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Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Developing A Unified Intercarrier Compensation Regime, CC Docket 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Universal Service Contribution Methodology, WC Docket No. 06-122; High-Cost Universal Service Support, WC Docket 05-337

Dear Ms. Dortch:

Windstream Communications, Inc. ("Windstream") files this ex parte letter to respond to the Free Press filing submitted to the Federal Communications Commission ("Commission") on October 24, 2008.[1] While it agrees with some of the views expressed in the Free Press filing, Windstream was troubled by Free Press's depiction of Windstream's financial performance. Free Press's assessment indicates a lack of familiarity with Windstream's operations, and the business model of mid-sized price cap telecommunications carriers more generally.

Free Press's financial analysis of Windstream is focused on just three factors. It assesses Windstream's "5-year average" net profit margin and "5-year average" return on equity.[2] Free Press also notes that carriers like Windstream "have long-distance business segments that stand to reap substantial access charge savings."[3]

There are multiple flaws with Free Press's assessment:

- First, it is inappropriate for Free Press to rely primarily on "5-year average" figures when apparently attempting to produce a representative picture of Windstream – a company that has been in business for just over two years. Prior to 2006, Windstream's business

[1] Letter from Ben Scott and S. Derek Turner, Free Press, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Dockets 05-337, 06-122; CC Dockets 96-45, 01-92 (filed Oct. 24, 2008) ("Free Press Letter").

[2] *Id*. at 9.

[3] *Id*.

operations were part of (1) Alltel, which consisted of wireline operations and what today is Alltel Wireless and (2) Valor Communications Group, a separate entity serving customers in Arkansas, Texas, New Mexico, and Oklahoma. Significant changes to these operations – due to Windstream's spin-off from Alltel and merger with Valor – make it very difficult to draw any clear comparisons between the last two years and the three before.

- Second, Free Press does not place Windstream's net profit margin in its proper context. Free Press fails to note that Windstream experienced two separate significant gains from extraordinary one-time events in both 2007 and 2006 (respectively, the sale of its directory publishing business and a change in accounting policies). In addition, Free Press ignores the fact that Windstream's financial performance, prior to July 2008, was achieved while two-thirds of Windstream's study areas were subject to federal rate-of-return regulation. All of these material items are disclosed in Windstream's annual reports provided to the U.S. Securities and Exchange Commission, and there is no good basis to disregard this information.

- Third, Free Press similarly omits key facts when citing Windstream's return on equity. Significantly, Free Press overlooks the fact that *virtually all* of the equity established by the legacy Alltel wireline operations was distributed to Alltel upon separation of these assets from the combined corporation in 2006. This separation, which was accounted for using Generally Accepted Accounting Principles, produced a significantly lower amount of equity for Windstream – thus in effect inflating future return on equity calculations.[4] Accordingly, any year-over-year increase would appear larger than it otherwise would if there was no such separation, and any comparison of Windstream's return on equity to the industry sector average has little, if any, meaning.

- Finally, Free Press misses a key feature of most mid-sized price cap carriers' long distance services: Most mid-sized price cap carriers, like Windstream, do not own and operate their long-distance networks. These carriers, instead, merely resell long-distance services from larger integrated carriers, such as AT&T or Verizon. As resellers of long-distance services, mid-sized price cap carriers likely will receive little, or no, expense savings as a result of the Commission's proposal. The proposal, as we understand it, does not require long distance providers to pass through expense savings to their retail or wholesale customers, so mid-sized price cap carriers will benefit from access rate reductions only to the extent that their long distance resale suppliers opt to pass through savings on their own.

When considered together, Windstream believes that these oversights by Free Press are a sign not of ill will, but instead of the complexities inherent to a mid-sized price cap carrier's business model. No three factors, in and of themselves, can produce an accurate picture of a mid-sized price cap carrier's performance. In truth, when all material factors are considered, mid-sized price cap carriers' financial data show a mixture of challenges and successes: voice access lines are decreasing, while broadband subscriptions are increasing; annual total revenues (regulated plus unregulated) year-over-year are flat or declining, but some companies have aggressively managed expenses to keep profit margins relatively stable.

[4] Gains from extraordinary one-time only events, as described above, also contributed to effectively inflating in referenced returns on equity.

And to the extent some carriers have been able to cut costs while deploying high quality services, the Commission should encourage, rather than penalize, these mid-sized price cap carriers.

Given all these complexities, the Commission, if it plans to move forward with comprehensive intercarrier compensation reform, should move incrementally and with caution. At each step, the Commission should stop, reassess market conditions, and then proceed forward again. Especially given current financial markets, the Commission needs to take care so that its reforms do not have unintended consequences – and are to the benefit of consumers across all regions of the United States. The Commission must be vigilant in ensuring that it has accurate information to make informed decisions. This need for vigilance is particularly heightened where the potential for significant and irreversible consumer and carrier impacts is as high as in this proceeding.

Please feel free to contact me if you require additional information.

Sincerely,

/s/

Eric Einhorn

cc: Dan Gonzalez
Amy Bender
Greg Orlando
Scott Deutchman
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