly executed proxies or authorized a proxy by using the Internet or telephone. Among other things, approval of the adjournment proposal could mean that, even if PAETEC has received proxies representing a sufficient number of votes against the approval of proposal 1 such that the proposal would be defeated, PAETEC could adjourn the special meeting without a vote on proposal 1 and seek to obtain sufficient votes in favor of approval of proposal 1 to obtain approval of that proposal.

**The PAETEC board of directors unanimously recommends that you vote FOR the approval of this proposal.**

**The affirmative vote of the holders of a majority of shares of PAETEC common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal will be required to approve the proposal.**

---

**Table of Contents**

**Index to Financial Statements**

**DESCRIPTION OF WINDSTREAM CAPITAL STOCK**

The following summary description of Windstream common stock is qualified in its entirety by the General Corporation Law of the State of Delaware (the "DGCL") and the Amended and Restated Certificate of Incorporation of Windstream, as amended (the "Windstream Certificate"). The Windstream Certificate is included as an exhibit to Windstream's Annual Report on Form 10-K (where it is incorporated by reference to Windstream's Amendment No. 3 to the Registration Statement on Form S-4 filed May 23, 2006), which is on file with the SEC. See "Where You Can Find More Information" on page 203 for information on how you can view this filing.

**General**

Under the Windstream Certificate, the total authorized capital stock of Windstream consists of 200,000,000 shares of preferred stock, par value \$.0001 per share, and 1,000,000,000 shares of common stock, par value \$.0001 per share.

**Preferred Stock**

The Windstream Certificate provides that Windstream's board of directors is authorized, without further stockholder approval, to issue from time to time up to a total of 200,000,000 shares of preferred stock in one or more series and to fix or alter the powers, preferences and rights, and any qualifications, limitations or restrictions thereof, of the shares of each series. The Windstream board of directors may fix the number of shares of any series of preferred stock, and it may increase or decrease the number of shares of any series of preferred stock, as long as it acts within the limitations or restrictions stated in the original resolution or resolutions that fixed the number of shares in the series and as long as it does not decrease the number of shares of any series below the number then outstanding. If the number of shares of any series of preferred stock is decreased, the shares constituting the decrease will resume the status they had prior to the adoption of the resolution that originally fixed the number of shares of the series, subject to the requirements of applicable law.

**Common Stock**

Under the Windstream Certificate, the holders of Windstream common stock have one vote per share on matters submitted to a vote of stockholders. Holders of the common stock will be entitled to receive dividends ratably, if any, as may be declared by the Windstream board of directors out of legally available funds, subject to any preferential dividend rights of any outstanding preferred stock. Upon Windstream's liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably Windstream's net assets available after the payment or provision for payment of all debts and subject to the prior rights of any outstanding preferred stock. The Windstream common stock has no preemptive rights, no cumulative voting rights and no redemption, sinking fund or conversion provisions.

To the greatest extent permitted by applicable Delaware law, the shares of common stock will be uncertificated, and transfer is reflected by book entry.

All rights, preferences and privileges of holders of Windstream common stock stated in this summary are subject to the rights of holders of shares of any series of preferred stock which Windstream may designate and issue in the future without further stockholder approval.

**Anti-Takeover Effects of the Delaware General Corporation Law and Windstream's Certificate of Incorporation and Bylaws**

The DGCL, the Windstream Certificate and Windstream's bylaws contain a number of provisions which could have the effect of discouraging transactions that involve an actual or threatened change of control of Windstream. In addition, provisions of the Windstream Certificate and Windstream's bylaws may be deemed to

---

**Table of Contents**

**Index to Financial Statements**

have anti-takeover effects and could delay, defer or prevent a tender offer or takeover attempts that a stockholder might consider in his, her or its best interest, including those attempts that might result in a premium over the market price of the shares held by Windstream's stockholders.

***Delaware Section 203***

Section 203 of the DGCL, which restricts business combinations with certain interested stockholders (defined generally under the DGCL to include persons who beneficially own or acquire 15% or more of a Delaware corporation's voting stock and their affiliates and associates, and hereinafter as a Section 203 Interested Stockholder). Section 203 prohibits business combination transactions between a publicly-held Delaware corporation and any Section 203 Interested Stockholder for a period of three years after the time at which the Section 203 Interested Stockholder became an interested stockholder unless: (a) prior to the time that such entity became a Section 203 Interested Stockholder, the corporation's board of directors approved either the proposed business combination or the transaction which resulted in the Section 203 Interested Stockholder becoming an interested stockholder; (b) upon consummation of the transaction which resulted in the Section 203 Interested Stockholder becoming such an interested stockholder, the Section 203 Interested Stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (1) by persons who are directors and also officers; and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (c) on or subsequent to the time that such entity became a Section 203 Interested Stockholder, the business combination is approved by the corporation's board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% the outstanding voting stock which is not owned by the Section 203 Interested Stockholder.

Under certain circumstances, Section 203 makes it more difficult for a person who is a Section 203 Interested Stockholder to effect various business combinations with a corporation for a period of three years. The provisions of Section 203 are intended to encourage third parties interested in acquiring Windstream to negotiate in advance with the Windstream board of directors. Section 203 also may make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

***Advance Notice Requirements for Stockholder Proposals and Director Nominations***

Windstream's bylaws provide that in order for a stockholder to nominate any person for election as a director or propose business at a meeting of stockholders, the stockholder must give timely notice to Windstream's Secretary. To be timely:

in the case of an annual meeting, a stockholder's notice must be delivered to or mailed and received at Windstream's principal executive offices not less than 90 days nor more than 120 days before the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is changed by more than 25 days (or 30 days in the case of director nominations) from such anniversary date, notice by the stockholder must be received not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the meeting was made; and

in the case of a special meeting at which directors are to be elected, a stockholder's notice of nominations must be delivered to or mailed and received at Windstream's principal executive offices not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the meeting was made.

These provisions could preclude stockholders from bringing matters before a meeting of stockholders or from making nominations for directors by limiting the window of time available to present such matters to Windstream for presentation at such meeting.

---

**Table of Contents**

**Index to Financial Statements**

***Calling a Special Meeting; Action by Written Consent of Stockholders***

Under Delaware law, a special meeting of the stockholders may be called by the board of directors of the corporation or by any other person authorized to do so in the certificate of incorporation or bylaws. The Windstream Certificate states that as long as any security of the company is registered under Section 12 of the Exchange Act, special meetings of stockholders of Windstream may be called only by a resolution of the board of directors.

The Windstream Certificate provides that as long as any security of Windstream is registered under Section 12 of the Exchange Act, no stockholder action may be taken without a meeting.

The inability of the stockholders of Windstream to take action by written consent and to call a special meeting could make it more difficult for stockholders to initiate actions that are opposed by the Windstream board of directors. In addition, the inability of stockholders to call a special meeting of stockholders could make it more difficult to change Windstream's existing board of directors and management.

***Authorized but Unissued Shares***

Windstream's authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to NASDAQ Listing Rule 5635, which sets forth the circumstances under which an issuer is required to obtain approval from its stockholders prior to an issuance of securities in connection with: (1) the acquisition of the stock or assets of another company; (2) equity-based compensation of officers, directors, employees or consultants; (3) a change of control; and (4) private placements. In connection with an acquisition of the stock or assets of another company, NASDAQ Listing Rule 5635 would require stockholder approval prior to the issuance of common stock (or securities convertible into or exercisable for common stock) equal to 20% or more of the outstanding common stock or 20% or more of the voting power of the outstanding common stock before the issuance, or if any director, officer or substantial stockholder of the issuing company has a 5% or greater interest (or such persons collectively have a 10% or greater interest) in the company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common shares or voting power of 5% or more.

These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares could render it more difficult or discourage an attempt to obtain control of Windstream by means of a proxy contest, tender offer, merger or otherwise. In addition, the authorization of undesignated preferred stock makes it possible for the Windstream board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change of control of Windstream.

***Supermajority Vote to Amend Charter and Bylaws***

Under Delaware law, unless a higher vote is required in the certificate of incorporation of a corporation, an amendment to such certificate of incorporation generally may be approved by a majority of the outstanding shares entitled to vote on the proposed amendment. Notwithstanding any provision of a corporation's certificate of incorporation to the contrary, under Delaware law, holders of a class of a corporation's stock are entitled to vote as a class on the approval of any amendment to the corporation's certificate of incorporation which would:

increase or decrease the aggregate number of authorized shares of such class (subject to certain exceptions);

increase or decrease the par value of the shares of such class; or

alter or change the powers, preferences or rights of such class so as to affect them adversely.

**Table of Contents**

**Index to Financial Statements**

Under the Windstream Certificate, the affirmative vote of the holders of at least two-thirds of the combined voting power of all of the then-outstanding shares of Windstream stock eligible to be cast in the election of directors is required in order to amend, alter, change or repeal the sections of the Windstream Certificate related to the limitation of liability of directors and indemnification of directors and officers, the prohibition of stockholder action by written consent, the calling of special meetings of stockholders, the election to be covered by Section 203 of the DGCL, and the procedures required to amend the Windstream Certificate.

Under the Windstream Certificate, the board of directors is expressly authorized to amend, alter, change or repeal Windstream's bylaws. The stockholders also have the ability to amend, alter, change or repeal Windstream's bylaws by the affirmative vote of a majority of the then-outstanding shares entitled to vote, except that a two-thirds vote is required for the stockholders to amend sections of Windstream's bylaws related to bringing matters before an annual stockholder meeting, nominating and electing directors and filling vacancies on the board, and the procedures required to amend Windstream's bylaws.

***Transfer Agent and Registrar***

The transfer agent and registrar for the Windstream common stock is Computershare Investor Services, LLC.

**Certificate of Incorporation of Merger Sub**

The certificate of incorporation of Merger Sub provides that (1) Merger Sub may engage in any lawful act or activity for which a corporation may be formed under the DGCL; (2) Merger Sub may issue up to 1,000 shares of common stock, par value \$.01 per share; (3) the business and affairs of Merger Sub shall be managed by or under the direction of a board of directors; (4) to the fullest extent permitted by the DGCL, the directors of Merger Sub shall not be liable for monetary damages for breaches of fiduciary duty; (5) the directors and officers of Merger Sub shall be indemnified to the fullest extent permitted by applicable law; and (6) meetings of the stockholders of Merger Sub may be held within or without the State of Delaware.

Because the stockholders of PAETEC will be receiving common stock of Windstream, and not of Merger Sub, in connection with the merger, the former stockholders of PAETEC will not hold a direct equity interest in Merger Sub after completion of the merger. Accordingly, PAETEC stockholders are urged to review the provisions above under **Description of Windstream Capital Stock** and below under **Comparison of Rights of Common Stockholders of Windstream and Common Stockholders of PAETEC** for a description of their rights as holders of Windstream common stock after completion of the merger.



---

**Table of Contents**

**Index to Financial Statements**

**COMPARISON OF RIGHTS OF COMMON STOCKHOLDERS OF WINDSTREAM AND  
COMMON STOCKHOLDERS OF PAETEC**

Windstream and PAETEC are both Delaware corporations subject to the provisions of the DGCL. PAETEC stockholders' rights are currently governed by the PAETEC restated certificate of incorporation and the PAETEC amended and restated bylaws. If the merger is completed, PAETEC stockholders will become stockholders of Windstream, and their rights will continue to be governed by the DGCL, but also will be governed by the Windstream Certificate and the Windstream bylaws. The following description summarizes the material differences that may affect the rights of Windstream stockholders and PAETEC stockholders but does not purport to be a complete statement of all those differences, or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally significant or more significant differences do not exist. Stockholders should read carefully the relevant provisions of the Windstream Certificate, the Windstream bylaws, the PAETEC certificate of incorporation and the PAETEC bylaws. Copies of the documents referred to in this summary may be obtained as described under "Where You Can Find More Information" on page 203.

**Capitalization**

*Windstream*

Windstream's authorized capital stock is described under "Description of Windstream Capital Stock."

*PAETEC*

PAETEC's authorized capital stock consists of (1) 300,000,000 shares of common stock, par value \$0.01 per share, and (2) 20,000,000 shares of preferred stock, par value \$0.01 per share. On the close of business on September 12, 2011, 146,145,461 shares of PAETEC common stock were issued and outstanding, and no shares of PAETEC preferred stock were issued and outstanding.

Under the PAETEC certificate of incorporation, PAETEC's board of directors has the authority, without further action by PAETEC stockholders, to issue up to 20,000,000 shares of PAETEC preferred stock in one or more series and to fix the voting powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations, and restrictions of each such series, including, but not limited to, dividend rights, liquidation preferences, conversion privileges and redemption rights.

**Number, Election, Vacancy and Removal of Directors**

*Windstream*

The Windstream bylaws provide that the total number of Windstream directors will be not less than three and not more than fifteen, as fixed by the board of directors of Windstream from time to time. Windstream currently has nine directors, all of whom are elected annually.

Nominations of persons for election to the Windstream board of directors may be made at a meeting of stockholders by or at the direction of the board of directors. In addition, any stockholder may nominate persons for election to the Windstream board of directors by giving timely notice to Windstream's Secretary. Windstream's bylaws provide that directors will be elected at a stockholders' meeting by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote; however, pursuant to current Windstream policy, directors in uncontested elections are elected by a majority of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote, while the plurality standard set forth in the bylaws applies to contested elections.

Any vacancy on the Windstream board of directors that results from an increase in the number of directors may be filled by the majority vote of the directors then in office as long as a quorum is present. Any other vacancy may be filled by a majority of the board of directors then in office, even if less than a quorum, or by a sole remaining director.

## **Table of Contents**

### **Index to Financial Statements**

Any or all directors may be removed, with or without cause, by the affirmative vote of at least a majority of the total voting power of Windstream's outstanding voting securities entitled to vote generally in the election of directors.

#### ***PAETEC***

PAETEC's certificate of incorporation provides that the total number of PAETEC directors will be not less than four and not more than fifteen, as fixed by the board of directors of PAETEC from time to time. PAETEC currently has ten directors. The board of directors of PAETEC is divided into three classes, with approximately one-third of the directors standing for election each year for three-year terms.

Nominations of persons for election to the PAETEC board of directors may be made at any meeting of stockholders by the board of directors. In addition, a stockholder may nominate persons for election to the PAETEC board of directors by giving timely notice to PAETEC's Secretary. Directors are elected at a stockholders' meeting by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote.

Any vacancy on the PAETEC board of directors that results from an increase in the number of directors may be filled by the majority vote of the directors then in office as long as a quorum is present. Any other vacancy may be filled by a majority of the board of directors then in office, even if less than a quorum.

A director may be removed with cause upon the affirmative vote of at least a majority of the total voting power of PAETEC's outstanding voting securities entitled to vote generally in the election of directors.

#### **Amendments to Charter Documents**

##### ***Windstream***

Under the DGCL, a proposed amendment to a corporation's certificate of incorporation requires approval by its board of directors and adoption by an affirmative vote of a majority of the outstanding stock entitled to vote on the amendment. The Windstream Certificate provides that the affirmative vote of the holders of at least two-thirds of the combined voting power of all of the then-outstanding shares of Windstream eligible to be cast in the election of directors is required in order to amend, alter, change or repeal the sections of the Windstream Certificate related to the limitation of liability of directors and indemnification of directors and officers, the prohibition of stockholder action by written consent, the calling of special meetings of stockholders, the election to be covered by the DGCL Section 203, and the procedures required to amend the Windstream Certificate.

##### ***PAETEC***

The PAETEC certificate of incorporation does not include any provisions for a supermajority vote by stockholders. Accordingly, a proposed amendment to PAETEC's certificate of incorporation requires approval by its board of directors and the approval by an affirmative vote of the holders of a majority of the outstanding stock of each class entitled to vote as a class on the amendment.

The PAETEC certificate of incorporation provides that, except as may otherwise be required by law, the holders of PAETEC common stock are not entitled to vote on any amendment to the PAETEC certificate of incorporation, including any certificate of designation relating to any series of PAETEC preferred stock, that relates solely to the terms of one or more outstanding series of PAETEC preferred stock if the holders of the affected series are