

PRIMEENERGY CORP  
Form 10-Q  
November 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2012

Or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From            to

Commission File Number 0-7406

**PrimeEnergy Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**84-0637348**  
(I.R.S. employer  
Identification No.)

**9821 Katy Freeway, Houston, Texas 77024**  
(Address of principal executive offices)

**(713) 735-0000**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings required for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each class of the Registrant's Common Stock as of November 8, 2012 was: Common Stock, \$0.10 par value 2,580,911 shares.

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**PrimeEnergy Corporation**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS** Unaudited

(Thousands of dollars)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 10,620	\$ 8,661
Restricted cash and cash equivalents	4,866	5,142
Accounts receivable, net	18,158	16,506
Other current assets	3,531	9,194
<b>Total Current Assets</b>	<b>37,175</b>	<b>39,503</b>
Property and Equipment, at cost		
Oil and gas properties (successful efforts method), net	174,869	136,750
Field and office equipment, net	8,148	7,945
<b>Total Property and Equipment, Net</b>	<b>183,017</b>	<b>144,695</b>
Other Assets	1,055	614
<b>Total Assets</b>	<b>\$ 221,247</b>	<b>\$ 184,812</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 25,607	\$ 29,538
Accrued liabilities	8,264	8,963
Current portion of asset retirement and other long-term obligations	2,592	12,854
Derivative liability short-term	837	2,046
Due to related parties	475	67
<b>Total Current Liabilities</b>	<b>37,775</b>	<b>53,468</b>
Long-Term Bank Debt	110,000	69,800
Asset Retirement Obligations	7,434	6,416
Derivative Liability Long-Term	543	1,461
Deferred Income Taxes	22,652	17,914
<b>Total Liabilities</b>	<b>178,404</b>	<b>149,059</b>
Stockholders Equity		
Common stock, \$.10 par value; 2012 and 2011: Authorized: 4,000,000 shares, issued: 3,836,397 shares; outstanding 2012: 2,594,135 shares; 2011: 2,701,869 shares	383	383
Paid-in capital	6,605	6,446
Retained earnings	61,377	51,289
Accumulated other comprehensive loss, net	(50)	
Treasury stock, at cost; 2012: 1,242,262 shares; 2011: 1,134,528 shares	(33,825)	(31,120)

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Total Stockholders	Equity	PrimeEnergy	34,490	26,998
Non-controlling interest			8,353	8,755
Total Stockholders	Equity		42,843	35,753
Total Liabilities and Stockholders	Equity		\$ 221,247	\$ 184,812

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

**Table of Contents****PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS** Unaudited

(Thousands of dollars, except per share amounts)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>				
Oil and gas sales	\$ 21,813	\$ 21,757	\$ 65,678	\$ 65,236
Realized gain on derivative instruments, net	38	4,295	379	4,431
Field service income	4,892	5,407	15,344	15,181
Administrative overhead fees	2,141	2,150	6,415	6,488
Unrealized gain (loss) on derivative instruments, net	(2,649)	12,511	2,449	9,015
Other income	25	20	128	69
<b>Total Revenues</b>	<b>26,260</b>	<b>46,140</b>	<b>90,393</b>	<b>100,420</b>
<b>Costs and Expenses</b>				
Lease operating expense	9,347	9,711	28,820	26,520
Field service expense	4,275	4,393	13,023	12,537
Depreciation, depletion, amortization and accretion on discounted liabilities	5,884	22,899	19,846	40,930
General and administrative expense	3,823	3,179	11,509	10,216
Exploration costs		7	10	15
<b>Total Costs and Expenses</b>	<b>23,329</b>	<b>40,189</b>	<b>73,208</b>	<b>90,218</b>
Gain on Sale and Exchange of Assets	14	1,375	720	1,608
<b>Income from Operations</b>	<b>2,945</b>	<b>7,326</b>	<b>17,905</b>	<b>11,810</b>
<b>Other Income and Expenses</b>				
Less: Interest expense	947	685	2,534	3,035
Add: Interest income	24	2	72	87
<b>Income Before Provision for Income Taxes</b>	<b>2,022</b>	<b>6,643</b>	<b>15,443</b>	<b>8,862</b>
Provision for Income Taxes	464	1,899	4,665	2,357
<b>Net Income</b>	<b>1,558</b>	<b>4,744</b>	<b>10,778</b>	<b>6,505</b>
Less: Net Income Attributable to Non-Controlling Interests	216	471	690	1,412
<b>Net Income Attributable to PrimeEnergy</b>	<b>\$ 1,342</b>	<b>\$ 4,273</b>	<b>\$ 10,088</b>	<b>\$ 5,093</b>
<b>Basic Income Per Common Share</b>	<b>\$ 0.51</b>	<b>\$ 1.56</b>	<b>\$ 3.81</b>	<b>\$ 1.85</b>
<b>Diluted Income Per Common Share</b>	<b>\$ 0.40</b>	<b>\$ 1.23</b>	<b>\$ 2.98</b>	<b>\$ 1.46</b>

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

**Table of Contents****PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY Unaudited**

Nine Months Ended September 30, 2012

(Thousands of dollars)

	Common Stock		Additional	Retained	Accumulated	Treasury	Total	Non-Controlling	Total
	Shares	Amount	Paid in Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Equity PrimeEnergy	Interest	Equity Stockholders
Balance at December 31, 2011	3,836,397	\$ 383	\$ 6,446	\$ 51,289	\$	\$ (31,120)	\$ 26,998	\$ 8,755	\$ 35,753
Purchase 107,734 shares of common stock						(2,705)	(2,705)		(2,705)
Net income				10,088			10,088	690	10,778
Other comprehensive loss, net of taxes					(50)		(50)		(50)
Purchase of non-controlling interests			159				159	(225)	(66)
Distributions to non-controlling interests								(867)	(867)
Balance at September 30, 2012	3,836,397	\$ 383	\$ 6,605	\$ 61,377	\$ (50)	\$ (33,825)	\$ 34,490	\$ 8,353	\$ 42,843

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

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**PRIMEENERGY CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME** Unaudited

Nine Months Ended September 30, 2012 and 2011

(Thousands of dollars)

	<b>2012</b>	<b>2011</b>
Net Income	\$ 10,778	\$ 6,505
Other Comprehensive Loss, net of taxes:		
Changes in fair value of hedge positions, net of taxes of \$28 and \$0, respectively	(50)	
Total other comprehensive loss	(50)	
Comprehensive Income	10,728	6,505
Less: Comprehensive Income Attributable to Non-controlling Interest	690	1,412
Comprehensive Income Attributable to PrimeEnergy	\$ 10,038	\$ 5,093

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements



**Table of Contents****PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** Unaudited

Nine Months Ended September 30, 2012 and 2011

(Thousands of dollars)

	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 10,778	\$ 6,505
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, depletion, amortization and accretion on discounted liabilities	19,846	40,930
Gain on sale of properties	(720)	(1,608)
Unrealized gain on derivative instruments, net	(2,449)	(9,015)
Provision for deferred income taxes	4,738	2,114
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in accounts receivable	(1,652)	42
(Increase) decrease in other assets	5,476	(24)
Decrease in accounts payable	(3,655)	(8,078)
Increase in accrued liabilities	605	229
Increase in due to related parties	426	41
<b>Net Cash Provided by Operating Activities</b>	<b>33,393</b>	<b>31,136</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures, including exploration expense	(68,620)	(26,913)
Proceeds from sale of properties and equipment	881	1,855
<b>Net Cash Used in Investing Activities</b>	<b>(67,739)</b>	<b>(25,058)</b>
<b>Cash Flows from Financing Activities:</b>		
Purchase of stock for treasury	(2,705)	(1,633)
Purchase of non-controlling interests	(66)	(192)
Proceeds in long-term bank debt and other long-term obligations	85,300	64,831
Repayment of long-term bank debt and other long-term obligations	(45,357)	(68,134)
Repayment of indebtedness to related party		(20,000)
Distribution to non-controlling interests	(867)	(694)
<b>Net Cash Provided (Used) in Financing Activities</b>	<b>36,305</b>	<b>(25,822)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,959</b>	<b>(19,744)</b>
Cash and Cash Equivalents at the Beginning of the Period	8,661	32,792
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 10,620</b>	<b>\$ 13,048</b>
<b>Supplemental Disclosures:</b>		
Income taxes paid during the period	\$ 536	\$ 1,211
Income tax refunds received during the period	\$	\$ 41
Interest paid during the period	\$ 2,534	\$ 3,400
Increase (decrease) in accrued expenses relating to property during the period	\$ (1,304)	\$ 579

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements



**Table of Contents****PRIMEENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2012

(Unaudited)

**(1) Interim Financial Statements:**

The accompanying condensed consolidated financial statements of PrimeEnergy Corporation ( "PEC" or the "Company" ) have not been audited by independent public accountants. During the interim periods, the Company follows the same accounting policies as used and described in its Annual Report on Form 10-K for the year ended December 31, 2011. In accordance with applicable Securities and Exchange Commission ( "SEC" ) rules and regulations, the accompanying interim financial statements do not include all disclosures presented in annual financial statements and the reader should refer to the Company's Form 10-K for the year ended December 31, 2011 filed with the SEC on March 29, 2012. In the opinion of management, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011, the Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2012, the Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2012 and 2011, and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011. Certain amounts presented in prior period financial statements have been reclassified for consistency with current period presentation. The results for interim periods are not necessarily indicative of annual results. For purposes of disclosure in the condensed consolidated financial statements, subsequent events have been evaluated through the date the statements were issued.

***Recently Issued Accounting Pronouncements***

There are no new significant accounting standards applicable to the Company that have been issued but not yet adopted as of the nine months ended September 30, 2012.

**(2) Acquisitions and Dispositions:**

Historically the Company has repurchased the interests of the partners and trust unit holders in the eighteen oil and gas limited partnerships (the "Partnerships" ) and the two asset and business income trusts (the "Trusts" ) managed by the Company as general partner and as managing trustee, respectively. The Company purchased such interests in an amount totaling \$66,000 and \$192,000 for the nine months ended September 30, 2012 and 2011, respectively.

**(3) Restricted Cash and Cash Equivalents:**

Restricted cash and cash equivalents include \$4.59 million and \$4.39 million at September 30, 2012 and December 31, 2011, respectively, of cash primarily pertaining to oil and gas revenue payments. There were corresponding accounts payable recorded at September 30, 2012 and December 31, 2011 for these liabilities. Both the restricted cash and the accounts payable are classified as current on the Condensed Consolidated Balance Sheets.

**(4) Additional Balance Sheet Information:**

Certain balance sheet amounts are comprised of the following:

<i>(Thousands of dollars)</i>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b><u>Accounts Receivable:</u></b>		
Joint interest billing	\$ 5,845	\$ 2,347
Trade receivables	1,771	1,558

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Oil and gas sales	10,535	9,876
Other	393	3,146
	18,544	16,927
Less: Allowance for doubtful accounts	(386)	(421)
Total	\$ 18,158	\$ 16,506
<u>Accounts Payable:</u>		
Trade	\$ 4,940	\$ 5,853
Royalty and other owners	11,168	13,645
Prepaid drilling deposits	698	779
Other	8,801	9,261
Total	\$ 25,607	\$ 29,538

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<i>(Thousands of dollars)</i>	September 30, 2012	December 31, 2011
<b>Accrued Liabilities:</b>		
Compensation and related expenses	\$ 4,451	\$ 2,137
Property costs	3,003	5,117
Income tax		362
Other	810	1,347
 Total	 \$ 8,264	 \$ 8,963

**(5) Property and Equipment:**

Property and equipment at September 30, 2012 and December 31, 2011 consisted of the following:

<i>(Thousands of dollars)</i>	September 30, 2012	December 31, 2011
Proved oil and gas properties, at cost	\$ 321,732	\$ 492,393
Less: Accumulated depletion and depreciation	(146,863)	(355,643)
 Oil and Gas Properties, Net	 \$ 174,869	 \$ 136,750
 Field and office equipment	 \$ 22,707	 \$ 21,553
Less: Accumulated depreciation	(14,559)	(13,608)
 Field and Office Equipment, Net	 \$ 8,148	 \$ 7,945
 Total Property and Equipment, Net	 \$ 183,017	 \$ 144,695

**(6) Long-Term Bank Debt:****Bank Debt:**

Effective July 30, 2010 the Company entered into a Second Amended and Restated Credit Agreement between Compass Bank as agent and a syndicated group of lenders ( Credit Agreement ). The Credit Agreement has a revolving line of credit and letter of credit facility of up to \$250 million with a final maturity date of July 30, 2017. The credit facility is secured by substantially all of the Company's oil and gas properties. The credit facility is subject to a borrowing base determined by the lenders taking into consideration the estimated value of PEC's oil and gas properties in accordance with the lenders' customary practices for oil and gas loans. This process involves reviewing PEC's estimated proved reserves and their valuation. The borrowing base is re-determined semi-annually, and the available borrowing amount could be increased or decreased as a result of such redetermination. In addition, PEC and the lenders each have at their discretion the right to request the borrowing base be re-determined with a maximum of one such request each year. A revision to PEC's reserves may prompt such a request on the part of the lenders, which could possibly result in a reduction in the borrowing base and availability under the credit facility. At any time if the sum of the outstanding borrowings and letter of credit exposures exceed the applicable portion of the borrowing base, PEC would be required to repay the excess amount within a prescribed period.

As of September 30, 2012, the credit facility borrowing base was \$125.0 million with no required monthly reduction amount. The borrowings made within the credit facility may be placed in a base rate loan or LIBO rate loan. The Company's borrowing rates in the credit facility provide for base rate loans at the prime rate (3.25% at September 30, 2012) plus applicable margin utilization rates that range from 1.00% to 2.00%, and LIBO rate loans at LIBO published rates plus applicable utilization rates that range from 2.00% to 3.00%. As of September 30, 2012, the Company had in place one base rate loan and one LIBO rate loan with effective rates of 5.00% and 2.99%, respectively.

At September 30, 2012, the Company had \$110.00 million of borrowings outstanding under its revolving credit facility at a weighted-average interest rate of 3.62% and \$15.00 million available for future borrowings. The combined weighted average interest rates paid on outstanding bank borrowings subject to base rate and LIBO interest were 3.80% for the nine months ended September 30, 2012 as compared to 5.04% for

the nine months ended September 30, 2011.

**Table of Contents****(7) Other Long-Term Obligations and Commitments:****Operating Leases:**

The Company has several non-cancelable operating leases, primarily for rental of office space, that have a term of more than one year. The future minimum lease payments for the rest of the fiscal 2012 and thereafter for the operating leases are as follows:

<i>(Thousands of dollars)</i>	<b>Operating Leases</b>
2012	\$ 165
2013	662
2014	261
2015	122
<b>Total minimum payments</b>	<b>\$ 1,210</b>

Rent expense for office space for the nine months ended September 30, 2012 and 2011 was \$581,000 and \$588,000, respectively.

**Asset Retirement Obligation:**

A reconciliation of the liability for plugging and abandonment costs for the nine months ended September 30, 2012 is as follows:

<i>(Thousands of dollars)</i>		
Asset retirement obligation	December 31, 2011	\$ 19,013
Liabilities incurred		640
Liabilities settled		(14,800)
Accretion expense		1,599
Revisions in estimated liabilities		3,574
Asset retirement obligation	September 30, 2012	\$ 10,026

The Company's liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive life of wells and a risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. Revisions to the asset retirement obligation are recorded with an offsetting change to producing properties, resulting in prospective changes to depreciation, depletion and amortization expense and accretion of discount. Because of the subjectivity of assumptions and the relatively long life of most of the Company's wells, the costs to ultimately retire the wells may vary significantly from previous estimates.

In December 2011, the Company entered into a fixed price contract for the plugging and abandonment of a substantial portion of its offshore properties. In connection with this contract, the Company deposited a net \$6.0 million with the contractor which is reflected in prepaid obligations at December 31, 2011. All work under this contract was completed by September 30, 2012.

**(8) Contingent Liabilities:**

The Company, as managing general partner of the affiliated Partnerships, is responsible for all Partnership activities, including the drilling of development wells and the production and sale of oil and gas from productive wells. The Company also provides the administration, accounting and tax preparation work for the Partnerships, and is liable for all debts and liabilities of the affiliated Partnerships, to the extent that the assets of a given limited Partnership are not sufficient to satisfy its obligations. As of September 30, 2012, the affiliated Partnerships have established cash reserves in excess of their debts and liabilities and the Company believes these reserves will be sufficient to satisfy Partnership obligations.

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The Company is subject to environmental laws and regulations. Management believes that future expenses, before recoveries from third parties, if any, will not have a material effect on the Company's financial condition. This opinion is based on expenses incurred to date for remediation and compliance with laws and regulations, which have not been material to the Company's results of operations.

From time to time, the Company is party to certain legal actions arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the financial position or results of operations of the Company.

### **(9) Stock Options and Other Compensation:**

In May 1989, non-statutory stock options were granted by the Company to four key executive officers for the purchase of shares of common stock. At September 30, 2012 and 2011, remaining options held by two key executive officers on 767,500 shares were outstanding and exercisable at prices ranging from \$1.00 to \$1.25. According to their terms, the options have no expiration date.



**Table of Contents****(10) Related Party Transactions:**

The Company, as managing general partner or managing trustee, makes an annual offer to repurchase the interests of the partners and trust unit holders in certain of the Partnerships or Trusts. The Company purchased such interests in amounts totaling \$66,000 and \$192,000 for the nine months ended September 30, 2012 and 2011, respectively.

Treasury stock purchases in any reported period may include shares from a related party, which may include members of the Company's Board of Directors. In April 2012, the Company purchased 45,179 shares of common stock as treasury shares from a Director for \$1.13 million.

Receivables from related parties consist of reimbursable general and administrative costs, lease operating expenses and reimbursement for property development and related costs. These receivables are due from joint venture partners, which may include members of the Company's Board of Directors.

Payables owed to related parties primarily represent receipts collected by the Company as agent for the joint venture partners, which may include members of the Company's Board of Directors, for oil and gas sales net of expenses.

**(11) Financial Instruments:*****Fair Value measurements:***

Authoritative guidance on fair value measurements defines fair value, establishes a framework for measuring fair value and stipulates the related disclosure requirements. The Company follows a three-level hierarchy, prioritizing and defining the types of inputs used to measure fair value. The fair values of the Company's interest rate swaps, natural gas and crude oil price collars and swaps are designated as Level 3. The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011:

<b><u>September 30, 2012</u></b>	<b>Quoted Prices in Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of September 30, 2012</b>
<i>(Thousands of dollars)</i>				
<b>Assets</b>				
Commodity derivative contracts	\$	\$	\$ 244	\$ 244
<b>Total assets</b>	\$	\$	\$ 244	\$ 244
<b>Liabilities</b>				
Commodity derivative contracts	\$	\$	\$ (1,302)	\$ (1,302)
Interest rate derivative contracts			(78)	(78)
<b>Total liabilities</b>	\$	\$	\$ (1,380)	\$ (1,380)

<b><u>December 31, 2011</u></b>	<b>Quoted Prices in Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2011</b>
<i>(Thousands of dollars)</i>				
<b>Assets</b>				
Commodity derivative contracts	\$	\$	\$	\$
<b>Total assets</b>	\$	\$	\$	\$

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**Liabilities**

Commodity derivative contracts	\$	\$	\$ (3,507)	\$ (3,507)
Total liabilities	\$	\$	\$ (3,507)	\$ (3,507)

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The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the nine months ended September 30, 2012.

<i>(Thousands of dollars)</i>		
Net liabilities	December 31, 2011	\$ (3,507)
Total realized and unrealized gains or losses:		
Unrealized gains included in earnings, net (a)		2,828
Included in other comprehensive loss		(78)
Realized gains from purchases, sales, issuances and settlements, net		(379)
Net liabilities	September 30, 2012	\$ (1,136)

- (a) Derivative instruments are reported in revenues as realized gain/loss and on a separately reported line item captioned unrealized gain/loss on derivative instruments.

**Derivative Instruments:**

The Company is exposed to commodity price and interest rate risk, and management considers periodically the Company's exposure to cash flow variability resulting from the commodity price changes and interest rate fluctuations. Futures, swaps and options are used to manage the Company's exposure to commodity price risk inherent in the Company's oil and gas production operations. The Company does not apply hedge accounting to any of its commodity based derivatives. Both realized and unrealized gains and losses associated with derivative instruments are recognized in earnings.

Interest rate swap derivatives are treated as cash-flow hedges and are used to fix or float interest rates on existing debt. The value of these interest rate swaps at September 30, 2012 is located in accumulated other comprehensive loss, net of tax. Settlement of the swaps, currently scheduled to begin in January 2014, will be recorded within interest expense.

The following table sets forth the effect of derivative instruments on the condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011:

<i>(Thousands of dollars)</i>	Balance Sheet Location	Fair Value	
		September 30, 2012	December 31, 2011
<b>Asset Derivatives:</b>			
<i>Derivatives not designated as cash-flow hedging instruments:</i>			
Crude oil commodity contracts	Other assets	\$ 244	\$
Total		\$ 244	\$
<b>Liability Derivatives:</b>			
<i>Derivatives designated as cash-flow hedging instruments:</i>			
Interest rate swap contracts	Derivative liability long-term	\$ (78)	\$
<i>Derivatives not designated as cash-flow hedging instruments:</i>			
Crude oil commodity contracts	Derivative liability short-term	\$ (837)	\$ (2,046)
Crude oil commodity contracts	Derivative liability long-term	(465)	(1,461)

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Total	\$ (1,380)	\$ (3,507)
Total derivative instruments	\$ (1,136)	\$ (3,507)

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The following table sets forth the effect of derivative instruments on the condensed consolidated statement of operations for the nine-month periods ended September 30, 2012 and 2011:

<i>(Thousands of dollars)</i>	Location of gain/loss recognized in income	Amount of gain/loss recognized in income	
		2012	2011
<i>Derivatives not designated as cash-flow hedge instruments</i>			
Natural gas commodity contracts	Unrealized gain on derivative instruments, net	\$	\$ 106
Crude oil commodity contracts	Unrealized gain on derivative instruments, net	2,449	8,909
Natural gas commodity contracts	Realized gain on derivative instruments, net		2,969
Crude oil commodity contracts (a)	Realized gain on derivative instruments, net	379	1,462
		\$ 2,828	\$ 13,446

- (a) In August 2011, the Company unwound and monetized crude oil swaps and collars with original settlement dates from September 2011 through December 2014 for net proceeds of \$3.4 million. The \$3.4 million gain associated with these early settlement transactions is included in realized gain on derivative instruments for the three and nine months ended September 30, 2011. In January 2012, March 2012 and May 2012, the Company unwound and monetized crude oil swaps with original settlement dates from January 2012 through December 2013 for net proceeds of \$1.03 million. The gains associated with these early settlement transactions is included in realized gain on derivative instruments for the nine months ended September 30, 2012.

**(12) Earnings Per Share:**

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock in gain periods. The following reconciles amounts reported in the financial statements:

	Nine Months Ended September 30,					
	Net Income (In 000 s)	2012 Weighted Average Number of Shares Outstanding	Per Share Amount	Net Income (In 000 s)	2011 Weighted Average Number of Shares Outstanding	Per Share Amount
Basic	\$ 10,088	2,645,924	\$ 3.81	\$ 5,093	2,758,388	\$ 1.85
Effect of dilutive securities:						
Options		734,680			733,063	
Diluted	\$ 10,088	3,380,604	\$ 2.98	\$ 5,093	3,491,451	\$ 1.46

	Three Months Ended September 30,					
	Net Income (In 000 s)	2012 Weighted Average Number of Shares Outstanding	Per Share Amount	Net Income (In 000 s)	2011 Weighted Average Number of Shares Outstanding	Per Share Amount
Basic	\$ 1,342	2,608,319	\$ 0.51	\$ 4,273	2,744,177	\$ 1.56
Effect of dilutive securities:						
Options		737,162			730,617	

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Diluted	\$ 1,342	3,345,481	\$ 0.40	\$ 4,273	3,474,794	\$ 1.23
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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report may contain statements relating to the future results of the Company that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (the PSLRA). In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the PSLRA. Such forward-looking statements, in addition to historical information, which involve risk and uncertainties, are based on the beliefs, assumptions and expectations of management of the Company. Words such as expects, believes, should, plans, anticipates, will, potential, could, intend, may, outlook, prediction, estimates, assumes, likely and variations of such similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties and are based on a number of assumptions that could ultimately prove inaccurate and, therefore, there can be no assurance that they will prove to be accurate. Actual results and outcomes may vary materially from what is expressed or forecast in such statements due to various risks and uncertainties. These risks and uncertainties include, among other things, the possibility of drilling cost overruns and technical difficulties, volatility of oil and gas prices, competition, risks inherent in the Company's oil and gas operations, the inexact nature of interpretation of seismic and other geological and geophysical data, imprecision of reserve estimates, and the Company's ability to replace and expand oil and gas reserves. Accordingly, stockholders and potential investors are cautioned that certain events or circumstances could cause actual results to differ materially from those projected. The forward looking statements are made as of the date of this report and other than as required by the federal securities laws, the Company assumes no obligation to update the forward-looking statement or to update the reasons why actual results could differ from those projected in the forward-looking statements.

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Condensed Consolidated Financial Statements and the accompanying Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report contains additional information that should be referred to when reviewing this material.

### **OVERVIEW**

We are an independent oil and natural gas company engaged in acquiring, developing and producing oil and natural gas. We presently own producing and non-producing properties located primarily in Texas, Oklahoma, West Virginia, the Gulf of Mexico, New Mexico, Colorado and Louisiana. In addition, we own a substantial amount of well servicing equipment. All of our oil and gas properties and interests are located in the United States. Assets in our principal focus areas include mature properties with long-lived reserves and significant development opportunities as well as newer properties with development and exploration potential. We believe our balanced portfolio of assets and our ongoing hedging program position us well for both the current commodity price environment and future potential upside as we develop our attractive resource opportunities. Our primary sources of liquidity are cash generated from our operations and our credit facility.

We attempt to assume the position of operator in all acquisitions of producing properties and will continue to evaluate prospects for leasehold acquisitions and for exploration and development operations in areas in which we own interests. We continue to actively pursue the acquisition of producing properties. In order to diversify and broaden our asset base, we will consider acquiring the assets or stock in other entities and companies in the oil and gas business. Our main objective in making any such acquisitions will be to acquire income producing assets so as to build stockholder value through consistent growth in our oil and gas reserve base on a cost-efficient basis.

Our cash flows depend on many factors, including the price of oil and gas, the success of our acquisition and drilling activities and the operational performance of our producing properties. We use derivative instruments to manage our commodity price risk. This practice may prevent us from receiving the full advantage of any increases in oil and gas prices above the maximum fixed amount specified in the derivative agreements and subjects us to the credit risk of the counterparties to such agreements. Since all of our derivative contracts are accounted for under mark-to-market accounting, we expect continued volatility in gains and losses on mark-to-market derivative contracts in our consolidated income statement as changes occur in the NYMEX price indices.

### **RECENT ACTIVITIES**

During 2012, we continued our drilling program in our West Texas and Mid-Continent regions. Thru October 31, 2012, we have drilled a total of 36 gross (27.25 net) wells, with 33 gross (26.00 net) wells having successful completions, and 2 gross (1.22 net) wells under evaluation. In addition we have 2 gross (0.61 net) wells currently drilling. We intend to drill a total of approximately 40 gross (29 net) wells this year, primarily in the West Texas area.

In February 2012, we closed the acquisition of additional working interest in producing properties which we operate. These properties are located in our Gulf Coast region and were acquired at a net cost of \$6.32 million.

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During 2012, we began plugging and abandoning the majority of our offshore oil and gas properties. This work was completed by September 30, 2012.



**Table of Contents****RESULTS OF OPERATIONS****2012 and 2011 Compared**

We reported net income for the three and nine months ended September 30, 2012 of \$1.34 million, or \$0.51 per share and \$10.09 million, or \$3.79 per share, respectively as compared to \$4.27 million, or \$1.56 per share and \$5.09 million, or \$1.85 per share for the three and nine months ended September 30, 2011, respectively. Net income decreased by \$2.93 million for the three months ended September 30, 2012 as compared to the same period during 2011 primarily due to a decrease in unrealized and realized gains on derivative instruments partially offset by decreased depreciation and depletion expenses and income tax provisions. Net income increased by \$5.00 million for the nine months ended September 30, 2012 as compared to the same period during 2011 primarily due to decreased depreciation and depletion expenses partially offset by a decrease in unrealized and realized gains on derivative instruments and increased lease operating expenses and income tax provisions. Unrealized gain (loss) on derivative instruments decreased by \$15.16 million and \$6.57 million for the three and nine months ended September 30, 2012, respectively as compared to the same periods in 2011 largely due to an increase in future crude oil commodity prices during the 2012 periods as compared to crude oil commodity contracts held at the end of the reported periods. Depreciation and depletion decreased by \$17.02 million and \$21.08 million for the three and nine months ended September 30, 2012, respectively as compared to the same periods in 2011 largely due to decreased depletion rates associated with our offshore properties as several of our offshore properties entered into the last phase of their productive lives.

The significant components of net income are discussed below.

**Oil and gas sales** increased slightly from \$21.76 million for the three months ended September 30, 2011 to \$21.81 million for the three months ended September 30, 2012 and increased \$0.44 million, or 1% from \$65.24 million for the nine months ended September 30, 2011 to \$65.68 million for the nine months ended September 30, 2012. Crude oil and natural gas sales vary due to changes in volumes of production sold and realized commodity prices. Our realized prices at the well head increased an average of \$4.40 per barrel, or 5% and \$1.65 per barrel, or 2% on crude oil during the three and nine months ended September 30, 2012, respectively from the same periods in 2011 while our average well head price for natural gas decreased \$2.13 per mcf, or 31% and \$1.90 per mcf, or 29% during the three and nine months ended September 30, 2012, respectively from the same periods in 2011.

Our crude oil production increased by 30,000 barrels, or 19% from 155,000 barrels for the third quarter 2011 to 185,000 barrels for the third quarter 2012 and increased by 83,000 barrels, or 18% from 458,000 barrels for the nine months ended September 30, 2011 to 541,000 barrels for the nine months ended September 30, 2012. Our natural gas production decreased by 103,000 mcf, or 8% from 1,294,000 mcf for the third quarter 2011 to 1,191,000 mcf for the third quarter 2012 and decreased by 210,000 mcf, or 6% from 3,703,000 mcf for the nine months ended September 30, 2011 to 3,493,000 mcf for the nine months ended September 30, 2012. The crude oil production variances are a result of our recent drilling success in West Texas and drilling and acquisition activities in the Gulf Coast regions as we place new wells into production, partially offset by the natural decline of existing properties. The natural gas volume decreases are primarily due to the natural decline of the primary natural gas producing offshore properties, partially offset by production from wells in the West Texas region recently placed into production.

The following table summarizes the primary components of production volumes and average sales prices realized for the three and nine months ended September 30, 2012 and 2011 (excluding realized gains and losses from derivatives).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Barrels of Oil Produced	185,000	155,000	30,000	541,000	458,000	83,000
Average Price Received	\$ 88.26	\$ 83.86	\$ 4.40	\$ 91.84	\$ 90.19	\$ 1.65
Oil Revenue (In 000 s)	\$ 16,288	\$ 13,001	\$ 3,287	\$ 49,717	\$ 41,283	\$ 8,434
Mcf of Gas Produced	1,191,000	1,294,000	(103,000)	3,493,000	3,703,000	(210,000)
Average Price Received	\$ 4.64	\$ 6.77	\$ (2.13)	\$ 4.57	\$ 6.47	\$ (1.90)
Gas Revenue (In 000 s)	\$ 5,525	\$ 8,756	\$ (3,231)	\$ 15,961	\$ 23,953	\$ (7,992)

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Total Oil & Gas Revenue (In 000 s)	\$	21,813	\$	21,757	\$	56	\$	65,678	\$	65,236	\$	442
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**Realized net gains on derivative instruments** include net gains of \$0.04 million on the settlements of crude oil derivatives for the third quarter 2012 and net gains of \$3.30 million and \$1.00 million on the settlements of crude oil and natural gas derivatives, respectively, for the third quarter 2011. Realized net gains on derivative instruments include net gains of \$0.38 million on the settlements of crude oil derivatives for the nine months ended September 30, 2012 and net gains of \$1.46 million and \$2.97 million on the settlements of crude oil and natural gas derivatives, respectively, for the nine months ended September 30, 2011. In August 2011, we unwound and monetized crude oil swaps and collars with original settlement dates from September 2011 thru December 2014 for net proceeds of \$3.40 million. The \$3.40 million gain associated with these early settlement transactions is included in realized gain on derivative instruments for the three and nine months ended September 30, 2011. In the nine months ended September 30, 2012, we unwound and monetized crude oil swaps with original settlement dates from January 2012 through December 2013 for net proceeds of \$1.03 million. The gains associated with these early settlement transactions is included in realized gain on derivative instruments for the nine months ended September 30, 2012.

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Oil and gas prices received including the impact of derivatives but excluding the early settlement transactions were:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Oil Price	\$ 88.46	\$ 83.22	\$ 5.24	\$ 90.63	\$ 85.96	\$ 4.67
Gas Price	\$ 4.64	\$ 7.54	\$ (2.90)	\$ 4.57	\$ 7.27	\$ (2.70)

We do not apply hedge accounting to any of our commodity based derivatives, thus changes in the fair market value of commodity contracts held at the end of a reported period, referred to as mark-to-market adjustments, are recognized as unrealized gains and losses in the accompanying consolidated statements of operations. As oil and natural gas prices remain volatile, mark-to-market accounting treatment creates volatility in our revenues. During the three months ended September 30, 2012, we recognized unrealized losses of \$2.65 million and a net unrealized gain of \$2.45 million for the nine months ended September 30, 2012 associated with crude oil fixed swaps and collars due to market fluctuations in crude oil futures market prices between December 31, 2011 and September 30, 2012. During the three months ended September 30, 2011, we recognized \$12.51 million in unrealized gains. This unrealized gain consists of \$11.40 million associated with crude oil fixed swaps and collars due to a decrease in crude oil futures market prices between June 30, 2011 and September 30, 2011 and \$1.11 million associated with natural gas fixed swap contracts due to decreased natural gas futures market prices between June 30, 2011 and September 30, 2011. For the nine months ended September 30, 2011, we recognized \$9.01 million in unrealized gains primarily associated with crude oil fixed swaps and collars due to a decrease in crude oil futures market prices between December 31, 2010 and September 30, 2011.

**Field service income** decreased \$0.52 million, or 10% from \$5.41 million for the third quarter 2011 to \$4.89 million for the third quarter 2012 and increased \$0.16 million, or 1% from \$15.18 million for the nine months ended September 30, 2011 to \$15.34 million for the nine months ended September 30, 2012. This underlying increase is a result of upturns in utilization of equipment and the market allowing us to charge slightly higher rates to customers. Workover rig services represent the bulk of our field service operations, and those rates all increased in our most active districts. Water hauling and disposal services have also increased in our South Texas district, however were slightly down during the third quarter of 2012 due to one of our disposal wells being shut in during the period as a major workover was completed.

**Lease operating expense** decreased \$0.36 million, or 4% from \$9.71 million for the third quarter 2011 to \$9.35 million for the third quarter 2012 and increased \$2.30 million, or 9% from \$26.52 million for the nine months ended September 30, 2011 to \$28.82 million for the nine months ended September 30, 2012. This underlying increase is primarily due to higher pumper / labor costs, chemical expenses and salt water disposal costs associated with new wells coming on line from the recent drilling success in West Texas and increased expensed workovers across all districts, partially offset by decreased operating expenses on the offshore properties during the first nine months of 2012 as compared to the same period of 2011.

**Field service expense** decreased \$0.12 million, or 3% from \$4.39 million for the third quarter 2011 to \$4.27 million for the third quarter 2012 and increased \$0.48 million, or 4% from \$12.54 million for the nine months ended September 30, 2011 to \$13.02 million for the nine months ended September 30, 2012. Field service expenses primarily consist of salaries and vehicle operating expenses which have increased during the nine months ended September 30, 2012 over the same period of 2011 as a direct result of increased services and utilization of the equipment.

**Depreciation, depletion, amortization and accretion on discounted liabilities** decreased \$17.02 million, or 74% from \$22.90 million for the third quarter 2011 to \$5.88 million for the third quarter 2012 and \$21.08 million, or 52% from \$40.93 million for the nine months ended September 30, 2011 to \$19.85 million for the nine months ended September 30, 2012. This decrease is primarily due to decreased depletion rates recognized during the first nine months of 2012 associated with offshore properties as several of our offshore properties entered into the last phase of their productive lives.

**General and administrative expense** increased \$0.64 million, or 20% from \$3.18 million for the three months ended September 30, 2011 to \$3.82 million for the three months ended September 30, 2012 and increased \$1.29 million, or 13% from \$10.22 million for the nine months ended September 30, 2011 to \$11.51 million for the nine months ended September 30, 2012. This increase in 2012 is largely due to increased personnel costs in 2012. The largest component of these personnel costs was salaries, however rent, audit related costs and employee related taxes and insurance also contributed to the increase.

**Gain on sale and exchange of assets** of \$0.72 million for the nine months ended September 30, 2012 consists of sales of non-essential field service equipment. Gain on sale and exchange of assets of \$1.61 million for the nine months ended September 30, 2011 consists of \$0.50 million related to our Korean Joint Venture combined with \$1.11 million related to sales of non-essential field service equipment and sales of non-producing acreage and non-core producing properties.

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*Interest expense* increased \$0.26 million, or 38% from \$0.69 million for the third quarter 2011 to \$0.95 million for the third quarter 2012 and decreased \$0.51 million, or 17% from \$3.04 million for the nine months ended September 30, 2011 to \$2.53 million for the nine months ended September 30, 2012. This decrease includes the reduction of interest expense of \$0.79 million for the nine

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months ended September 30, 2012 associated with interest on the subordinated credit facility with a related party private lender which was paid off in June 2011. The remaining increase for the three and nine months ended September 30, 2012 relate to reduced weighted average interest rates substantially offset by an increase in average debt outstanding during the 2012 periods.

*A provision for income taxes* of \$0.46 million, or an effective tax rate of 26% was recorded for the three months ended September 30, 2012 verses a provision of \$1.90 million, or an effective tax rate of 31% for the three months ended September 30, 2011. A provision for income taxes of \$4.67 million, or an effective tax rate of 32% was recorded for the nine months ended September 30, 2012 verses a provision of \$2.36 million, or an effective tax rate of 32% for the nine months ended September 30, 2011. Our provision for income taxes varies from the federal statutory tax rate of 34% primarily due to state taxes and percentage depletion deductions. We are entitled to percentage depletion on cert dealer, commercial bank, trust company or other nominee) or holder will be deemed to have irrevocably appointed the exchange agent as its agent and attorney-in-fact (with full knowledge that the exchange agent is also acting as an agent for us in connection with the exchange offer) with respect to the original notes, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest subject only to the right of withdrawal described in this prospectus), to receive for our account all benefits and otherwise exercise all rights of beneficial ownership of such original notes, in accordance with the terms and conditions of the exchange offer.

Each beneficial owner or holder will also be deemed to have represented and warranted to us that it has authority to tender, exchange, sell, assign and transfer the original notes it tenders and that, when the same are accepted for exchange, we will acquire good, marketable and unencumbered title to such original notes, free and clear of all liens, restrictions, charges and encumbrances, and that the original notes tendered are not subject to any adverse claims or proxies. Each beneficial owner and holder, by tendering its original notes, also agrees that it will comply with its obligations under the registration rights agreements.

**Acceptance of Original Notes for Exchange; Delivery of Exchange Notes**

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all original notes properly tendered, unless we terminate the exchange offer because of the non-satisfaction of conditions. We will issue the exchange notes as soon as practicable after acceptance of the

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original notes. For purposes of the exchange offer, we will be deemed to have accepted properly tendered original notes for exchange when, as and if it has given oral or written notice to the exchange agent, with prompt written confirmation of any oral notice. See Conditions to the Exchange Offer below for a discussion of the conditions that must be satisfied before we accept any original notes for exchange.

For each original note accepted for exchange, the holder of the original note will receive an exchange note having a principal amount equal to that of the surrendered original note. The exchange notes will bear interest from the most recent date to which interest has been paid on the original notes. Accordingly, registered holders of exchange notes on the relevant record date for the first interest payment date following the completion of the exchange offer will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid on the original notes, from October 6, 2010. Original notes accepted for exchange will cease to accrue interest from and after the date of completion of the exchange offer. Holders of original notes whose original notes are accepted for exchange will not receive any payment for accrued interest on the original notes otherwise payable on any interest payment date, the record date for which occurs on or after completion of the exchange offer and will be deemed to have waived their rights to receive the accrued interest on the original notes.

In all cases, issuance of exchange notes for original notes will be made only after timely receipt by the exchange agent of an agent's message and a timely confirmation of the book-entry transfer of the original notes, into the exchange agent's account at DTC.

Unaccepted or non-exchanged original notes will be returned without expense to the tendering holder of the original notes. The non-exchanged original notes will be credited to an account maintained with the DTC, as promptly as practicable after the expiration of the exchange offer.

### **Book-Entry Transfer**

The exchange agent will make a request to establish an account for the original notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in DTC's systems must make book-entry delivery of original notes by causing DTC to transfer those original notes into the exchange agent's account at DTC in accordance with DTC's procedure for transfer. This participant should transmit its acceptance to DTC on or prior to the expiration date. DTC will verify this acceptance, execute a book-entry transfer of the tendered original notes into the exchange agent's account at DTC and then send to the exchange agent confirmation of this book-entry transfer. The transmission of the original notes and agent's message to DTC and delivery by DTC to and receipt by the exchange agent of the related agent's message will be deemed to be a valid tender.

### **Exchanging Book-Entry Notes**

The exchange agent and the book-entry transfer facility have confirmed that any financial institution that is a participant in the book-entry transfer facility may utilize the book-entry transfer facility Automated Tender Offer Program, or ATOP, procedures to tender original notes. Any participant in the book-entry transfer facility may make book-entry delivery of original notes by causing the book-entry transfer facility to transfer such original notes into the exchange agent's account in accordance with the book-entry transfer facility's ATOP procedures for transfer. However, the exchange for the original notes so tendered will only be made after a book-entry confirmation of the book-entry transfer of original notes into the exchange agent's account, and timely receipt by the exchange agent of an agent's message. The term agent's message means a message, transmitted by the book-entry transfer facility and received by the exchange agent and forming part of a book-entry confirmation, which states that the book-entry transfer facility has received an express acknowledgment from a participant tendering original notes that are the subject of such book-entry confirmation that such participant has received and agrees to be bound by the terms of the exchange offer as described in this prospectus, and that we may enforce such terms against such participant.

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### **Withdrawal Rights**

*Tenders of original notes may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.*

For a withdrawal of a tender of original notes to be effective, the exchange agent must receive a valid withdrawal request through ATOP from the tendering DTC participant before the expiration date. Any such request for withdrawal must include the VOI number of the tender to be withdrawn and the name of the ultimate beneficial owner of the related original notes in order that such bonds may be withdrawn.

We will determine all questions as to the validity, form and eligibility, including time of receipt, of notices of withdrawal. Any original notes so withdrawn will be deemed not to have been validly tendered for exchange. No exchange notes will be issued unless the original notes so withdrawn are validly re-tendered. Any original notes that have been tendered for exchange, but which are not exchanged for any reason, will be returned to the tendering holder without cost to the holder. The original notes will be credited to an account maintained with DTC for the original notes. The original notes will be credited to the DTC account as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn original notes may be re-tendered by following the procedures described under the heading

Procedures for Tendering above at any time on or before 5:00 p.m., New York City time, on the expiration date.

### **Conditions to the Exchange Offer**

Notwithstanding any other provision of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any original notes, and may terminate or amend the exchange offer, if at any time prior to the expiration date any of the following events occurs:

there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission which, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer; or

a change in applicable law prohibits the consummation of such exchange offer; or

any change, or any development involving a prospective change, has occurred or been threatened in our business, financial condition, operations or prospects and those of our subsidiaries taken as a whole that is or may be adverse to us, or we have become aware of facts that have or may have an adverse impact on the value of the original notes or the exchange notes, which in our reasonable judgment in any case makes it inadvisable to proceed with the exchange offer and about which change or development it makes a public announcement.

All conditions will be deemed satisfied or waived prior to the expiration date, unless we assert them prior to the expiration date. The foregoing conditions to the exchange offer are for our sole benefit and we may prior to the expiration date assert them regardless of the circumstances giving rise to any of these conditions, or we may prior to the expiration date waive them in whole or in part in our reasonable discretion. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of any right.

In addition, we will not accept for exchange any original notes tendered, and no exchange notes will be issued in exchange for any original notes, if at this time any stop order is threatened or in effect relating to the registration statement of which this prospectus constitutes a part. We are required to make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a registration statement at the earliest possible moment.

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### **Exchange Agent**

We have appointed U.S. Bank National Association as the exchange agent for the exchange offer. You should direct questions and requests for assistance and requests for additional copies of this prospectus to the exchange agent addressed as follows:

Delivery To:

U.S. Bank National Association

*By Hand, Registered or Certified Mail, or Overnight Courier:*

U.S. Bank National Association

Attention: Specialized Finance

60 Livingston Avenue

Mail Station EP-MN-W52N

St. Paul, Minnesota 55107-2292

By Facsimile: (651) 495-8158

Confirm By Telephone: (800) 934-6802

All other questions should be addressed to Windstream Corporation, 4001 Rodney Parham Road, Little Rock, Arkansas, 72212-2442, attention John P. Fletcher, Esq.

### **Fees and Expenses**

The principal solicitation is being made by mail by the exchange agent. Additional solicitation may be made by telephone, facsimile or in person by our officers and regular employees and by persons so engaged by the exchange agent.

We will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection therewith and pay other registration expenses, including fees and expenses of the trustee under the Indenture, filing fees, blue sky fees and printing and distribution expenses. We will not make any payment to brokers, dealers or others soliciting acceptances of the exchange offer.

### **Accounting Treatment**

We will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will amortize the expense of the exchange offer over the term of the exchange notes in accordance with accounting principles generally accepted in the United States of America.

### **Transfer Taxes**

We will pay any transfer taxes in connection with the exchange of original notes for exchange notes in the exchange offer unless you instruct us to register exchange notes in the name of, or request any original notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder. In those cases, you will be responsible for the payment of any applicable transfer tax.

### **Appraisal Rights**

You will not have dissenters' rights or appraisal rights in connection with the exchange offer.



**Consequences of Exchanging or Failing to Exchange the Original Notes**

Holders of original notes who do not exchange their original notes for exchange notes in the exchange offer will continue to be subject to the provisions in the Indenture regarding transfer and exchange of the original notes

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and the restrictions on transfer of the original notes as described in the legend on the original notes as a consequence of the issuance of the original notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the original notes may not be offered or sold, unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Original note holders that do not exchange original notes for exchange notes in the exchange offer will no longer have any registration rights with respect to such notes.

Based on existing interpretations of the Securities Act by the SEC's staff contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely transferable by holders after the exchange offer without further registration under the Securities Act, subject to certain representations required to be made by each holder of exchange notes, as set forth below. However, any purchaser of exchange notes who is one of our affiliates (as defined in Rule 405 under the Securities Act) or who intends to participate in the exchange offer for the purpose of distributing the exchange notes:

will not be able to rely on the applicable interpretation of the staff of the SEC;

will not be able to tender its original notes in the exchange offer; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements. See Plan of Distribution.

We do not intend to seek our own interpretation regarding the exchange offer and there can be no assurance that the SEC's staff would make a similar determination with respect to the exchange notes as it has in other interpretations to other parties, although we have no reason to believe otherwise.

**Table of Contents****DESCRIPTION OF THE EXCHANGE NOTES****General**

In this description, the word "Windstream" refers only to Windstream Corporation and not to any of its subsidiaries. In this description, the \$200,000,000 aggregate principal amount of Windstream's registered 7.75% Senior Notes due 2020 exchanged for the original notes are referred to as the "exchange notes". Windstream issued the original notes and will issue the exchange notes under an indenture, dated as of October 6, 2010, or the issue date, among Windstream, the guarantors party thereto and U.S. Bank National Association, as trustee, or the Indenture. There are \$500,000,000 in aggregate principal amount of Existing 2020 Notes already outstanding under the Indenture. As a result, the term "issue date" as used herein refers to October 6, 2010, the date of original issuance of the Existing 2020 Notes under the Indenture. As used in this Description of the Exchange Notes, unless the context otherwise requires, the term "note" or "notes" refers collectively to the original notes, the exchange notes and the Existing 2020 Notes. All such notes will be treated as a single class for all purposes under the Indenture. The terms of the exchange notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. The following description is a summary of the material provisions of the Indenture and the exchange notes. It does not restate those agreements in their entirety and is qualified in its entirety by reference to the provisions of the Indenture and the exchange notes, including the definitions therein of certain terms. A copy of the Indenture has been filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 25, 2011. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the exchange notes. You can find the definitions of some of the terms used in this description below under the caption "Certain Definitions". The defined terms used in this description but not defined below under "Certain Definitions" have the meanings assigned to them in the Indenture.

The registered holder of an exchange note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

The terms of the exchange notes are identical in all material respects to those of the original notes except that the exchange notes are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.

**Brief Description of the Exchange Notes**

The exchange notes:

will be general unsecured obligations of Windstream;

will be effectively subordinated to all existing and future secured Indebtedness of Windstream, including Indebtedness under the Credit Agreement, to the extent of the assets securing such Indebtedness, and to all existing and future liabilities of Windstream's subsidiaries that are not Guarantors, to the extent of the assets of such subsidiaries;

will be *pari passu* in right of payment with all existing and future unsecured, unsubordinated Indebtedness of Windstream;

will be senior in right of payment to any future subordinated Indebtedness of Windstream; and

will be guaranteed by the Guarantors.

As of December 31, 2010, on a pro forma as adjusted basis after giving effect to the issuance of the notes and the use of the proceeds therefrom, together with related borrowings under our revolving line of credit, the 2023 Notes offering and the use of the proceeds therefrom and the 2021 Notes offering and the use of the proceeds therefrom, we would have had approximately \$7.5 billion of consolidated debt outstanding, \$2.2 billion of which was secured indebtedness.



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Currently, all of Windstream's subsidiaries are Restricted Subsidiaries. However, under the circumstances described below under the caption Certain Covenants Designation of Restricted and Unrestricted Subsidiaries, Windstream is permitted to designate certain of its subsidiaries as Unrestricted Subsidiaries.

Any Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture and will not guarantee the exchange notes. Only those Restricted Subsidiaries of Windstream that guarantee any Indebtedness under the Credit Agreement will be Guarantors.

## **Principal, Maturity and Interest**

The Indenture provides for the issuance of notes in an unlimited principal amount, of which \$200,000,000 were issued under the Indenture on January 24, 2011. We may issue additional notes (the Additional Notes) from time to time. Any offering of Additional Notes is subject to the covenant described below under the caption Certain Covenants Incurrence of Indebtedness. The notes constitute Additional Notes under the Indenture. The notes and any Additional Notes subsequently issued under the Indenture would be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase; *provided* that the Additional Notes may be issued at different prices from the issue price of the original notes and the exchange notes. The exchange notes will be issued in denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. The exchange notes will mature on October 15, 2020.

Interest on the exchange notes will accrue at the applicable rate of 7.75% per annum and be payable semi-annually in arrears on April 15 and October 15, commencing on April 15, 2011, to the Holders of record on the immediately preceding April 1 and October 1.

Interest on the exchange notes will accrue from the Issue Date or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

## **Methods of Receiving Payments on the Exchange Notes**

If a Holder has given wire transfer instructions to Windstream, Windstream will pay all principal, interest and premium, if any, on that Holder's exchange notes in accordance with those instructions. All other payments on exchange notes will be made at the office or agency of the Paying Agent and Registrar within the United States of America unless Windstream elects to make interest payments by check mailed to the Holders at their addresses set forth in the register of Holders.

## **Paying Agent and Registrar for the Exchange Notes**

The Trustee will initially act as Paying Agent and Registrar for the exchange notes. Windstream may change the Paying Agent or Registrar without prior notice to the Holders, and Windstream or any of its Subsidiaries may act as Paying Agent or Registrar.

## **Transfer and Exchange**

A Holder may transfer or exchange notes in accordance with the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and Windstream may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. Windstream is not required to transfer or exchange any note selected for redemption. Also, Windstream is not required to transfer or exchange any note for a period of 15 days before the mailing of a notice of redemption of notes to be redeemed.

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The registered Holder of an exchange note will be treated as the owner of it for all purposes.

**Note Guarantees**

The exchange notes will initially be guaranteed, jointly and severally, by each Restricted Subsidiary of Windstream that guarantees any Indebtedness under the Credit Agreement. Many of our regulated Subsidiaries will not Guarantee Indebtedness under the Credit Agreement. Each Note Guarantee:

will be a general unsecured obligation of the Guarantor;

will be effectively subordinated to all existing and future secured Indebtedness of the Guarantor, including the Guarantee of the Guarantor under the Credit Agreement;

will be *pari passu* in right of payment with all existing and future unsecured, unsubordinated Indebtedness of the Guarantor; and

will be senior in right of payment to any future subordinated Indebtedness of the Guarantor.

The obligations of each Guarantor under its Note Guarantee is limited as necessary to prevent that Note Guarantee from constituting a fraudulent conveyance under applicable law. Fraudulent conveyance laws may void the guarantees or subordinate the guarantees. See Risk Factors Risks Related to the Exchange Notes .

In the event that any of Windstream s Restricted Subsidiaries that are not Guarantors guarantee certain other debt, they will be required to guarantee the exchange notes. See Certain Covenants Guarantees.

**Optional Redemption**

At any time prior to October 15, 2015, Windstream may redeem all or part of the notes upon not less than 30 nor more than 60 days prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) the Applicable Premium as of the date of redemption, plus (iii) accrued and unpaid interest, if any, to the date of redemption.

At any time on or after October 15, 2015, Windstream may redeem all or a part of the notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, thereon, to the applicable redemption date, if redeemed during the twelve-month period beginning on September 1 of the years indicated below:

Year	Percentage
2015	103.875%
2016	102.583%
2017	101.292%
2018 and thereafter	100.000%

At any time prior to October 15, 2013, Windstream may redeem up to 35% of the aggregate principal amount of notes issued under the Indenture (including any Additional Notes) at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, thereon to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

- (1) at least 65% of the aggregate principal amount of notes issued under the Indenture (including any Additional Notes) remains outstanding immediately after the occurrence of such redemption (excluding notes held by Windstream or its Subsidiaries); and
- (2) the redemption must occur within 90 days of the date of the closing of such Equity Offering.



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### ***Selection and Notice***

If less than all of the notes are to be redeemed at any time, the Trustee will select notes for redemption as follows:

- (1) if the notes are listed on any national securities exchange, in compliance with the requirements of such principal national securities exchange; or
- (2) if the notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee will deem fair and appropriate.

No notes of \$2,000 or less will be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of notes to be redeemed at its registered address. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

### **Mandatory Redemption**

Windstream is not required to make mandatory redemption or sinking fund payments with respect to the notes.

### **Repurchase at the Option of Holders**

#### ***Change of Control***

If a Change of Control Triggering Event occurs, each Holder of notes will have the right to require Windstream to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess of \$2,000) of that Holder's notes pursuant to an offer, or a Change of Control Offer, on the terms set forth in the Indenture. In the Change of Control Offer, Windstream will offer payment (a Change of Control Payment) in cash equal to not less than 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, thereon, to the date of repurchase, or the Change of Control Payment Date. No later than 30 days following any Change of Control Triggering Event (unless Windstream has exercised its right to redeem the notes as described under Optional Redemption), Windstream will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in such notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. Windstream will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, Windstream will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

On the Change of Control Payment Date, Windstream will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by Windstream.



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The Paying Agent will promptly mail or wire transfer to each Holder of notes so tendered the Change of Control Payment for such notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the notes surrendered, if any, *provided* that each such new Note will be in a principal amount of \$2,000 or an integral multiple of \$1,000 in excess of \$2,000.

Windstream will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The Credit Agreement limits Windstream's ability to purchase any notes, and also provides that certain change of control events with respect to Windstream would constitute a default under the Credit Agreement. Windstream's existing notes also provide that certain change of control events will require the notes to be repurchased. Any future credit agreements or other similar agreements to which Windstream or its subsidiaries become party may contain similar restrictions and provisions. In the event a Change of Control Triggering Event occurs at a time when Windstream is prohibited from purchasing notes, Windstream could seek the consent of its lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If Windstream does not obtain such a consent or repay such borrowings, Windstream will remain prohibited from purchasing notes. In such case, Windstream's failure to purchase tendered notes would constitute an Event of Default under the Indenture which would, in turn, constitute a default under such other agreements.

The provisions described above that require Windstream to make a Change of Control Offer following a Change of Control Triggering Event will be applicable regardless of whether any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders of the notes to require that Windstream repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

Windstream will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by Windstream and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control Triggering Event includes a phrase relating to the direct or indirect sale, transfer, conveyance or other disposition of all or substantially all of the properties or assets of Windstream and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of notes to require Windstream to repurchase such notes as a result of a sale, transfer, conveyance or other disposition of less than all of the assets of Windstream and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

### ***Asset Sales***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) Windstream (or the Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration therefor received by Windstream or such Restricted Subsidiary is in the form of cash, Cash Equivalents or Replacement Assets or a combination of both. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities (as shown on Windstream's or such Restricted Subsidiary's most recent balance sheet) of Windstream or any Restricted Subsidiary (other than contingent liabilities, Indebtedness that is by its terms

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subordinated to the notes or any Note Guarantee and liabilities to the extent owed to Windstream or any Subsidiary of Windstream) that are assumed by the transferee of any such assets or Equity Interests pursuant to a written assignment and assumption agreement that releases Windstream or such Restricted Subsidiary from further liability therefor;

(b) any securities, notes or other obligations received by Windstream or any such Restricted Subsidiary from such transferee that are converted by Windstream or such Restricted Subsidiary into Cash Equivalents or Replacement Assets within 180 days of the receipt thereof (to the extent of the Cash Equivalents or Replacement Assets received in that conversion);

(c) any Designated Noncash Consideration received by Windstream or any of its Restricted Subsidiaries in such Asset Sale having an aggregate Fair Market Value, taken together with all other Designated Noncash Consideration received pursuant to this clause (c) that is at that time outstanding, not to exceed the greater of (x) 1.5% of Total Assets and (y) \$100.0 million (with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value).

Within 365 days after the receipt by Windstream or any of its Restricted Subsidiaries of any Net Proceeds from an Asset Sale, Windstream or such Restricted Subsidiary may apply such Net Proceeds at its option:

(1) to repay (x) Indebtedness secured by assets of Windstream or its Restricted Subsidiaries (to the extent of the value of the assets securing such Indebtedness), (y) Obligations under the Credit Agreement or (z) Indebtedness of a Restricted Subsidiary of Windstream that is not a Guarantor (to the extent of the value of the assets of such Restricted Subsidiary); or

(2) to purchase Replacement Assets.

Pending the final application of any such Net Proceeds, Windstream or such Restricted Subsidiary may temporarily reduce revolving credit borrowings or otherwise invest such Net Proceeds in any manner that is not prohibited by the Indenture.

On the 366<sup>th</sup> day after an Asset Sale or such earlier date, if any, as Windstream determines not to apply the Net Proceeds relating to such Asset Sale as set forth in the preceding paragraph (each such date being referred as an Excess Proceeds Trigger Date), such aggregate amount of Net Proceeds that has not been applied on or before the Excess Proceeds Trigger Date as permitted in the preceding paragraph, or the Excess Proceeds, will be applied by Windstream to make an offer, or an Asset Sale Offer, to all Holders of notes and all holders of other Indebtedness that is *pari passu* with the notes or any Note Guarantee containing provisions similar to those set forth in the Indenture with respect to offers to purchase with the proceeds of sales of assets, to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount of the notes and such other *pari passu* Indebtedness plus accrued and unpaid interest, if any, to the date of purchase, and will be payable in cash.

Windstream may defer the Asset Sale Offer until there are aggregate unutilized Excess Proceeds equal to or in excess of \$30.0 million resulting from one or more Asset Sales, at which time the entire unutilized amount of Excess Proceeds (not only the amount in excess of \$30.0 million) will be applied as provided in the preceding paragraph. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Windstream and its Restricted Subsidiaries may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of notes and such other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the notes and such other *pari passu* Indebtedness will be purchased on a pro rata basis based on the principal amount of notes and such other *pari passu* Indebtedness tendered. Upon completion of each Asset Sale Offer, the Excess Proceeds subject to such Asset Sale will no longer be deemed to be Excess Proceeds.

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Windstream will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sales provisions of the Indenture, Windstream will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Asset Sale provisions of the Indenture by virtue of such compliance.

The Credit Agreement limits Windstream's ability to purchase any notes, and also provides that certain asset sale events with respect to Windstream would constitute a default under the Credit Agreement. Any future credit agreements or other similar agreements to which Windstream becomes party may contain similar restrictions and provisions. In the event an Asset Sale occurs at a time when Windstream is prohibited from purchasing notes, Windstream could seek the consent of its lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If Windstream does not obtain such a consent or repay such borrowings, Windstream will remain prohibited from purchasing notes. In such case, Windstream's failure to purchase tendered notes would constitute an Event of Default under the Indenture which would, in turn, constitute a default under such other agreements.

**Certain Covenants**

***Restricted Payments***

(A) Windstream will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay (without duplication) any dividend or make any other payment or distribution on account of Windstream's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Windstream or any of its Restricted Subsidiaries) or to the direct or indirect holders of Windstream's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends, payments or distributions (x) payable in Equity Interests (other than Disqualified Stock) of Windstream or (y) to Windstream or a Restricted Subsidiary of Windstream);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Windstream or any of its Restricted Subsidiaries) any Equity Interests of Windstream or any Restricted Subsidiary thereof held by Persons other than Windstream or any of its Restricted Subsidiaries;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Debt, except (a) a payment of interest or principal at the Stated Maturity thereof or (b) the purchase, repurchase or other acquisition of any such Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition; or

(4) make any Restricted Investment (all such payments and other actions set forth in clauses (1) through (4) above being collectively referred to as Restricted Payments), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default will have occurred and be continuing or would occur as a consequence thereof;

(b) Windstream would, after giving pro forma effect to such Restricted Payment as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to Incur at least \$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption "Incurrence of Indebtedness"; and

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(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Windstream and its Restricted Subsidiaries on or after July 17, 2006 (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (8), (9) (only in connection with any calculation made for purposes of making a Restricted Payment on or prior to July 17, 2007; any payments made under such clause (9), even prior to such date, will be included as Restricted Payments for purposes of making any calculation after such date), (10) and (11) of the next succeeding paragraph (B)), is less than the sum, without duplication, of:

(i) an amount equal to Windstream's Consolidated Cash Flow for the period (taken as one accounting period) from October 1, 2006 to the end of Windstream's most recently ended fiscal quarter for which internal financial statements are available, or the Basket Period, less 1.4 times Windstream's Fixed Charges for the Basket Period, *plus*

(ii) 100% of the aggregate net cash proceeds received by Windstream after July 17, 2006 as a contribution to its common equity capital or from the issue or sale of Equity Interests (other than Disqualified Stock) of Windstream or from the Incurrence of Indebtedness (including the issuance of Disqualified Stock) of Windstream or any of its Restricted Subsidiaries that has been converted into or exchanged for such Equity Interests (other than Equity Interests sold to, or Indebtedness held by, a Subsidiary of Windstream and except to the extent converted into or exchanged for Disqualified Stock), *plus*

(iii) with respect to Restricted Investments made by Windstream and its Restricted Subsidiaries after July 17, 2006 pursuant to this paragraph (A), (i) the aggregate amount of cash equal to the return from such Restricted Investments in any Person resulting from repayments of loans or advances, or other transfers of assets, in each case to Windstream or any Restricted Subsidiary or from the net proceeds received in cash, from the sale of any such Restricted Investment (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) or (ii) in the case of redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, the Fair Market Value of the Restricted Investments therein at the time of such redesignation.

(B) The preceding provisions will not prohibit, so long as, in the case of clauses (5), (7) and (8) below, no Default has occurred and is continuing or would be caused thereby:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture;

(2) the payment of any dividend or other distribution by a Restricted Subsidiary of Windstream to the holders of its Equity Interests on a pro rata basis;

(3) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of a contribution to the common equity of Windstream or a substantially concurrent sale (other than to a Subsidiary of Windstream) of, Equity Interests (other than Disqualified Stock) of Windstream; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph (A);

(4) the defeasance, redemption, repurchase or other acquisition of Indebtedness subordinated to the notes or the Note Guarantees with the net cash proceeds from an Incurrence of Permitted Refinancing Indebtedness;

(5) the declaration and payment of dividends or distributions to holders of any class or series of Disqualified Stock of Windstream or any Preferred Stock of its Restricted Subsidiaries issued or incurred in accordance with the covenant entitled "Incurrence of Indebtedness";

(6) the repurchase of Equity Interests deemed to occur upon the exercise of options or warrants to the extent that such Equity Interests represent all or a portion of the exercise price thereof;

(7) the repurchase of Equity Interests of Windstream constituting fractional shares in an aggregate amount since July 17, 2006 not to exceed \$300,000;

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(8) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Windstream or any of its Restricted Subsidiaries held by any current or former employee, consultant or director of Windstream or any of its Restricted Subsidiaries pursuant to the terms of any employee equity subscription agreement, stock option agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests in any fiscal year will not exceed the sum of:

(a) \$20.0 million, with unused amounts pursuant to this subclause (a) being carried over to succeeding fiscal years; plus

(b) the aggregate net cash proceeds received by Windstream since July 17, 2006 as a contribution to its common equity capital or from the issue or sale of Equity Interests (other than Disqualified Stock) of Windstream to any current or former employee, consultant or director of Windstream or any of its Restricted Subsidiaries; *provided* that the amount of any such net cash proceeds that are used to permit a repurchase, redemption or other acquisition under this subclause (b) will be excluded from clause (3)(b) of the preceding paragraph (A);

(9) dividends paid by Windstream on its Common Stock in an amount not to exceed \$237.5 million in the aggregate for the first two quarterly dividend payments immediately following July 17, 2006 and any dividend declared by Valor prior to July 17, 2006 and paid thereafter;

(10) the repurchase of any Subordinated Debt at a purchase price not greater than 101% of the principal amount thereof in the event of (x) a change of control pursuant to a provision no more favorable to the holders thereof than the provision described under the caption of Repurchase at the Option of Holders Change of Control or (y) an Asset Sale pursuant to a provision no more favorable to the holders thereof than the provision described under the caption of Repurchase at the Option of Holders Asset Sales, *provided* that, in each case, prior to the repurchase, Windstream has made a Change of Control Offer or Asset Sale Offer, as the case may be, and repurchased all Notes issued under the Indenture that were validly tendered for payment in connection therewith; and

(11) Restricted Payments made on July 17, 2006 as part of the Transactions, as described in the offering memorandum dated June 28, 2006; and

(12) other Restricted Payments in an aggregate amount not to exceed \$50.0 million.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued to or by Windstream or such Subsidiary, as the case may be, pursuant to the Restricted Payment. Not later than the date of making any Restricted Payment, Windstream will deliver to the Trustee an Officers Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Restricted Payments covenant were computed, together with a copy of any opinion or appraisal required by the Indenture.

For the purposes of this covenant, any payment made on or after July 17, 2006, but prior to the Issue Date, shall be deemed to be a Restricted Payment to the extent that such payment would have been a Restricted Payment had the Indenture been in effect at the time of such payment (and, to the extent that such Restricted Payment was permitted by clauses (1) through (12) above, such Restricted Payment may be deemed by Windstream to have been made pursuant to such clause).

***Incurrence of Indebtedness***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness; *provided, however*, that Windstream or any of its Restricted Subsidiaries that are Guarantors may Incur Indebtedness, if Windstream's Consolidated Leverage Ratio at the time of the Incurrence of such additional Indebtedness, and after giving effect thereto, is less than 4.50 to 1.

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The first paragraph of this covenant will not prohibit the Incurrence of any of the following items of Indebtedness (collectively referred to as Permitted Debt ):

- (1) the Incurrence by Windstream or any of its Restricted Subsidiaries of Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding pursuant to this clause (1) not to exceed \$2.8 billion, less (x) the aggregate principal amount of Valor Notes outstanding at such time and (y) the aggregate amount of all Net Proceeds of Asset Sales applied by Windstream or any Restricted Subsidiary thereof to permanently repay any such Indebtedness pursuant to the covenant described above under the caption Repurchase at the Option of Holders Asset Sales ;
- (2) the Incurrence of Existing Indebtedness;
- (3) the Incurrence by Windstream of Indebtedness represented by the notes to be issued on the Issue Date and Guarantees of notes (including Additional Notes) by the Guarantors;
- (4) the Incurrence by Windstream or any Restricted Subsidiary thereof of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property (real or personal), plant or equipment used in the business of Windstream or such Restricted Subsidiary (whether through the direct acquisition of such assets or the acquisition of Equity Interests of any Person owning such assets), in an aggregate principal amount at any time outstanding, including all Permitted Refinancing Indebtedness Incurred to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (4), not to exceed the greater of (x) 3.0% of Total Assets and (y) \$250.0 million;
- (5) the Incurrence by Windstream or any Restricted Subsidiary thereof of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be Incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), (14) or (15) of this paragraph;
- (6) the Incurrence by Windstream or any of its Restricted Subsidiaries of intercompany Indebtedness owing to and held by Windstream or any of its Restricted Subsidiaries; *provided, however*, that (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Windstream or a Restricted Subsidiary thereof and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Windstream or a Restricted Subsidiary thereof, will be deemed, in each case, to constitute an Incurrence of such Indebtedness by Windstream or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the Guarantee by Windstream or any of its Restricted Subsidiaries of Indebtedness of Windstream or a Restricted Subsidiary thereof that was permitted to be Incurred by another provision of this covenant;
- (8) the Incurrence by Windstream or any of its Restricted Subsidiaries of Hedging Obligations that are Incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes;
- (9) the Incurrence by Windstream or any of its Restricted Subsidiaries of Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or Guarantees or letters of credit, surety bonds or performance bonds securing any obligations of Windstream or any of its Restricted Subsidiaries pursuant to such agreements, in any case Incurred in connection with the disposition of any business, assets or Restricted Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition), so long as the principal amount does not exceed the gross proceeds actually received by Windstream or any Restricted Subsidiary thereof in connection with such disposition;

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(10) the Incurrence by Windstream or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided, however*, that such Indebtedness is extinguished within five Business Days of its Incurrence;

(11) the Incurrence by Windstream or any of its Restricted Subsidiaries of Indebtedness constituting reimbursement obligations with respect to letters of credit in respect of workers' compensation claims or self-insurance obligations or bid, performance, appeal or surety bonds (in each case other than for an obligation for borrowed money);

(12) the Incurrence by Windstream or any of its Restricted Subsidiaries of Indebtedness constituting reimbursement obligations with respect to letters of credit issued in the ordinary course of business; *provided* that, upon the drawing of such letters of credit or the Incurrence of such Indebtedness, such obligations are reimbursed within 30 days following such drawing or Incurrence;

(13) the Incurrence by Windstream or any Guarantor of Indebtedness to the extent that the net proceeds thereof are promptly deposited to defease or to satisfy and discharge the notes;

(14) the Incurrence of Acquired Debt, *provided* that after giving effect to the Incurrence thereof, Windstream could Incur at least \$1.00 of Indebtedness under the Consolidated Leverage Ratio set forth in the first paragraph above; and

(15) the Incurrence by Windstream or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount at any time outstanding, including all Permitted Refinancing Indebtedness Incurred to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (15), not to exceed \$250.0 million.

For purposes of determining compliance with this covenant, in the event that any proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (15) above, or is entitled to be Incurred pursuant to the first paragraph of this covenant, Windstream will be permitted to classify such item of Indebtedness at the time of its Incurrence in any manner that complies with this covenant; provided that any refinancing, or a Credit Facility Refinancing, of amounts Incurred in reliance on the exception provided by clause (1) of the definition of Permitted Debt will be deemed to have been Incurred in reliance on such clause (1). Indebtedness under the Credit Agreement outstanding on the Issue Date or Incurred to refinance the Valor Notes will be deemed to have been Incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt. Additionally, all or any portion of any item of Indebtedness (other than Indebtedness under the Credit Agreement Incurred on the Issue Date or Incurred to refinance the Valor Notes and Credit Facility Refinancings, which at all times shall be deemed to have been Incurred under clause (1) above) may later be reclassified as having been Incurred pursuant to the first paragraph of this covenant or under any clause of Permitted Debt so long as such Indebtedness is permitted to be Incurred pursuant to such provision at the time of reclassification.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Windstream will not Incur any Indebtedness that is contractually subordinate in right of payment to any other Indebtedness of Windstream unless it is contractually subordinate in right of payment to the notes to the same extent. No Guarantor will Incur any Indebtedness that is contractually subordinate in right of payment to any other Indebtedness of such Guarantor unless it is contractually subordinate in right of payment to such Guarantor's Note Guarantee to the same extent. For purposes of the foregoing, no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of Windstream or any Guarantor,

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as applicable, solely by reason of any Liens or Guarantees arising or created in respect thereof or by virtue of the fact that the holders of any secured Indebtedness have entered into intercreditor agreements giving one or more of such holders priority over the other holders in the collateral held by them.

### ***Liens***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind securing Indebtedness (other than Permitted Liens) upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the Indenture and the notes are secured on an equal and ratable basis with the obligations so secured (or, in the case of Indebtedness subordinated to the notes or the related Note Guarantees, prior or senior thereto, with the same relative priority as the notes will have with respect to such subordinated Indebtedness) until such time as such obligations are no longer secured by a Lien.

### ***Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (a) pay dividends or make any other distributions on its Capital Stock (or with respect to any other interest or participation in, or measured by, its profits) to Windstream or any of its Restricted Subsidiaries or pay any liabilities owed to Windstream or any of its Restricted Subsidiaries;
- (b) make loans or advances to Windstream or any of its Restricted Subsidiaries; or
- (c) transfer any of its properties or assets to Windstream or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions:

- (1) existing under, by reason of or with respect to the Credit Agreement, Existing Indebtedness or any other agreements in effect on the Issue Date and any amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings thereof, *provided* that the encumbrances and restrictions in any such amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacement or refinancings are, in the good faith judgment of Windstream's Board of Directors, no more restrictive, taken as a whole, than those contained in the Credit Agreement, Existing Indebtedness or such other agreements, as the case may be, as in effect on the Issue Date;
- (2) set forth in the Indenture, the notes and the Note Guarantees;
- (3) existing under, by reason of or with respect to applicable law, rule, regulation or order;
- (4) with respect to any Person or the property or assets of a Person acquired by Windstream or any of its Restricted Subsidiaries existing at the time of such acquisition and not incurred in connection with or in contemplation of such acquisition, which encumbrance or restriction is not applicable to any Person or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired and any amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings thereof, *provided* that the encumbrances and restrictions in any such amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacement or refinancings are no more restrictive, taken as a whole, than those in effect on the date of the acquisition;
- (5) in the case of clause (c) of the first paragraph of this covenant:
  - (a) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset,



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(b) existing by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of Windstream or any Restricted Subsidiary thereof not otherwise prohibited by the Indenture,

(c) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on the property so acquired, or

(d) arising or agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of Windstream or any Restricted Subsidiary thereof in any manner material to Windstream or any Restricted Subsidiary thereof;

(6) existing under, by reason of or with respect to any agreement for the sale or other disposition of all or substantially all of the Capital Stock of, or property and assets of, a Restricted Subsidiary that restrict distributions by that Restricted Subsidiary pending such sale or other disposition;

(7) on cash or other deposits or net worth imposed by customers or required by insurance, surety or bonding companies, in each case, under contracts entered into in the ordinary course of business;

(8) existing under, by reason of or with respect to Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(9) existing under, by reason of or with respect to provisions with respect to the disposition or distribution of assets or property, in each case contained in joint venture agreements, limited liability company agreements and other similar agreements and which Windstream's Board of Directors determines will not adversely affect Windstream's ability to make payments of principal or interest payments on the notes; and

(10) existing under, by reason of or with respect to Indebtedness of any Guarantor; provided that Windstream's Board of Directors determines in good faith at the time such encumbrances or restrictions are created that they do not adversely affect Windstream's ability to make payments of principal or interest payments on the notes.

***Merger, Consolidation or Sale of Assets***

Windstream will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not Windstream is the surviving Person) or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties and assets of Windstream and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) Windstream is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than Windstream) or to which such sale, assignment, transfer, conveyance or other disposition will have been made (i) is a corporation or limited liability company organized or existing under the laws of the United States, any state thereof or the District of Columbia (*provided* that, if the Person formed by or surviving such consolidation or merger, or the transferee of such properties or assets, is a limited liability company, then there shall be a Restricted Subsidiary of such Person which shall be a corporation organized in the jurisdictions permitted by this clause (1) and a co-obligor of the notes) and (ii) assumes all the obligations of Windstream under the notes, the Indenture and the Registration Rights Agreement pursuant to agreements reasonably satisfactory to the Trustee;

(2) immediately after giving effect to such transaction, no Default or Event of Default exists;

(3) immediately after giving effect to such transaction on a pro forma basis, Windstream or the Person formed by or surviving any such consolidation or merger (if other than Windstream), or to which such sale,

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assignment, transfer, conveyance or other disposition will have been made, will either (x) be permitted to Incur at least \$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness or (y) have a Consolidated Leverage Ratio that is lower than the Consolidated Leverage Ratio of Windstream immediately prior to such transaction; and

(4) each Guarantor, unless such Guarantor is the Person with which Windstream has entered into a transaction under this covenant, will have by amendment to its Note Guarantee confirmed that its Note Guarantee will apply to the obligations of Windstream or the surviving Person in accordance with the notes and the Indenture.

Upon any consolidation or merger, or any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of Windstream in accordance with this covenant, the successor Person formed by such consolidation or into or with which Windstream is merged or to which such sale, assignment, transfer, conveyance or other disposition is made will succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, assignment, conveyance or other disposition, the provisions of the Indenture referring to Windstream will refer instead to the successor person and not to Windstream), and may exercise every right and power of, Windstream under the Indenture with the same effect as if such successor Person had been named as Windstream in the Indenture. In the event of any such transfer (other than any transfer by way of lease), the predecessor will be released and discharged from all liabilities and obligations in respect of the notes and the Indenture and the predecessor may be dissolved, wound up or liquidated at any time thereafter.

In addition, Windstream and its Restricted Subsidiaries may not, directly or indirectly, lease all or substantially all of the properties or assets of Windstream and its Restricted Subsidiaries considered as one enterprise, in one or more related transactions, to any other Person.

Clauses (2) and (3) above of this covenant will not apply to:

any merger, consolidation or sale, assignment, transfer, conveyance or other disposition of assets between or among Windstream and any of its Restricted Subsidiaries; or

any transaction if, in the good faith determination of the Board of Directors of Windstream, the sole purpose of the transaction is to reincorporate Windstream in another state of the United States.

***Transactions with Affiliates***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into, make, amend, renew or extend any transaction, contract, agreement, understanding, loan, advance or Guarantee with, or for the benefit of, any Affiliate, or an Affiliate Transaction, unless:

(1) such Affiliate Transaction is on terms that are no less favorable to Windstream or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by Windstream or such Restricted Subsidiary with a Person that is not an Affiliate of Windstream or any of its Restricted Subsidiaries; and

(2) Windstream delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$25.0 million, a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction or series of related Affiliate Transactions complies with this covenant and that such Affiliate Transaction or series of related Affiliate Transactions has been approved by a majority of the disinterested members of the Board of Directors of Windstream (if any); and

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(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$100.0 million, an opinion as to the fairness to Windstream or such Restricted Subsidiary of such Affiliate Transaction or series of related Affiliate Transactions from a financial point of view issued by an independent accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) transactions between or among Windstream and/or its Restricted Subsidiaries or any Person that will become a Restricted Subsidiary as part of any such transactions (but excluding any such transaction to the extent that any payments thereunder made by Windstream or any of its Restricted Subsidiaries to such Person are substantially concurrently paid by such Person to any other Affiliate of Windstream, except to the extent that any such transaction would not be prohibited by this covenant);

(2) payment of reasonable and customary fees to, and reasonable and customary indemnification and similar payments on behalf of, directors of Windstream;

(3) Permitted Investments and Restricted Payments that are permitted by the provisions of the Indenture described above under the caption Restricted Payments ;

(4) any sale of Equity Interests (other than Disqualified Stock) of Windstream;

(5) transactions pursuant to agreements or arrangements in effect on the Issue Date, or any amendment, modification, or supplement thereto or replacement thereof, as long as such agreement or arrangement, as so amended, modified, supplemented or replaced, taken as a whole, is not more disadvantageous to Windstream and its Restricted Subsidiaries than the original agreement or arrangement in existence on the Issue Date;

(6) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by Windstream or any of its Restricted Subsidiaries with officers and employees of Windstream or any of its Restricted Subsidiaries and the payment of compensation to officers and employees of Windstream or any of its Restricted Subsidiaries (including amounts paid pursuant to employee benefit plans, employee stock option or similar plans), so long as such agreement or payment has been approved by a majority of the disinterested members of the Board of Directors of Windstream;

(7) payments or loans to employees or consultants in the ordinary course of business which are approved by a majority of the disinterested members of the Board of Directors of Windstream in good faith;

(8) transactions with a Person that is an Affiliate of Windstream solely because Windstream, directly or indirectly, owns Equity Interests in, or controls, such Person; and

(9) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, which are fair to Windstream and its Restricted Subsidiaries in the determination of a majority of the disinterested members of the Board of Directors or the senior management of Windstream, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party.

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors of Windstream may designate any Restricted Subsidiary of Windstream to be an Unrestricted Subsidiary; *provided* that:

(1) any Guarantee by Windstream or any Restricted Subsidiary thereof of any Indebtedness of the Subsidiary being so designated will be deemed to be an Incurrence of Indebtedness by Windstream or such Restricted Subsidiary (or both, if applicable) at the time of such designation, and such Incurrence of Indebtedness would be permitted under the covenant described above under the caption Incurrence of Indebtedness ;

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(2) the aggregate Fair Market Value of all outstanding Investments owned by Windstream and its Restricted Subsidiaries in the Subsidiary being so designated (including any Guarantee by Windstream or any Restricted Subsidiary thereof of any Indebtedness of such Subsidiary) will be deemed to be a Restricted Investment made as of the time of such designation and that such Investment would be permitted under the covenant described above under the caption Restricted Payments ;

(3) the Subsidiary being so designated:

(a) is not party to any agreement, contract, arrangement or understanding with Windstream or any Restricted Subsidiary thereof unless either (i) such agreement, contract, arrangement or understanding is with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, which are fair to Windstream and its Restricted Subsidiaries in the determination of a majority of the disinterested members of the Board of Directors or the senior management of Windstream, or (ii) the terms of any such agreement, contract, arrangement or understanding are no less favorable to Windstream or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Windstream;

(b) is a Person with respect to which neither Windstream nor any of its Restricted Subsidiaries has any direct or indirect obligation (i) to subscribe for additional Equity Interests or (ii) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(c) has not Guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Windstream or any of its Restricted Subsidiaries, except (i) to the extent such Guarantee or credit support would be released upon such designation or (ii) a pledge of the Equity Interests of the Unrestricted Subsidiary that is the obligor thereunder; and

(4) no Default or Event of Default would be in existence following such designation.

Any designation of a Restricted Subsidiary of Windstream as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee the Board Resolution giving effect to such designation and an Officers Certificate certifying that such designation complied with the preceding conditions and was permitted by the Indenture. If, at any time, any Unrestricted Subsidiary would fail to meet any of the preceding requirements described in clause (3) above, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness, Investments, or Liens on the property, of such Subsidiary will be deemed to be Incurred or made by a Restricted Subsidiary of Windstream as of such date and, if such Indebtedness, Investments or Liens are not permitted to be Incurred or made as of such date under the Indenture, Windstream will be in default under the Indenture.

The Board of Directors of Windstream may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that:

(1) such designation will be deemed to be an Incurrence of Indebtedness by a Restricted Subsidiary of Windstream of any outstanding Indebtedness (including any Non-Recourse Debt) of such Unrestricted Subsidiary and such designation will only be permitted if such Indebtedness is permitted under the covenant described under the caption Incurrence of Indebtedness ;

(2) all outstanding Investments owned by such Unrestricted Subsidiary will be deemed to be made as of the time of such designation and such designation will only be permitted if such Investments would be permitted under the covenant described above under the caption Restricted Payments ;

(3) all Liens upon property or assets of such Unrestricted Subsidiary existing at the time of such designation would be permitted under the caption Liens ; and

(4) no Default or Event of Default would be in existence following such designation.

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***Sale and Leaseback Transactions***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that Windstream or any Restricted Subsidiary thereof may enter into a Sale and Leaseback Transaction if:

(1) Windstream or such Restricted Subsidiary, as applicable, could have (a) Incurred Indebtedness in an amount equal to the Attributable Debt relating to such Sale and Leaseback Transaction pursuant to the covenant described above under the caption **Certain Covenants Incurrence of Indebtedness** and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption **Certain Covenants Liens** in which case such Indebtedness and Liens shall be deemed to have been so incurred;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of that Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and Windstream applies the proceeds of such transaction in compliance with, the covenant described above under the caption **Repurchase at the Option of Holders Asset Sales**.

***Guarantees***

Windstream will not permit any of its Restricted Subsidiaries (other than any Insignificant Subsidiary), directly or indirectly, to Guarantee or pledge any assets to secure the payment of any other Indebtedness of Windstream or any Domestic Restricted Subsidiary unless such Restricted Subsidiary is a Guarantor or simultaneously executes and delivers to the Trustee an Opinion of Counsel and a supplemental indenture providing for the Guarantee of the payment of the notes by such Restricted Subsidiary, which Guarantee will be senior to or *pari passu* with such Subsidiary's Guarantee of such other Indebtedness.

A Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than Windstream or another Guarantor, unless:

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(2) either:

(a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger (if other than the Guarantor) is organized or existing under the laws of the United States, any state thereof or the District of Columbia and assumes all the obligations of that Guarantor under the Indenture, its Note Guarantee and the Registration Rights Agreement pursuant to a supplemental indenture satisfactory to the Trustee; or

(b) such sale or other disposition or consolidation or merger complies with the covenant described above under the caption **Repurchase at the Option of Holders Asset Sales**.

The Note Guarantee of a Guarantor will be released:

(1) in connection with any transaction permitted by the Indenture after which such Guarantor would no longer constitute a Restricted Subsidiary of Windstream, if the sale of Capital Stock, if any, complies with the covenant described above under the caption **Repurchase at the Option of Holders Asset Sales** ;

(2) if Windstream properly designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary under the Indenture;

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(3) upon satisfaction and discharge of the notes as set forth under Satisfaction and Discharge or upon defeasance of the notes as set forth under Legal Defeasance and Covenant Defeasance ; or

(4) solely in the case of a Note Guarantee created pursuant to the first paragraph of this covenant, upon the release or discharge of the Guarantee which resulted in the creation of such Note Guarantee pursuant to this covenant, except a discharge or release by or as a result of payment under such Guarantee.

***Business Activities***

Windstream will not, and will not permit any Restricted Subsidiary thereof to, engage in any business other than Permitted Businesses, except to such extent as would not be material to Windstream and its Restricted Subsidiaries taken as a whole.

***Payments for Consent***

Windstream will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the notes unless such consideration is offered to be paid and is paid to all Holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

***Reports***

Windstream will furnish to the Trustee and, upon request, to beneficial owners and prospective investors a copy of all of the information and reports referred to in clauses (1) and (2) below within the time periods specified in the SEC's rules and regulations:

(1) all quarterly and annual financial information that is required to be contained in a filing with the SEC on Forms 10-Q and 10-K, including a Management's Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual information only, a report on the annual financial statements by Windstream's certified independent accountants; and

(2) all current reports that are required to be filed with the SEC on Form 8-K.

Whether or not required by the SEC, Windstream will comply with the periodic reporting requirements of the Exchange Act and will file the reports specified in the preceding paragraph with the SEC within the time periods specified above unless the SEC will not accept such a filing. Windstream agrees that it will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept Windstream's filings for any reason, Windstream will post the reports referred to in the preceding paragraph on its website within the time periods that would apply if Windstream were required to file those reports with the SEC.

If Windstream has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by this covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of Windstream and its Restricted Subsidiaries separate from the financial condition and results of operations of Windstream's Unrestricted Subsidiaries.

In addition, Windstream and the Guarantors have agreed that, for so long as any notes remain outstanding, they will furnish to the Holders and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

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**Termination of Applicability of Certain Covenants if Notes Rated Investment Grade**

Notwithstanding the foregoing, Windstream's and its Restricted Subsidiaries' obligations to comply with the provisions of the Indenture described above under the captions "Repurchase at the Option of Holders," "Asset Sales," and "Certain Covenants" (except for the covenants described under the caption "Certain Covenants - Liens," "Certain Covenants - Merger, Consolidation or Sale of Assets" (other than clause (3) of the first paragraph thereof), "Certain Covenants - Sale and Leaseback Transactions," "Certain Covenants - Guarantees," and "Certain Covenants - Reports") will terminate with respect to the notes and cease to have any further effect from and after the first date when the notes are rated Investment Grade.

**Events of Default and Remedies**

Each of the following is an Event of Default with respect to the notes:

- (1) default for 30 days in the payment when due of interest on the notes;
- (2) default in payment when due (whether at maturity, upon acceleration, redemption, required repurchase or otherwise) of the principal of, or premium, if any, on the notes;
- (3) failure by Windstream or any of its Restricted Subsidiaries to comply with the provisions described under the caption "Certain Covenants - Merger, Consolidation or Sale of Assets";
- (4) failure by Windstream or any of its Restricted Subsidiaries for 30 days after written notice by the Trustee or Holders representing 25% or more of the aggregate principal amount of notes then outstanding to comply with the provisions described under the captions "Repurchase at the Option of Holders," "Change of Control," or "Repurchase at the Option of Holders - Asset Sales" (other than a failure to purchase notes in connection therewith, which shall constitute an Event of Default under clause (2) above);
- (5) failure by Windstream or any of its Restricted Subsidiaries for 60 days after written notice by the Trustee or Holders representing 25% or more of the aggregate principal amount of notes then outstanding to comply with any of the other agreements in the Indenture;
- (6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by Windstream or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by Windstream or any of its Restricted Subsidiaries) whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:
  - (a) is caused by a failure to make any principal payment when due at the final maturity of such Indebtedness and prior to the expiration of any grace period provided in such Indebtedness on the date of such default, or a "Payment Default"; or
  - (b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$75.0 million or more;

- (7) failure by Windstream or any of its Restricted Subsidiaries to pay final judgments (to the extent such judgments are not paid or covered by insurance provided by a reputable carrier that has the ability to perform) aggregating in excess of \$75.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

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(8) except as permitted by the Indenture, any Note Guarantee with respect to the notes will be held in any judicial proceeding to be unenforceable or invalid or will cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, will deny or disaffirm its obligations under its Note Guarantee with respect to the notes; and

(9) certain events of bankruptcy or insolvency with respect to (i) Windstream or (ii) any Significant Subsidiary of Windstream (or any Restricted Subsidiaries that together would constitute a Significant Subsidiary).

In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to (i) Windstream or (ii) any Significant Subsidiary of Windstream (or any Restricted Subsidiaries that together would constitute a Significant Subsidiary), all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding notes may declare all the notes to be due and payable immediately by notice in writing to Windstream specifying the Event of Default. Upon such declaration, the notes, together with accrued and unpaid interest, shall become due and payable immediately.

In the event of a declaration of acceleration of the notes because an Event of Default has occurred and is continuing as a result of the acceleration of any Indebtedness described in clause (6) above, the declaration of acceleration of the notes will be automatically annulled if the holders of all Indebtedness described in clause (6) above have rescinded the declaration of acceleration in respect of such Indebtedness within 30 Business Days of the date of such declaration, and if the annulment of the acceleration of the notes would not conflict with any judgment or decree of a court of competent jurisdiction, and all existing Events of Default, except non-payment of principal or interest on the notes that became due solely because of the acceleration of the notes, have been cured or waived.

Holders of the notes may not enforce the Indenture or the notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the notes notice of any Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest or Additional Interest) if it determines that withholding notice is in their interest.

The Holders of a majority in aggregate principal amount of the notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest or Additional Interest on, or the principal of, the notes. The Holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee with respect to the notes. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of notes not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of notes. A Holder may not pursue any remedy with respect to the Indenture or the notes unless:

- (1) the Holder gives the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity satisfactory to the Trustee against any costs, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and



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(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium or Additional Interest, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the notes, which right will not be impaired or affected without the consent of the Holder.

In the case of any Event of Default occurring by reason of any willful action or inaction taken or not taken by or on behalf of Windstream or any of its Restricted Subsidiaries with the intention of avoiding payment of the premium that Windstream would have had to pay if Windstream then had elected to redeem the notes pursuant to the optional redemption provisions of the Indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the notes.

Windstream is required to deliver to the Trustee annually within 120 days after the end of each fiscal year a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, Windstream is required to deliver to the Trustee, within 30 days after the occurrence thereof, a statement specifying such Default or Event of Default.

**No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator, stockholder, member, manager or partner of Windstream or any Guarantor, as such, will have any liability for any obligations of Windstream or the Guarantors under the notes, the Indenture, the Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of exchange notes by accepting an exchange note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the exchange notes. The waiver may not be effective to waive liabilities under the federal securities laws.

**Legal Defeasance and Covenant Defeasance**

Windstream may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of the Guarantors discharged with respect to their Note Guarantees related to the notes, described as Legal Defeasance, except for:

- (1) the rights of Holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on such notes when such payments are due from the trust referred to below;
- (2) Windstream's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the Trustee, and Windstream's and the Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, Windstream may, at its option and at any time, elect to have the obligations of Windstream and the Guarantors released with respect to certain covenants that are described in the Indenture, described as Covenant Defeasance, and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under Events of Default will no longer constitute Events of Default with respect to the notes.

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In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) Windstream must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium, if any, on the outstanding notes on the Stated Maturity or on the applicable redemption date, as the case may be, and Windstream must specify whether the notes are being defeased to maturity or to a particular redemption date;
- (2) in the case of Legal Defeasance, Windstream will have delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee confirming that (a) Windstream has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, Windstream will have delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee confirming that the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default will have occurred and be continuing either: (a) on the date of such deposit; or (b) insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 123<sup>rd</sup> day after the date of deposit;
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument to which Windstream or any of its Restricted Subsidiaries is a party or by which Windstream or any of its Restricted Subsidiaries is bound;
- (6) Windstream must have delivered to the Trustee an Opinion of Counsel to the effect that, assuming no intervening bankruptcy of Windstream or any Guarantor between the date of deposit and the 123<sup>rd</sup> day following the deposit and assuming that no Holder is an insider of Windstream under applicable bankruptcy law, after the 123<sup>rd</sup> day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, including Section 547 of the United States Bankruptcy Code and Section 15 of the New York Debtor and Creditor Law;
- (7) Windstream must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by Windstream with the intent of preferring the Holders over the other creditors of Windstream with the intent of defeating, hindering, delaying or defrauding creditors of Windstream or others;
- (8) if the notes are to be redeemed prior to their Stated Maturity, Windstream must deliver to the Trustee irrevocable instructions to redeem all of the notes on the specified redemption date; and
- (9) Windstream must deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent (other than the expiration of the 123-day period referred to above) relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

**Amendment, Supplement and Waiver**

Except as provided in the next two succeeding paragraphs, the Indenture or the notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the notes then

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outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing default or compliance with any provision of the Indenture or the notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting Holder):

- (1) reduce the principal amount of notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any Note or alter the provisions, or waive any payment, with respect to the redemption of the notes (other than the provisions relating to the covenants described under the caption "Repurchase at the Option of Holders");
- (3) reduce the rate of or change the time for payment of interest on any Note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest, or premium, if any, on, the notes (except a rescission of acceleration of the notes by the Holders of at least a majority in aggregate principal amount of the notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any Note payable in money other than U.S. dollars;
- (6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of notes to receive payments of principal of, or interest or premium, if any, on, the notes;
- (7) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture;
- (8) impair the right to institute suit for the enforcement of any payment on or with respect to the notes or the Note Guarantees;
- (9) amend, change or modify the obligation of Windstream to make and consummate an Asset Sale Offer with respect to any Asset Sale in accordance with the covenant described under the caption "Repurchase at the Option of Holders Asset Sales" after the obligation to make such Asset Sale Offer has arisen, or the obligation of Windstream to make and consummate a Change of Control Offer in the event of a Change of Control Triggering Event in accordance with the covenant described under the caption "Repurchase at the Option of Holders Change of Control" after such Change of Control Triggering Event has occurred, including, in each case, amending, changing or modifying any definition relating thereto;
- (10) except as otherwise permitted under the covenants described under the captions "Certain Covenants Merger, Consolidation and Sale of Assets" and "Certain Covenants Guarantees," consent to the assignment or transfer by Windstream or any Guarantor of any of their rights or obligations under the Indenture;
- (11) amend or modify any of the provisions of the Indenture or the related definitions affecting the ranking of the notes or any Note Guarantee in any manner adverse to the Holders of the notes or any Note Guarantee; or
- (12) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any Holder of notes, Windstream, the Guarantors and the Trustee may amend or supplement the Indenture or the notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes;

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(3) to provide for the assumption of Windstream's or any Guarantor's obligations to Holders of notes in the case of a merger or consolidation or sale of all or substantially all of Windstream's or such Guarantor's assets;

(4) to make any change that would provide any additional rights or benefits to the Holders of notes or that does not materially adversely affect the legal rights under the Indenture of any such Holder;

(5) to comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act;

(6) to comply with the provisions described under "Certain Covenants Guarantees";

(7) to evidence and provide for the acceptance of appointment by a successor Trustee;

(8) to provide for the issuance of Additional Notes in accordance with the Indenture; or

(9) conform the text of the Indenture or the notes to any provision of this "Description of the Exchange Notes" to the extent that such provision of the Indenture or the notes was intended to conform to the text of this "Description of the Exchange Notes."

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

(a) all notes that have been authenticated (except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has theretofore been deposited in trust and thereafter repaid to Windstream) have been delivered to the Trustee for cancellation; or

(b) all notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and Windstream or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the notes not delivered to the Trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default will have occurred and be continuing on the date of such deposit or will occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which Windstream or any Guarantor is a party or by which Windstream or any Guarantor is bound;

(3) Windstream or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(4) Windstream has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the notes at maturity or the redemption date, as the case may be.

In addition, Windstream must deliver an Officers' Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

### **Concerning the Trustee**

If the Trustee becomes a creditor of Windstream or any Guarantor, the Indenture and the Trust Indenture Act limit its right to obtain payment of claims in certain cases, or to realize on certain property received in

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respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Indenture provides that in case an Event of Default will occur and be continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of notes, unless such Holder will have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

### **Book-Entry, Delivery and Form**

Except as set forth below, exchange notes will be issued in the form of one or more global securities, or the Global Exchange Notes. The Global Exchange Notes will be issued in fully-registered book form without interest coupons that will be deposited upon issuance with the trustee under the Indenture and registered in the name of DTC or its nominee. Exchange notes will be issued in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000.

Except as set forth below, the Global Exchange Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Exchange Notes may not be exchanged for exchange notes in certificated form, except in the circumstances described below. See Exchange of Global Exchange Notes for Certificated Exchange Notes. In addition, transfers of beneficial interests in the Global Exchange Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time. The exchange notes may be presented for registration of transfer and exchange at the Corporate Trust Office of the trustee.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Windstream takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised Windstream that DTC is a limited-purpose trust company created to hold securities for its participating organizations, collectively, the Participants, and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly collectively, the Indirect Participants. Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised Windstream that, pursuant to procedures established by it:

(1) upon deposit of the Global Exchange Notes, DTC will credit the accounts of Participants designated by the initial purchasers with portions of the principal amount of the Global Exchange Notes; and

(2) ownership of these interests in the Global Exchange Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Exchange Notes).

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Investors in the Global Exchange Notes who are Participants in DTC's system may hold their interests therein directly through DTC. Investors in the Global Exchange Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants in such system. All interests in a Global Exchange Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Except as described below, owners of interests in the Global Exchange Notes will not have exchange notes registered in their names, will not receive physical delivery of exchange notes in certificated form and will not be considered the registered owners or Holders thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on a Global Exchange Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the Indenture. Under the terms of the Indenture, Windstream and the Trustee will treat the Persons in whose names the exchange notes, including the Global Exchange Notes, are registered as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither Windstream, the Trustee nor any agent of Windstream or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Exchange Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Exchange Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised Windstream that its current practice, upon receipt of any payment in respect of securities such as the exchange notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of exchange notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or Windstream. Neither Windstream nor the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the exchange notes, and Windstream and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to compliance with the transfer restrictions applicable to the exchange notes described herein, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Exchange Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised Windstream that it will take any action permitted to be taken by a Holder of exchange notes only at the direction of one or more Participants to whose account DTC has credited the interests in the

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Global Exchange Notes and only in respect of such portion of the aggregate principal amount of the exchange notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the exchange notes, DTC reserves the right to exchange the Global Exchange Notes for legended exchange notes in certificated form, and to distribute such exchange notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Exchange Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither Windstream nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### **Exchange of Global Exchange Notes for Certificated Exchange Notes**

A Global Exchange Note is exchangeable for definitive exchange notes in registered certificated form, or Certificated Exchange Notes, if:

- (1) DTC (a) notifies Windstream that it is unwilling or unable to continue as depository for the Global Exchange Notes or (b) has ceased to be a clearing agency registered under the Exchange Act, and in each case Windstream fails to appoint a successor depository;
- (2) Windstream, at its option, notifies the Trustee in writing that it elects to cause the issuance of Certificated Exchange Notes (DTC has advised Windstream that, in such event, under its current practices, DTC would notify its participants of Windstream's request, but will only withdraw beneficial interests from a Global Exchange Note at the request of each DTC participant); or
- (3) there will have occurred and be continuing a Default or Event of Default with respect to the exchange notes.

In addition, beneficial interests in a Global Exchange Note may be exchanged for Certificated Exchange Notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the Indenture. In all cases, Certificated Exchange Notes delivered in exchange for any Global Exchange Note or beneficial interests in Global Exchange Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures).

### **Same Day Settlement and Payment**

Windstream will make payments in respect of the exchange notes represented by the Global Exchange Notes (including principal, premium, if any, and interest, if any) by wire transfer of immediately available funds to the accounts specified by the Global Exchange Note Holder. Windstream will make all payments of principal, interest and premium, if any, with respect to Certificated Exchange Notes by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to each such Holder's registered address. The exchange notes represented by the Global Exchange Notes are expected to trade in PORTAL and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such exchange notes will, therefore, be required by DTC to be settled in immediately available funds. Windstream expects that secondary trading in any Certificated Exchange Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Exchange Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the

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settlement date of DTC. DTC has advised Windstream that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Exchange Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

### **Certain Definitions**

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

*Acquired Debt* means Indebtedness of a Person existing at the time such Person merges with or into or becomes a Restricted Subsidiary and not Incurred in connection with, or in contemplation of, such Person merging with or into or becoming a Restricted Subsidiary.

*Additional Interest* means the additional interest that may become payable on the notes pursuant to the Registration Rights Agreement.

*Affiliate* of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, will mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms controlling, controlled by and under common control with will have correlative meanings.

*Applicable Premium* means, at any date of redemption, the greater of (i) 1.0% of the principal amount of such Note and (ii) the excess of (A) the present value at such date of redemption of (1) the principal amount of such Note at maturity plus the premium thereon as set out in the table under Optional Redemption on October 15, 2015, plus (2) all remaining required interest payments due on such Note through October 15, 2015 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such Note.

*Asset Sale* means:

- (1) the sale, lease, conveyance or other disposition of any assets, other than a transaction governed by the provisions of the Indenture described above under the caption Repurchase at the Option of Holders Change of Control and/or the provisions described above under the caption Certain Covenants Merger, Consolidation or Sale of Assets ; and
- (2) the issuance of Equity Interests by any of Windstream's Restricted Subsidiaries or the sale by Windstream or any Restricted Subsidiary thereof of Equity Interests in any of its Subsidiaries (other than directors' qualifying shares and shares issued to foreign nationals to the extent required by applicable law).

Notwithstanding the preceding, the following items will be deemed not to be Asset Sales:

- (1) any single transaction or series of related transactions that involves assets or Equity Interests having a Fair Market Value of less than \$25.0 million;
- (2) a transfer of assets or Equity Interests between or among Windstream and its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary of Windstream to Windstream or to another Restricted Subsidiary thereof;



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- (4) the sale or lease of equipment, inventory, accounts receivable or other assets in the ordinary course of business;
- (5) the sale or other disposition of Cash Equivalents;
- (6) dispositions of accounts receivable in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings;
- (7) a Restricted Payment that is permitted by the covenant described above under the caption **Certain Covenants Restricted Payments** and any Permitted Investment;
- (8) any sale or disposition of any property or equipment that has become damaged, worn out or obsolete;
- (9) the creation of a Lien not prohibited by the Indenture;
- (10) any sale of Equity Interests in, or Indebtedness or other securities of, an Unrestricted Subsidiary;
- (11) licenses of intellectual property;
- (12) any disposition of Designated Noncash Consideration; *provided* that such disposition increases the amount of Net Proceeds of the Asset Sale that resulted in such Designated Noncash Consideration; and
- (13) any foreclosure upon any assets of Windstream or any of its Restricted Subsidiaries pursuant to the terms of a Lien not prohibited by the terms of the Indenture; *provided* that such foreclosure does not otherwise constitute a Default under the Indenture.

*Attributable Debt* in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value will be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

*Beneficial Owner* has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms **Beneficially Owns** and **Beneficially Owned** will have a corresponding meaning.

*Board of Directors* means:

- (1) with respect to a corporation, the board of directors of the corporation or, except in the context of the definitions of **Change of Control** and **Continuing Directors**, a duly authorized committee thereof;
- (2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and
- (3) with respect to any other Person, the board or committee of such Person serving a similar function.

*Board Resolution* means a resolution certified by the Secretary or an Assistant Secretary of Windstream to have been duly adopted by the Board of Directors of Windstream and to be in full force and effect on the date of such certification.

*Business Day* means any day other than a Legal Holiday.

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*Capital Lease Obligation* means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

*Capital Stock* means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

*Cash Equivalents* means:

- (1) U.S. dollars and foreign currency received in the ordinary course of business or exchanged into U.S. dollars within 180 days;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof ( *provided* that the full faith and credit of the United States is pledged in support thereof), maturing, unless such securities are deposited to defease any Indebtedness, not more than one year from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any lender party under the Credit Agreement or any domestic commercial bank having capital and surplus in excess of \$500.0 million and a rating at the time of acquisition thereof of P-1 or better from Moody's Investors Service, Inc. or A-1 or better from Standard & Poor's Rating Services;
- (4) repurchase obligations for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper issued by a corporation (other than an Affiliate of Windstream) rated at least A-2 or higher from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within one year after the date of acquisition;
- (6) securities issued and fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, rated at least A by Moody's Investors Service, Inc. or Standard & Poor's Rating Services and having maturities of not more than one year from the date of acquisition; and
- (7) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (6) of this definition.

*Change of Control* means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Windstream and its Restricted Subsidiaries, taken as a whole, to any person (as that term is used in Section 13(d)(3) of the Exchange Act);

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- (2) the adoption of a plan relating to the liquidation or dissolution of Windstream;
- (3) any person or group (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the Beneficial Owner, directly or indirectly, of 50% or more of the voting power of the Voting Stock of Windstream;
- (4) the first day on which a majority of the members of the Board of Directors of Windstream are not Continuing Directors; or
- (5) Windstream consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into Windstream or a Subsidiary of Windstream, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of Windstream or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where (A) the Voting Stock of Windstream outstanding immediately prior to such transaction continues as, or is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and (B) immediately after such transaction, no person or group (as such terms are used in Section 13(d) and 14(d) of the Exchange Act) becomes, directly or indirectly, the Beneficial Owner of 50% or more of the voting power of the Voting Stock of the surviving or transferee Person.

*Change of Control Triggering Event* means the occurrence of a Change of Control (x) that is accompanied or followed by a downgrade of the notes within the Ratings Decline Period by each of Moody's and S&P or, if either S&P and Moody's is not providing a rating on the notes at any time for reasons outside the control of Windstream, the equivalent of such ratings by another nationally recognized statistical ratings organization selected by Windstream (as certified by a resolution of the Board of Directors of Windstream), and (y) the rating of the notes on any day during such Ratings Decline Period is below the lower of the rating by such nationally recognized statistical ratings organization in effect (i) immediately preceding the first public announcement of the Change of Control (or occurrence thereof if such Change of Control occurs prior to public announcement) and (ii) on the Issue Date.

*Common Stock* means, with respect to any Person, any Capital Stock (other than Preferred Stock) of such Person, whether outstanding on the Issue Date or issued thereafter.

*Consolidated Cash Flow* means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*, without duplication:

- (1) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (2) Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that any such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*
- (3) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period), goodwill impairment charges and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash charges or expenses were deducted in computing such Consolidated Net Income; *plus*
- (4) the amount of any minority interest expense deducted in computing such Consolidated Net Income; *plus*
- (5) any non-cash compensation charge arising from any grant of stock, stock options or other equity-based awards, to the extent deducted in computing such Consolidated Net Income; *plus*

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(6) any non-cash SFAS 133 income (or loss) related to hedging activities, to the extent deducted in computing such Consolidated Net Income; minus

(7) non-cash items increasing such Consolidated Net Income for such period, other than (a) the accrual of revenue consistent with past practice and (b) the reversal in such period of an accrual of, or cash reserve for, cash expenses in a prior period, to the extent such accrual or reserve did not increase Consolidated Cash Flow in a prior period;

in each case, on a consolidated basis and determined in accordance with GAAP.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, the Fixed Charges of and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary of Windstream will be added to Consolidated Net Income to compute Consolidated Cash Flow of Windstream (A) in the same proportion that the Net Income of such Restricted Subsidiary was added to compute such Consolidated Net Income of Windstream and (B) only to the extent that a corresponding amount would be permitted at the date of determination to be dividended or distributed to Windstream by such Restricted Subsidiary without direct or indirect restriction pursuant to the terms of its charter and all agreements and instruments, applicable to that Subsidiary or its stockholders.

*Consolidated Leverage Ratio* means, as of any date of determination, the ratio of:

(1) the aggregate outstanding amount of Indebtedness of Windstream and its Restricted Subsidiaries as of such date of determination on a consolidated basis (subject to the terms described in the paragraph below) after giving pro forma effect to the incurrence of the Indebtedness giving rise to the need to make such calculation (including a pro forma application of the use of proceeds therefrom) on such date, to

(2) the Consolidated Cash Flow of Windstream for the most recent four full fiscal quarters for which internal financial statements are available immediately prior to such date of determination.

For purposes of this definition:

(a) Consolidated Cash Flow shall be calculated on a pro forma basis after giving effect to (A) the incurrence of the Indebtedness of Windstream and its Restricted Subsidiaries (and the application of the proceeds therefrom) giving rise to the need to make such calculation and any incurrence (and the application of the proceeds therefrom) or repayment of other Indebtedness on the date of determination, and (B) any acquisition or disposition of a Person, division or line of business (including, without limitation, any acquisition giving rise to the need to make such calculation as a result of Windstream or one of its Restricted Subsidiaries (including any Person that becomes a Restricted Subsidiary as a result of such acquisition) incurring, assuming or otherwise becoming liable for Indebtedness) at any time on or subsequent to the first day of the applicable four-quarter period specified in clause (2) of the preceding paragraph and on or prior to the date of determination, as if such acquisition or disposition (including the incurrence or assumption of any such Indebtedness and also including any Consolidated Cash Flow associated with such acquisition or disposition) occurred on the first day of such four-quarter period; and

(b) pro forma calculations shall be made in good faith by a responsible financial or accounting officer of Windstream.

*Consolidated Net Income* means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:

(1) the Net Income of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary thereof (and the net loss of any such Person will be included only to the extent that such loss is funded in cash by the specified Person or a Restricted Subsidiary thereof);

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(2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted directly or indirectly, by operation of the terms of its charter or any agreement or instrument, applicable to that Restricted Subsidiary or its equityholders;

(3) the Net Income of any Person acquired during the specified period for any period prior to the date of such acquisition will be excluded;

(4) the cumulative effect of a change in accounting principles will be excluded; and

(5) notwithstanding clause (1) above, the Net Income or loss of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries.

*Continuing Directors* means, as of any date of determination, any member of the Board of Directors of Windstream who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

*Credit Agreement* means that certain Amended and Restated Credit Agreement dated October 19, 2009, as amended by Amendment No. 1 to Credit Agreement and Amendment No. 1 to Security Agreement, dated as of September 17, 2010, among Windstream, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Bank of America, N.A., Citibank, N.A. and Wells Fargo Bank, N.A. (as successor to Wachovia Bank, National Association), as Co-Documentation Agents, and J.P. Morgan Securities Inc., as Sole Bookrunner and Lead Arranger, including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded, replaced or refinanced from time to time after the Issue Date (including increases in the amounts available for borrowing thereunder), regardless of whether such amendment, restatement, modification, renewal, refunding, replacement or refinancing is with the same financial institutions or otherwise.

*Credit Facilities* means one or more debt facilities (including, without limitation, the Credit Agreement and indentures or debt securities) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term debt, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time, including any refunding, replacement or refinancing thereof through the issuance of debt securities.

*Default* means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

*Designated Noncash Consideration* means the Fair Market Value of noncash consideration received by Windstream or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as Designated Noncash Consideration pursuant to an Officers' Certificate, setting forth the basis of such valuation, less the amount of Cash Equivalents received in connection with a subsequent sale of such Designated Noncash Consideration.

*Disqualified Stock* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is

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123 days after the date on which the notes mature; *provided, however*, that only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such dates shall be deemed to be Disqualified Stock. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require Windstream to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that Windstream may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption *Certain Covenants Restricted Payments*. The term *Disqualified Stock* will also include any options, warrants or other rights that are convertible into Disqualified Stock or that are redeemable at the option of the holder, or required to be redeemed, prior to the date that is 123 days after the date on which the notes mature.

*Domestic Restricted Subsidiary* means any Restricted Subsidiary of Windstream other than a Restricted Subsidiary that is (1) a controlled foreign corporation under Section 957 of the Internal Revenue Code (a) whose primary operating assets are located outside the United States and (b) that is not subject to tax under Section 882(a) of the Internal Revenue Code because of a trade or business within the United States or (2) a Subsidiary of an entity described in the preceding clause (1).

*Earn-out Obligation* means any contingent consideration based on future operating performance of the acquired entity or assets or other purchase price adjustment or indemnification obligation, payable following the consummation of an acquisition based on criteria set forth in the documentation governing or relating to such acquisition.

*Equity Interests* means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

*Equity Offering* means any public or private placement of Capital Stock (other than Disqualified Stock) of Windstream to any Person (other than (i) to any Subsidiary thereof and (ii) issuances of equity securities pursuant to a registration statement on Form S-8 or otherwise relating to equity securities issuable under any employee benefit plan of Windstream).

*Existing Indebtedness* means the aggregate principal amount of Indebtedness of Windstream and its Restricted Subsidiaries (other than Indebtedness under the Credit Agreement or under the notes and the related Note Guarantees) in existence on the Issue Date after giving effect to the application of the proceeds of the notes, until such amounts are repaid.

*Fair Market Value* means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by a responsible officer of Windstream, whose determination, unless otherwise specified below, will be conclusive if evidenced by an Officers' Certificate. Notwithstanding the foregoing, the responsible officer's determination of Fair Market Value must be evidenced by an Officers' Certificate delivered to the Trustee if the Fair Market Value exceeds \$25.0 million.

*Fixed Charges* means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations, but excluding the amortization or write-off of debt issuance costs; *plus*

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- (2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (other than a pledge of Equity Interests of an Unrestricted Subsidiary to secure Non-Recourse Debt of such Unrestricted Subsidiary), whether or not such Guarantee or Lien is called upon; *plus*
- (4) the product of (a) all dividends, whether paid or accrued (but, in the case of accrued, only in the case of (x) Preferred Stock of any Restricted Subsidiary of such Person that is not a Guarantor or (y) Disqualified Stock of such Person or of any of its Restricted Subsidiaries) and whether or not in cash, on any series of Disqualified Stock of such Person or on any series of Preferred Stock of such Person's Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests (other than Disqualified Stock) of such Person or to such Person or to a Restricted Subsidiary of such Person, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal,

in each case, on a consolidated basis and in accordance with GAAP.

*GAAP* means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, the opinions and pronouncements of the Public Company Accounting Oversight Board and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on July 17, 2006.

*Government Securities* means securities that are direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged.

*Guarantee* means, as to any Person, a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness of another Person.

*Guarantors* means:

(1) each direct and indirect Restricted Subsidiary of Windstream that Guarantees any Indebtedness under the Credit Agreement on the Issue Date; and

(2) any other Subsidiary of Windstream that executes a Note Guarantee in accordance with the provisions of the Indenture;

and their respective successors and assigns until released from their obligations under their Note Guarantees and the Indenture in accordance with the terms of the Indenture.

*Hedging Obligations* means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and other agreements or arrangements with respect to interest rates;

(2) commodity swap agreements, commodity option agreements, forward contracts and other agreements or arrangements with respect to commodity prices; and

(3) foreign exchange contracts, currency swap agreements and other agreements or arrangements with respect to foreign currency exchange rates.

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*Holder* means a Person in whose name a Note is registered.

*Incur* means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become directly or indirectly liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness (and Incurrence and Incurred will have meanings correlative to the foregoing); *provided* that (1) any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary of Windstream will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary of Windstream and (2) neither the accrual of interest nor the accretion of original issue discount nor the payment of interest in the form of additional Indebtedness with the same terms and the payment of dividends on Disqualified Stock or Preferred Stock in the form of additional shares of the same class of Disqualified Stock or Preferred Stock (to the extent provided for when the Indebtedness or Disqualified Stock or Preferred Stock on which such interest or dividend is paid was originally issued) will be considered an Incurrence of Indebtedness; *provided* that in each case the amount thereof is for all other purposes included in the Fixed Charges and Indebtedness of Windstream or its Restricted Subsidiary as accrued.

*Indebtedness* means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker's acceptances;
- (4) in respect of Capital Lease Obligations and Attributable Debt;
- (5) in respect of the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense or trade payable; *provided* that Indebtedness shall not include any Earn-out Obligation or obligation in respect of purchase price adjustment, except to the extent that the contingent consideration relating thereto is not paid within 15 Business Days after the contingency relating thereto is resolved;
- (6) representing Hedging Obligations;
- (7) representing Disqualified Stock valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends; or
- (8) in the case of a Subsidiary of such Person, representing Preferred Stock valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends, if and to the extent any of the preceding items (other than letters of credit and other than clauses (4), (5), (6), (7) or (8)) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term *Indebtedness* includes (x) all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) other than a pledge of Equity Interests of an Unrestricted Subsidiary to secure Non-Recourse Debt of such Unrestricted Subsidiary, *provided* that the amount of such Indebtedness will be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness, and (y) to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person, *provided, further*, that any obligation of Windstream or any Restricted Subsidiary in respect of minimum guaranteed commissions, or other similar payments, to clients, minimum returns to clients or stop loss limits in favor of clients or indemnification obligations to clients, in each case pursuant to contracts to provide services to clients entered into in the ordinary course of business, shall be deemed not to constitute Indebtedness. For purposes hereof, the maximum fixed



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repurchase price of any Disqualified Stock or Preferred Stock which does not have a fixed repurchase price will be calculated in accordance with the terms of such Disqualified Stock or Preferred Stock, as applicable, as if such Disqualified Stock or Preferred Stock were repurchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture.

The amount of any Indebtedness outstanding as of any date will be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, and will be:

- (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

*Insignificant Subsidiary* means any Subsidiary of Windstream that has total assets of not more than \$1.0 million and that is designated by Windstream as an Insignificant Subsidiary, *provided* that the total assets of all Subsidiaries that are so designated, as reflected on Windstream's most recent consolidating balance sheet prepared in accordance with GAAP, may not in the aggregate at any time exceed \$10.0 million.

*Investment Grade* means both BBB- or higher by S&P and Baa3 or higher by Moody's, or the equivalent of such ratings by S&P or Moody's, or, if either S&P and Moody's is not providing a rating on the notes at any time, the equivalent of such rating by another nationally recognized statistical ratings organization.

*Investments* means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the form of loans or other extensions of credit (including Guarantees), advances, capital contributions (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

If Windstream or any of its Restricted Subsidiaries sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of Windstream such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of Windstream, Windstream will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Investment in such Subsidiary not sold or disposed of. The acquisition by Windstream or any of its Restricted Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by Windstream or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investment held by the acquired Person in such third Person.

*Issue Date* means the date of original issuance of the notes under the Indenture, which is October 6, 2010.

*Legal Holiday* means a Saturday, a Sunday or a day on which banking institutions in The City of New York or at a place of payment are authorized or required by law, regulation or executive order to remain closed.

*Lien* means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

*Moody's* means Moody's Investors Service, Inc. and its successors.

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*Net Income* means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of Preferred Stock dividends, excluding, however:

(1) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with: (a) any sale of assets outside the ordinary course of business of such Person; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and

(2) any extraordinary or non-recurring gain, loss, expense or charge (including any one-time expenses related to the Transactions), together with any related provision for taxes.

*Net Proceeds* means the aggregate cash proceeds, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not the interest component, thereof) received by Windstream or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of (1) the direct costs relating to such Asset Sale and the sale or other disposition of any such non-cash consideration, including, without limitation, legal, accounting, investment banking and brokerage fees, and sales commissions, and any relocation expenses incurred as a result thereof, (2) taxes paid or payable as a result thereof, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, (3) amounts required to be applied to the repayment of Indebtedness or other liabilities secured by a Lien on the asset or assets that were the subject of such Asset Sale or required to be paid as a result of such sale, (4) any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP, (5) in the case of any Asset Sale by a Restricted Subsidiary of Windstream, payments to holders of Equity Interests in such Restricted Subsidiary in such capacity (other than such Equity Interests held by Windstream or any Restricted Subsidiary thereof) to the extent that such payment is required to permit the distribution of such proceeds in respect of the Equity Interests in such Restricted Subsidiary held by Windstream or any Restricted Subsidiary thereof and (6) appropriate amounts to be provided by Windstream or its Restricted Subsidiaries as a reserve against liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in accordance with GAAP; *provided* that (a) excess amounts set aside for payment of taxes pursuant to clause (2) above remaining after such taxes have been paid in full or the statute of limitations therefor has expired and (b) amounts initially held in reserve pursuant to clause (6) no longer so held, will, in the case of each of subclause (a) and (b), at that time become Net Proceeds.

*Non-Recourse Debt* means Indebtedness:

(1) as to which neither Windstream nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) other than a pledge of the Equity Interests of the Unrestricted Subsidiary that is the obligor thereunder, (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the notes) of Windstream or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(3) as to which either (a) the explicit terms provide that there is no recourse against any of the assets of Windstream or any Restricted Subsidiary thereof or (b) the lenders have been notified in writing that they will not have any recourse to the stock or assets of Windstream or any of its Restricted Subsidiaries, in each case other than recourse against the Equity Interests of the Unrestricted Subsidiary that is the obligor thereunder.

*Note Guarantee* means a Guarantee of the notes pursuant to the Indenture.

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*Obligations* means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

*Officer* means, with respect to any Person, the Chairman of the Board, the President, the Chief Financial Officer, any Executive Vice President, Senior Vice President or Vice President, the Treasurer or the Secretary of such Person.

*Officers Certificate* means a certificate signed on behalf of Windstream by at least two Officers of Windstream, one of whom must be the principal executive officer, the principal financial officer or the principal accounting officer of Windstream, that meets the requirements of the Indenture.

*Opinion of Counsel* means an opinion from legal counsel who is reasonably acceptable to the Trustee (who may be counsel to or an employee of Windstream) that meets the requirements of the Indenture.

*Permitted Business* means any business conducted or proposed to be conducted (as described in this prospectus) by Windstream and its Restricted Subsidiaries on the Issue Date and other businesses reasonably related thereto or a reasonable extension or expansion thereof.

*Permitted Investments* means:

- (1) any Investment in Windstream or in a Restricted Subsidiary of Windstream;
- (2) any Investment in Cash Equivalents;
- (3) any Investment by Windstream or any Restricted Subsidiary of Windstream in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary of Windstream; or
  - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Windstream or a Restricted Subsidiary of Windstream;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption *Repurchase at the Option of Holders Asset Sales* ;
- (5) Hedging Obligations that are Incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes;
- (6) any Investment acquired by Windstream or any of its Restricted Subsidiaries (a) in exchange for any other Investment or accounts receivable held by Windstream or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (b) as a result of a foreclosure by Windstream or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (7) advances to customers or suppliers in the ordinary course of business that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of Windstream or its Restricted Subsidiaries and endorsements for collection or deposit arising in the ordinary course of business;
- (8) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business;

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- (9) advances to employees not in excess of \$5.0 million outstanding at any one time in the aggregate;
- (10) commission, payroll, travel and similar advances to officers and employees of Windstream or any of its Restricted Subsidiaries that are expected at the time of such advance ultimately to be recorded as an expense in conformity with GAAP;
- (11) Investments consisting of the licensing or contribution of intellectual property pursuant to joint marketing arrangements with other Persons;
- (12) other Investments in any Person other than any Unrestricted Subsidiary of Windstream (*provided* that any such Person is either (i) not an Affiliate of Windstream or (ii) is an Affiliate of Windstream (A) solely because Windstream, directly or indirectly, owns Equity Interests in, or controls, such Person or (B) engaged in bona fide business operations and is an Affiliate solely because it is under common control with Windstream) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (12) since July 17, 2006 and then outstanding, not to exceed the greater of (x) 5.0% of Total Assets and (y) \$375.0 million at the time of such Investment; *provided, however*, that if an Investment pursuant to this clause (12) is made in any Person that is not a Restricted Subsidiary of Windstream at the date of the making of the Investment and such Person becomes a Restricted Subsidiary of Windstream after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) above, and shall cease to have been made pursuant to this clause (12); and
- (13) Investments in Unrestricted Subsidiaries having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (13) since July 17, 2006, not to exceed \$25.0 million (but, to the extent that any Investment made pursuant to this clause (13) since July 17, 2006 is sold or otherwise liquidated for cash or designated as a Restricted Subsidiary, minus the lesser of (a) the cash return of capital with respect to such Investment (less the cost of disposition, if any) or the Fair Market Value of such Unrestricted Subsidiary at the time of redesignation, as applicable and (b) the initial amount of such Investment).

*Permitted Liens* means:

- (1) Liens securing obligations in an amount when created or Incurred, together with the amount of all other obligations secured by a Lien under this clause (1) at that time outstanding (and any Permitted Refinancing Indebtedness Incurred in respect thereof) and (in the case of clause (B) only) any Liens securing obligations in respect of the 6 <sup>3</sup>/<sub>4</sub>% Notes due 2028 of Windstream Midwest and the Valor Notes, not to exceed the greater of (A) the sum of (i) the amount of Indebtedness Incurred and outstanding at such time under clauses (1), (4) and (15) of the second paragraph of the covenant described under the caption Certain Covenants Incurrence of Indebtedness plus (ii) the amount of Indebtedness available for Incurrence at such time under clauses (1), (4) and (15) of the second paragraph of the covenant described under the caption Certain Covenants Incurrence of Indebtedness and (B) the product of (x) 2.50 and (y) Windstream's Consolidated Cash Flow for the most recent four fiscal quarters for which internal financial statements are available at such time, which Consolidated Cash Flow shall be calculated on a *pro forma* basis in the manner set out in clause (a) of the definition of Consolidated Leverage Ratio ;
- (2) Liens in favor of Windstream or any Guarantor;
- (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with Windstream or any Restricted Subsidiary thereof; *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with Windstream or the Restricted Subsidiary;

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- (4) Liens on property existing at the time of acquisition thereof by Windstream or any Restricted Subsidiary thereof; *provided* that such Liens were in existence prior to the contemplation of such acquisition and do not extend to any property other than the property so acquired by Windstream or the Restricted Subsidiary;
- (5) Liens securing the notes and the Note Guarantees in respect thereof;
- (6) Liens existing on the Issue Date (excluding any such Liens securing Indebtedness under the Credit Agreement);
- (7) Liens securing Permitted Refinancing Indebtedness (except as provided in clause (5) of the definition thereof); *provided* that such Liens do not extend to any property or assets other than the property or assets that secure the Indebtedness being refinanced;
- (8) pledges of Equity Interests of an Unrestricted Subsidiary securing Non-Recourse Debt of such Unrestricted Subsidiary;
- (9) Liens on cash or Cash Equivalents securing Hedging Obligations of Windstream or any of its Restricted Subsidiaries (a) that are Incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes, or (b) securing letters of credit that support such Hedging Obligations;
- (10) Liens incurred or deposits made in the ordinary course of business in connection with worker's compensation, unemployment insurance or other social security obligations;
- (11) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of Indebtedness), leases, or other similar obligations arising in the ordinary course of business;
- (12) survey exceptions, encumbrances, easements or reservations of, or rights of others for, rights of way, zoning or other restrictions as to the use of properties, and defects in title which, in the case of any of the foregoing, were not incurred or created to secure the payment of Indebtedness, and which in the aggregate do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by Windstream or any of its Restricted Subsidiaries;
- (13) judgment and attachment Liens not giving rise to an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;
- (14) Liens, deposits or pledges to secure public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds or obligations; and Liens, deposits or pledges in lieu of such bonds or obligations, or to secure such bonds or obligations, or to secure letters of credit in lieu of or supporting the payment of such bonds or obligations;
- (15) Liens in favor of collecting or payor banks having a right of setoff, revocation, refund or chargeback with respect to money or instruments of Windstream or any Subsidiary thereof on deposit with or in possession of such bank;
- (16) any interest or title of a lessor, licensor or sublicensor in the property subject to any lease, license or sublicense (other than any property that is the subject of a Sale Leaseback Transaction);
- (17) Liens for taxes, assessments and governmental charges not yet delinquent or being contested in good faith and for which adequate reserves have been established to the extent required by GAAP;

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(18) Liens arising from precautionary UCC financing statements regarding operating leases or consignments; and

(19) Liens securing obligations that do not exceed \$15.0 million at any one time outstanding.

*Permitted Refinancing Indebtedness* means any Indebtedness of Windstream or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of Windstream or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the amount of such Permitted Refinancing Indebtedness does not exceed the amount of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued and unpaid interest thereon and the amount of any reasonably determined premium necessary to accomplish such refinancing and such reasonable expenses incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes or the Note Guarantees, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of the notes and is subordinated in right of payment to the notes or the Note Guarantees, as applicable, on terms at least as favorable, taken as a whole, to the Holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(4) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is *pari passu* in right of payment with the notes or any Note Guarantees, such Permitted Refinancing Indebtedness is *pari passu* with, or subordinated in right of payment to, the notes or such Note Guarantees;

(5) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is Indebtedness under the Valor Notes, such Permitted Refinancing Indebtedness is unsecured and ranks *pari passu* with, or subordinated in right of payment to, the notes and the Note Guarantees; and

(6) such Indebtedness is Incurred either (a) by Windstream or any Guarantor or (b) by the Restricted Subsidiary that is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

*Person* means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

*Preferred Stock* means, with respect to any Person, any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions upon liquidation.

*Ratings Decline Period* means the period that (i) begins on the earlier of (a) the date of the first public announcement of the occurrence of a Change of Control or of the intention by Windstream or a shareholder of Windstream, as applicable, to effect a Change of Control or (b) the occurrence thereof and (ii) ends 60 days following consummation of such Change of Control; *provided* that such period shall be extended for so long as the rating of the notes, as noted by the applicable rating agency, is under publicly announced consideration for downgrade by the applicable rating agency.

*Replacement Assets* means (1) non-current assets (including any such assets acquired by capital expenditures) that will be used or useful in a Permitted Business or (2) substantially all the assets of a Permitted Business or the Voting Stock of any Person engaged in a Permitted Business that is or will become on the date of acquisition thereof a Restricted Subsidiary of Windstream.

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*Restricted Investment* means an Investment other than a Permitted Investment.

*Restricted Subsidiary* of a Person means any Subsidiary of such Person that is not an Unrestricted Subsidiary.

*S&P* means Standard & Poor's Rating Services.

*Sale and Leaseback Transaction* means, with respect to any Person, any transaction involving any of the assets or properties of such Person whether now owned or hereafter acquired, whereby such Person sells or otherwise transfers such assets or properties and then or thereafter leases such assets or properties or any part thereof or any other assets or properties which such Person intends to use for substantially the same purpose or purposes as the assets or properties sold or transferred.

*Significant Subsidiary* means any Restricted Subsidiary that would constitute a significant subsidiary within the meaning of Article 1 of Regulation S-X of the Securities Act.

*Stated Maturity* means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

*Subordinated Debt* means any Indebtedness of Windstream or any Guarantor which is subordinated in right of payment to the notes or the related Note Guarantees, as applicable, pursuant to a written agreement to that effect.

*Subsidiary* means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

*Total Assets* means the total assets of Windstream and its Restricted Subsidiaries on a consolidated basis, as shown on the most recent balance sheet of Windstream prepared in conformity with GAAP but excluding the value of any outstanding Restricted Investments or Investments made under clause (12) of the definition of Permitted Investments.

*Transactions* means the contribution of all of Alltel's wireline assets to Windstream in exchange for senior notes and all of the stock of Windstream, the distribution of such stock to Alltel's shareholders and exchange of the notes for other debt securities of Alltel, the merger of Windstream with and into Valor Communications Group, Inc., and the entry into the Credit Agreement and the borrowings thereunder on June 17, 2006 and the offering of such notes, each as described in the offering memorandum dated June 28, 2006 under Description of the Transactions.

*Treasury Rate* means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days prior to the date fixed for prepayment (or, if such Statistical Release is no longer published, any publicly available source for similar

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market data)) most nearly equal to the then remaining term of the notes to October 15, 2015; *provided, however*, that if the then remaining term of the notes to October 15, 2015 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the then remaining term of the notes to October 15, 2015 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

*Unrestricted Subsidiary* means any Subsidiary of Windstream that is designated by the Board of Directors of Windstream as an Unrestricted Subsidiary pursuant to a Board Resolution in compliance with the covenant described under the caption Certain Covenants Designation of Restricted and Unrestricted Subsidiaries, and any Subsidiary of such Subsidiary.

*Valor Notes* means the \$400 million principal amount of 7.75% Senior Notes due 2015 issued by subsidiaries of Valor Communications Group, Inc. prior to the Issue Date.

*Voting Stock* of any Person as of any date means the Capital Stock of such Person that is ordinarily entitled to vote in the election of the Board of Directors of such Person.

*Weighted Average Life to Maturity* means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.



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**CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of certain United States federal income tax consequences that apply to holders of the original notes who (i) exchange the original notes for exchange notes pursuant to the exchange offer, (ii) purchased the original notes for cash at original issuance at the price indicated on the cover of the original offering circular and (iii) hold the original notes and will hold the exchange notes as capital assets (generally, property held for investment) as defined in the Internal Revenue Code of 1986, as amended, or the Code. This summary is based upon existing United States federal income tax law, which is subject to change or differing interpretations, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, such as investors subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, traders that elect to mark-to-market and tax-exempt organizations), persons that held the original notes or will hold the exchange notes as a part of a straddle, hedge, conversion, constructive sale or other integrated transaction for United States federal income tax purposes, partnerships or U.S. Holders (as defined below) that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ materially from those summarized below. In addition, this summary does not discuss any federal estate or gift, foreign, state or local tax considerations of the exchange offer. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary and there can be no assurance that the IRS will agree with our statements and conclusions.

**Each prospective investor should consult its tax advisor regarding the United States federal, state, local and foreign income and other tax consequences of the exchange offer and holding and disposing of the exchange notes.**

**Exchange Offer**

The exchange of the original notes for the exchange notes in the exchange offer generally will not constitute a taxable event for U.S. federal income tax purposes because the exchange notes generally will not be considered to differ materially in kind or extent from the original notes. As a result, for U.S. federal income tax purposes (i) a holder generally will not recognize any income, gain or loss as a result of exchanging the original notes for the exchange notes, (ii) the holding period of the exchange notes generally will include the holding period of the original notes exchanged and (iii) the adjusted tax basis of the exchange notes generally will be the same as the adjusted tax basis of the original notes exchanged immediately before such exchange.

**U.S. Holders**

For purposes of this summary, a U.S. Holder is a beneficial owner of an exchange note that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for United States federal income tax purposes, created in or organized under the law of the United States or any state or political subdivision thereof, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and with respect to which one or more United States persons have the authority to control all substantial decisions of the trust or (B) that has in effect a valid election under applicable United States Treasury regulations to be treated as a United States person.

If a partnership (including any entity or arrangement treated as a partnership for United States federal income tax purposes) is a beneficial owner of exchange notes, the treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A holder of exchange notes that is a partnership and partners in such a partnership should consult their tax advisors regarding the United States federal, state, local and foreign income and other tax consequences of the exchange offer and of the holding and disposing of exchange notes.

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***Payment of Interest***

Stated interest on an exchange note generally will be included in the gross income of a U.S. Holder as ordinary income at the time such interest is accrued or received, in accordance with the holder's method of accounting for United States federal income tax purposes.

***Sale or Other Taxable Disposition of the Exchange Notes***

A U.S. Holder will generally recognize taxable gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of an exchange note. The amount of gain or loss will equal the difference between the amount a holder receives for the exchange note (in cash or other property, valued at fair market value), except to the extent amounts received are attributable to accrued interest on the exchange note, and such holder's adjusted tax basis in the exchange note. As described above, a holder's tax basis in the exchange note generally will equal the price a holder paid for the original note that was exchanged for the exchange note. A holder's gain or loss will generally be long-term capital gain or loss if a holder's holding period for the exchange note is more than one year at the time of the sale, exchange, redemption, retirement or other taxable disposition, and such holding period will generally include the holding period in the original notes. Otherwise, it will be short-term capital gain or loss. For a non-corporate U.S. Holder, the current maximum U.S. federal income tax rate applicable to long-term capital gains is generally 15%. The ability to deduct capital losses is subject to limitations. Payments attributable to accrued interest which a holder has not yet included in income will be taxed as ordinary interest income.

***New Legislation***

Newly-enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale or other disposition of notes for taxable years beginning after December 31, 2012. Holders should consult their own tax advisor regarding the effect, if any, of this legislation on their ownership and disposition of the exchange notes.

***Information Reporting and Backup Withholding Tax***

In general, we must report certain information to the IRS with respect to payments of principal, premium, if any, and interest (including any additional interest) on an exchange note and payments of the proceeds of the sale or other disposition of an exchange note, to certain non-corporate U.S. Holders. The payor (which may be us or an intermediate payor) will be required to impose backup withholding tax if (i) the payee fails to furnish a taxpayer identification number ( TIN ) to the payor or to establish an exemption from backup withholding tax, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a notified payee underreporting described in section 3406(c) of the Code, or (iv) the payee has not certified under penalties of perjury that it has furnished a correct TIN and that the IRS has not notified the payee that it is subject to backup withholding tax under the Code. The backup withholding tax rate is currently 28%. Any amounts withheld under the backup withholding tax rules from a payment to a U.S. Holder will be allowed as a credit against that holder's United States federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

Holders should consult their tax advisor as to their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

***Non-U.S. Holders***

For purposes of this summary, a Non-U.S. Holder is a beneficial owner of an exchange note that is, for United States federal income tax purposes, a nonresident alien, or a corporation, estate, or trust that is not a U.S. Holder.

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The following discussion applies only to Non-U.S. Holders, and assumes that no item of income, gain, deduction or loss derived by the Non-U.S. Holder in respect of the notes at any time is effectively connected with the conduct of a United States trade or business. Special rules, not discussed herein, may apply to certain Non-U.S. Holders, such as (i) certain former citizens or residents of the United States, (ii) controlled foreign corporations, (iii) passive foreign investment companies, (iv) corporations that accumulate earnings to avoid United States federal income tax, (v) investors in pass-through entities that are subject to special treatment under the Code, and (vi) Non-U.S. Holders that are engaged in the conduct of a United States trade or business.

***Payment of Interest Portfolio Interest Exemption***

Subject to the discussion of backup withholding tax below, interest paid on an exchange note by us or any paying agent to a Non-U.S. Holder generally will be exempt from United States withholding tax under the portfolio interest exemption; provided that (i) the Non-U.S. Holder does not, actually or constructively, own 10% or more of the combined voting power of all classes of our stock entitled to vote, (ii) the Non-U.S. Holder is not a controlled foreign corporation related to us, actually or constructively, through stock ownership, (iii) the Non-U.S. Holder is not a bank that acquired the notes in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, and (iv) either (a) the Non-U.S. Holder provides to us or our paying agent an applicable IRS Form W-8BEN (or a suitable substitute form), signed under penalties of perjury, that includes its name and address and that certifies its non-United States status in compliance with applicable law and regulations, or (b) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business holds the exchange notes on behalf of the Non-U.S. Holder and provides a statement to us or our agent under penalties of perjury in which it certifies that an applicable IRS Form W-8BEN (or a suitable substitute form) has been received by it from the Non-U.S. Holder or qualifying intermediary and furnishes a copy to us or our agent. This certification requirement may be satisfied with other documentary evidence in the case of an exchange note held in an offshore account or through certain foreign intermediaries.

***Payment of Interest U.S. Federal Income or Withholding Tax If Interest Is Not Portfolio Interest***

If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exemption described above, payments of interest made to such holder generally will be subject to United States withholding tax at the rate of 30%, unless reduced or eliminated by an applicable income tax treaty.

However, income from payments or accruals of interest that is effectively connected with the conduct by a Non-U.S. Holder of a trade or business in the United States will be subject to U.S. federal income tax on a net basis at a rate applicable to United States persons generally (and, if paid to corporate holders, may also be subject to a branch profits tax at a rate of 30% or lower applicable treaty rate). If payments are subject to U.S. federal income tax on a net basis in accordance with the rules described in the preceding sentence, such payments will not be subject to United States withholding tax so long as a holder provides us or our paying agent with a properly executed IRS Form W-8ECI (or suitable substitute form).

Non-U.S. Holders should consult any applicable income tax treaties, which may provide for a lower rate of withholding tax, exemption from or reduction of the branch profits tax, or other rules different from those described above. Generally, in order to claim any treaty benefits a holder must submit a properly executed IRS Form W-8BEN (or suitable substitute form).

***Sale or Other Taxable Disposition of the Exchange Notes***

Subject to the discussion of backup withholding tax below, a Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption, retirement, or other disposition of an exchange note unless such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States. Any gain that is effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States will be subject to U.S. federal income tax on a net basis at the rates generally applicable to U.S. Holders as described above.

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### ***Information Reporting and Backup Withholding Tax Payments From U.S. Office***

If a Non-U.S. Holder receives payment of interest or principal directly from us or through the U.S. office of a custodian, nominee, agent or broker, you may be subject to both backup withholding and information reporting.

With respect to interest payments made on the exchange notes, however, backup withholding and information reporting will not apply if a Non-U.S. Holder certifies, generally on a Form W-8BEN (or Form W-8ECI) or suitable substitute form, that it is not a U.S. person in the manner described above under the heading *Non-U.S. Holders Payment of Interest*, or such holder otherwise establishes an exemption.

Moreover, with respect to proceeds received on the sale, exchange, redemption, or other disposition of an exchange note, backup withholding or information reporting generally will not apply if a Non-U.S. Holder properly provides, generally on Form W-8BEN (or Form W-8ECI) or a suitable substitute form, a statement that the Non-U.S. Holder is an exempt foreign person for purposes of the broker reporting rules, and other required information. If a Non-U.S. Holder is not subject to United States federal income or withholding tax on the sale or other disposition of an exchange note, as described above under the heading *Non-U.S. Holders-Interest Sale or Other Disposition of Exchange Notes*, such Non-U.S. Holder will generally qualify as an exempt foreign person for purposes of the broker reporting rules.

### ***Information Reporting and Backup Withholding Tax Payments From Foreign Office***

If payments of principal and interest are made to a Non-U.S. Holder outside the United States by or through the foreign office of a Non-U.S. Holder's foreign custodian, nominee or other agent, or if a Non-U.S. Holder receives the proceeds of the sale of an exchange note through a foreign office of a broker, as defined in the Code, a Non-U.S. Holder will generally not be subject to backup withholding or information reporting. A Non-U.S. Holder will however, be subject to backup withholding and information reporting if the foreign custodian, nominee, agent or broker has actual knowledge or reason to know that the Non-U.S. Holder is a U.S. person. Non-U.S. Holders will also be subject to information reporting, but not backup withholding, if the payment is made by a foreign office of a custodian, nominee, agent or broker that has certain relationships to the United States unless the broker has in its records documentary evidence that a such holder is a Non-U.S. Holder and certain other conditions are met.

### ***Refunds***

Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules may be credited against a Non-U.S. Holder's U.S. federal income tax liability and may entitle such Non-U.S. Holder to a refund, provided the required information is properly furnished to the IRS on a timely basis.

The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting interest and withholding also may be made available to the tax authorities in the country in which a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or other agreement.

The preceding summary is for general information only and is not tax advice. Please consult your own tax advisor to determine the tax consequences of participating in the exchange offer and holding and disposing of the notes under your particular circumstances.

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**PLAN OF DISTRIBUTION**

Each broker-dealer that receives exchange notes for its own account under the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer for resales of exchange notes received in exchange for original notes that had been acquired as a result of market-making or other trading activities. We have agreed to furnish to each broker-dealer who has delivered to us the notice required by each of the registration rights agreements, without charge, as many copies of this prospectus, including any preliminary prospectus, and any amendment or supplement thereto, as such broker-dealer may reasonably request. Any broker-dealers required to use this prospectus and any amendments or supplements to this prospectus for resales of the exchange notes must notify us of this fact by requesting additional copies of these documents, to furnish to each broker-dealer who has delivered to us the notice required by each of the registration rights agreements, without charge, as many copies of each prospectus included in the registration statement, including any preliminary prospectus, and any amendment or supplement thereto, as such broker-dealer may reasonably request.

Neither we nor the subsidiary guarantors will receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account under the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on those notes or a combination of those methods, at market prices prevailing at the time of resale, at prices related to prevailing market prices or at negotiated prices. Any resales may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from the selling broker-dealer or the purchasers of the exchange notes. Any broker-dealer that resells exchange notes received by it for its own account under the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by these persons may be deemed to be underwriting compensation under the Securities Act. By acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.

Under existing interpretations of the Securities Act by the SEC's staff contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely transferable by holders after the exchange offer without further registration under the Securities Act, subject to certain representations required to be made by each holder of exchange notes, as set forth below. However, any purchaser of exchange notes who is one of our affiliates (as defined in Rule 405 under the Securities Act) or who intends to participate in the exchange offer for the purpose of distributing the exchange notes:

will not be able to rely on the applicable interpretation of the staff of the SEC;

will not be able to tender its original notes in the exchange offer; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements.

We do not intend to seek the interpretation of the SEC's staff regarding the exchange offer and there can be no assurance that the SEC's staff would make a similar determination with respect to the exchange notes as it has in other interpretations to other parties, although we have no reason to believe otherwise.

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**LEGAL MATTERS**

Kutak Rock LLP will pass upon the validity of the exchange notes and the guarantees.

**EXPERTS**

The consolidated financial statements of Windstream Corporation as of December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2010, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements incorporated in this prospectus by reference from Iowa Telecommunications Services, Inc. in Item 8 of the Annual Report on Form 10-K as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, have been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their report, which is incorporated hereby by reference. Such consolidated financial statements have been so incorporated in reliance upon the report from such firm given upon their authority as experts in accounting and auditing.

The financial statements of Hosted Solutions Parent LLC and Subsidiary as of December 31, 2009 and 2008, for the year ended December 31, 2009, and for the period from April 2, 2008 through December 31, 2008 included in this Registration Statement have been included herein as Annex A in reliance on the report of PricewaterhouseCoopers, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Q-Comm Corporation as of September 30, 2009 and 2008 and for the years ended September 30, 2009, 2008 and 2007 included in this Registration Statement have been included herein as Annex C in reliance on the report of BKD, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and we file reports and other information with the SEC. We have also filed a registration statement on Form S-4 with the SEC in connection with the exchange offer to which this prospectus relates. This prospectus, which forms a part of the registration statement, does not have all the information contained in the registration statement. You may read, free of charge, and copy, at the prescribed rates, any reports and other information, including the registration statement, at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such material also can be obtained by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington, D.C. 20549, at the prescribed rates. The SEC also maintains a website that contains reports, proxy and information statements and other information, including the registration statement. The website address is: <http://www.sec.gov>.

This prospectus is part of a registration statement filed with the SEC. The SEC allows us to incorporate by reference selected documents filed with the SEC, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will

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automatically update and supersede this information. We incorporate by reference the documents listed below filed with the SEC:

Our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on February 22, 2011;

Our Definitive Proxy Statement, as filed with the SEC on March 24, 2011 (as to those portions incorporated into our Form 10-K only);

Our Current Reports on Forms 8-K, as filed with the SEC on January 7, 2011 (two reports), January 25, 2011, February 8, 2011, February 14, 2011, March 2, 2011, March 3, 2011, March 14, 2011, March 15, 2011, March 18, 2011 and March 30, 2011;

Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on February 26, 2010, by Iowa Telecommunications Services, Inc. (as amended by Iowa Telecommunications Services, Inc.'s Form 10-K/A, filed with the SEC on April 29, 2010); and

Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as filed with the SEC on April 26, 2010, by Iowa Telecommunications Services, Inc.

We also incorporate by reference additional documents that we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished under Items 2.02 or 7.01 of any Form 8-K, which is not deemed filed under the Exchange Act) subsequent to the date of this prospectus and prior to the termination of the offering made by this prospectus, except that any such report or portions thereof which are furnished and not filed shall not be incorporated by reference herein. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

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ANNEX A

**Hosted Solutions Parent LLC  
and Subsidiary**

**Consolidated Financial Statements**

**December 31, 2009 and 2008**



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**Report of Independent Registered Public Accounting Firm**

To the Member of

Hosted Solutions Parent LLC and Subsidiary

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements

of operations, of member s equity and of cash flows present fairly, in all material respects the financial position of Hosted Solutions Parent LLC and Subsidiary (the Company ) at December 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009 and for the period from April 2, 2008 through December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Greensboro, North Carolina

April 19, 2010

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Balance Sheets****December 31, 2008 and 2009**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 9,944	\$ 8,919
Accounts receivable		
Trade, net of allowance for doubtful accounts of \$764 and \$501, respectively	3,789	2,874
Unbilled	789	153
Inventory	35	95
Prepaid expenses	1,414	750
Deposits	223	210
Other current assets	691	1,146
<b>Total current assets</b>	<b>16,885</b>	<b>14,147</b>
Property and equipment, net	31,478	22,697
Intangible assets, net	57,665	61,742
Deferred financing costs, net	2,798	3,513
Deferred installation costs, net	1,642	1,516
Goodwill	65,267	65,267
Other assets	518	416
<b>Total assets</b>	<b>\$ 176,253</b>	<b>\$ 169,298</b>
<b>Liabilities and Member's Equity</b>		
Current liabilities		
Accounts payable	\$ 1,198	\$ 5,537
Accrued expenses	4,233	2,497
Current maturities of long-term debt	2,642	1,268
Deferred revenue	4,865	3,898
Other current liabilities	330	1,219
<b>Total current liabilities</b>	<b>13,268</b>	<b>14,419</b>
Long-term debt, less current maturities	85,683	82,570
Revolving line of credit	4,534	
Deferred revenue	541	1,422
Other liabilities	131	
<b>Total liabilities</b>	<b>104,157</b>	<b>98,411</b>
Member's equity	72,096	70,887
<b>Total liabilities and member's equity</b>	<b>\$ 176,253</b>	<b>\$ 169,298</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Statements of Operations****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Revenue	\$ 48,981	\$ 28,596
Cost of revenue	25,124	15,142
Gross profit	23,857	13,454
Selling, general and administrative expenses	9,716	4,470
Amortization of intangible assets	4,077	3,058
Operating income	10,064	5,926
Other income (expense)		
Interest income	40	18
Interest expense	(9,595)	(6,270)
Total other expense, net	(9,555)	(6,252)
Net income (loss)	\$ 509	\$ (326)

The accompanying notes are an integral part of these consolidated financial statements.

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**Hosted Solutions Parent LLC and Subsidiary**

**Consolidated Statements of Member's Equity**

**Year Ended December 31, 2009 and**

**for the Period From April 2, 2008 to December 31, 2008**

*(in thousands of dollars)*

<b>Opening member s equity as of April 2, 2008</b>	<b>\$</b>
Initial capital contribution	70,765
Stock based compensation	448
Net loss	(326)
<b>Member s equity as of December 31, 2008</b>	<b>70,887</b>
Stock based compensation	700
Net income	509
<b>Member s equity as of December 31, 2009</b>	<b>\$ 72,096</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Statements of Cash Flows****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 509	\$ (326)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	11,500	6,220
Loss on interest rate cap	1	91
Amortization of deferred financing costs	715	534
Amortization of deferred installation costs	1,134	519
Gain on sale of property and equipment	(1)	
Provision for loss on accounts receivable	263	288
Non-cash stock based compensation expense	700	448
Changes in operating assets and liabilities:		
Accounts receivable		
Trade	(1,178)	2,222
Unbilled	(636)	31
Inventory	60	(61)
Prepaid expenses	(664)	(471)
Deposits	(13)	73
Other current assets	455	(547)
Other assets	(103)	(508)
Accounts payable	(4,339)	3,645
Accrued expenses	1,736	1,837
Deferred revenue	86	841
Other current liabilities	(851)	(319)
Other liabilities	131	
<b>Net cash provided by operating activities</b>	<b>9,505</b>	<b>14,517</b>
<b>Cash flows from investing activities</b>		
Acquisition of Hosted Solutions, LLC		(145,765)
Purchases of property and equipment	(16,203)	(14,394)
Payments on deferred installation costs	(1,260)	(1,357)
<b>Net cash used in investing activities</b>	<b>(17,463)</b>	<b>(161,516)</b>
<b>Cash flows from financing activities</b>		
Capital contributions		70,765
Borrowings on revolver	4,534	
Borrowings of debt	5,750	84,250
Repayments of debt	(1,263)	(413)
Payments on capital lease obligations	(38)	(94)
Payments of deferred financing costs		(12)
<b>Net cash provided by financing activities</b>	<b>8,983</b>	<b>154,496</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,025</b>	<b>7,497</b>

**Cash and cash equivalents**

Beginning of year	8,919	1,422
End of year	\$ 9,944	\$ 8,919

**Supplemental disclosure of cash flow information**

Cash paid during the period for Interest	\$ 8,630	\$ 4,447
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**Noncash investing and financing activities**

Purchases of fixed assets included in accounts payable and accrued expenses	\$ 1,386	\$ 4,082
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The accompanying notes are an integral part of these consolidated financial statements.

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**Hosted Solutions Parent LLC and Subsidiary**

**Notes to Consolidated Financial Statements**

**Year Ended December 31, 2009 and**

**for the Period From April 2, 2008 to December 31, 2008**

*(Dollar and share amounts in thousands except per share amounts)*

**1. Summary of Significant Accounting Policies  
Description of Business and Principles of Consolidation**

On February 15, 2008, the members of Hosted Solutions, LLC entered into an agreement with Hosted Solutions Holdings LLC, Hosted Solutions Acquisition LLC, and certain owners identified within the Asset Purchase Agreement to acquire the assets and assume the liabilities of Hosted Solutions, LLC. The purchase was consummated on April 2, 2008, and the new Company was capitalized by an investment of \$70,765. See Note 2 for additional information.

Hosted Solutions Parent LLC and Subsidiary (the Company) operates five world class Dual OC-3 secured data centers and provides outsourced managed web hosting and co-location data services to business customers of all sizes located in the Carolinas and in Massachusetts.

The accompanying consolidated financial statements include the accounts of Hosted Solutions Parent LLC and its wholly owned subsidiary, Hosted Solutions Acquisition LLC. All significant intercompany transactions and accounts have been eliminated. The Company is organized based on the products and services that it offers and operates its business as a single reporting segment.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( US GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 2009 and 2008, and the reported amounts of revenues and expenses for the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all investments purchased with remaining maturities of three months or less to be cash equivalents. During the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, the Company maintained cash balances in excess of federally insured limits of \$9,657 and \$8,702, respectively.

**Inventory**

Inventory includes computer equipment, parts and supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.



**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided by straight-line rates intended to distribute the cost over the estimated service life as follows:

	<b>Estimated</b>
	<b>Useful Life</b>
	<b>(in years)</b>
Equipment data centers	2 - 6
Office equipment	7
Furniture and fixtures	8
Leasehold improvements	2 -15

Equipment recorded under capital leases is amortized using the straight-line method over the shorter of the respective lease term or estimated useful life of the asset. Leasehold improvements are amortized over the lesser of estimated useful life or the life of the leases including expected renewals. Maintenance and repairs are charged to operations as incurred. Major renewals and betterments that extend the useful lives of the assets or increase the productivity are capitalized. Interest expense related to the acquisition of fixed assets is capitalized. Capitalized interest was \$438 and \$153 net of accumulated depreciation of \$27 and \$0 at December 31, 2009 and 2008, respectively. When items of property or equipment are sold or retired, the related cost and accumulated depreciation or amortization is removed from the account and any gain or loss is included in operating income.

**Deferred Installation Costs**

Deferred installation costs include both customer up-fit and labor related to direct costs allocated to the installation of equipment for new contracts. Customer up-fit charges are amortized on a straight line basis over the length of the initial contract term. Customer up-fit charges were \$2,620 and \$1,791 net of accumulated amortization of \$1,372 and \$470 at December 31, 2009 and 2008, respectively. The Company recognized amortization expense of \$902 and \$470 related to customer up-fit charges year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, respectively. Capitalized labor costs are amortized over a period of 24 months, which is the average term per contract. Capitalized labor costs were \$675 and \$244 net of accumulated amortization of \$281 and \$49 at December 31, 2009 and 2008, respectively. The Company recognized amortization expense of \$232 and \$49 related to capitalized labor costs for the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, respectively.

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in accordance with the provisions of the Property, Plant and Equipment Topic of the Financial Accounting Standards Board ( FASB ) Accounting Standards. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment, and amortizable intangible assets in relation to operating performance. The Company incurred no impairment charges during the year ended December 31, 2009 or during the period from April 2, 2008 to December 31, 2008.



**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***Deferred Financing Costs**

Deferred financing costs, composed of facility, agency, and certain legal fees associated with acquiring new debt financing, are amortized over the term of the related agreement using the effective interest rate method. Capitalized loan fees were \$4,047 as of December 31, 2009 and 2008, net of accumulated amortization of \$1,249 and \$534, respectively. The Company recognized amortization expense of \$715 and \$534 related to capitalized loan fees for the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, respectively.

**Intangible Assets and Goodwill**

The Company accounts for intangible assets in accordance with the Intangibles Goodwill and Other Topic of the FASB Accounting Standards. Intangible assets consist of customer relationships, tradename, and covenants not to compete which are evaluated annually to determine if the remaining useful life is reasonable. Amortization for the identifiable intangible assets is computed using the straight-line method based on the estimated useful lives of the respective assets which are as follows:

	<b>Estimated Useful Life (in years)</b>
Customer relationships	15
Tradename	30
Covenants not to compete	15

Goodwill represents the excess of cost over net assets acquired by the Company. At each balance sheet date, the Company evaluates the realizability of its goodwill unless there is an indicator that would require a test during the year. The Company incurred no impairment charges during the year ended December 31, 2009 or during the period from April 2, 2008 to December 31, 2008.

**Advertising Costs**

Advertising and marketing costs are expensed as incurred and are included in operating expenses. Advertising expense was \$738 and \$357 for the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively

**Revenue, Deferred Revenue, and Accounts Receivable**

Revenue is recognized ratably as services are performed. Upfront installation revenue is amortized on a straight-line basis over the initial contract period. The Company's policy is to bill one month in advance, and some customers elect to prepay for longer periods. Customer prepayments and upfront installation revenue are recorded as deferred revenue and amortized into revenue over the service period.

License fees are recorded net in accordance with Revenue Recognition Topic of the FASB Accounting Standards.

The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Payment of all fees are due within 30 days of invoice. Late payments accrue interest at 1.5% per month. In the event a customer's account becomes past due for 30 days



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### **Hosted Solutions Parent LLC and Subsidiary**

### **Notes to Consolidated Financial Statements**

### **Year Ended December 31, 2009 and**

### **for the Period From April 2, 2008 to December 31, 2008**

*(Dollar and share amounts in thousands except per share amounts)*

or more, the Company may at its sole discretion suspend, interrupt, or disconnect the service upon ten days written notice. There is a five day grace period if the customer's account is not paid by the end of the service period, usually 60 days from invoice date. If the customer has made no effort to contact the Company by day 76, then the Company will send a letter stating that the account is being sent to collections.

Receivables that management deems uncollectible are charged-off. The Company charged off \$934 and \$365 to bad debt expense in the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively. Recoveries of receivables previously charged off are recorded when received. In the opinion of management, an allowance for doubtful accounts of \$764 and \$501 as of December 31, 2009 and 2008, respectively, are adequate. Actual results could differ from the estimates that were used.

### **Concentration of Credit Risk**

One customer accounts for approximately 15% and 0% of the Company's outstanding accounts receivable at December 31, 2009 and 2008, respectively, and 3% and 0% of revenue for the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, respectively.

### **Fair Value Measurements**

The Company has adopted the provisions of the Fair Value Topic of the FASB Accounting Standards. The adoption of the Fair Value topic did not impact the Company's operations, but rather, provided the Company with a framework for measuring fair value and enhanced the Company's disclosures about fair value measurements.

### **Financial Instruments**

The Company has elected to account for a certain derivative instrument (the Cap) as an economic hedge of its debt but has elected not to account for the Cap as a hedge under the provisions of the Derivatives and Hedging Topic of the FASB Accounting Standards. As the Cap was not designated as a hedge for accounting purposes, all changes in the fair market value are recorded in the consolidated statement of operations as a component of interest expense.

### **Income Taxes**

The Company, a limited liability company, is not a taxpaying entity, and thus no income tax expense has been recorded in the consolidated financial statements. Income of the Company is taxed to the member in its respective income tax return.

### **Uncertain Tax Positions**

The Company adopted provisions of the Income Taxes Topic of the FASB Accounting Standards on January 1, 2009. The Company may recognize an income tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is



**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)*

met, the Company measures the tax benefit as the largest amount of the benefit that has greater than a 50% likelihood of being realized upon ultimate settlement. The adoption of these provisions did not result in the recognition of an adjustment for the cumulative effect of adoption of a new accounting principle. The Company did not have any unrecognized tax benefit resulting from tax positions related to either the current year or prior period, and had no settlements. No unrecognized tax benefits existed as of December 31, 2009 and the Company does not expect any change in unrecognized tax benefits within the next fiscal year.

**New Accounting Pronouncements**

In May 2009, the FASB issued guidance which sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Subsequent Events Topic of the FASB Accounting Standards Codification requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This disclosure is effective for financial periods ending after June 15, 2009.

In June 2009, the FASB issued the FASB Accounting Standards Codification (the Codification). The Codification is the single source of authoritative nongovernmental US GAAP, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. The Codification eliminates the US GAAP hierarchy contained in Statement of Financial Accounting Standards and establishes one level of authoritative US GAAP. All other literature is considered non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In response, the Company has used plain English or included the references to the Codification, as appropriate, in these consolidated financial statements.

**2. Acquisition**

On April 2, 2008, Hosted Solutions Acquisition LLC acquired Hosted Solutions, LLC for an aggregate purchase price of 145,765, including cash paid of \$116,664, the retirement of \$9,354 in liabilities, roll-over shares valued at \$14,150, deferred financing costs of \$4,035, and other transaction expenses of \$1,562. The acquisition was accounted for using the purchase method of accounting in accordance with the Business Combinations Topic of the FASB Accounting Standards. Accordingly, the consideration paid was allocated based on the estimated fair value of the net assets acquired. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

Working capital	\$ 3,994
Property and equipment	12,148
Deferred financing costs	4,035
Covenants not to compete	2,800
Tradename	7,300
Customer relationships	54,700
Goodwill	65,267
Deferred revenue	(4,479)

Total purchase consideration	\$ 145,765
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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***3. Property and Equipment, Net**

Property and equipment consisted of the following as of December 31, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Equipment data centers	\$ 12,632	\$ 8,067
Office equipment	574	268
Furniture and fixtures	345	331
Leasehold improvements	28,512	17,193
	42,063	25,859
Less accumulated depreciation and amortization	(10,585)	(3,162)
	<b>\$ 31,478</b>	<b>\$ 22,697</b>

Depreciation expense was \$7,423 and \$3,162 for the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively.

**4. Intangible Assets, Net**

The following table summarizes the Company's intangible assets as of December 31, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
<b>Intangible assets subject to amortization</b>		
Customer relationships	\$ 54,700	\$ 54,700
Tradename	7,300	7,300
Covenants not to compete	2,800	2,800
	64,800	64,800
Less accumulated amortization	(7,135)	(3,058)
	<b>\$ 57,665</b>	<b>\$ 61,742</b>
<b>Intangible assets not subject to amortization</b>		
Goodwill	\$ 65,267	\$ 65,267

Amortization expense of \$4,077 and \$3,058 was recognized for the year ended December 31, 2009 and for the period April 2, 2008 to December 31, 2008, respectively. The estimated future amortization expense of intangible assets is as follows:

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2010	4,077
2011	4,077
2012	4,077
2013	4,077
2014	4,077
Thereafter	37,280
	\$ 57,665

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***5. Fair Value Measurements**

Under the Fair Value Topic of the FASB Accounting Standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under the Fair Value Topic must maximize the use of observable inputs and minimize the use of unobservable inputs. The topic describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In November 2008, the Company entered into the Cap agreement for a notional amount of \$45,000 to help manage the risk of rising interest rates on its term debt. The Cap matures on November 16, 2011. The Company recorded an expense related to the Cap of \$1 and \$91 for the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively, in the consolidated statement of operations in interest expense. The fair value of the Cap was estimated by obtaining a quote from the broker and is the estimated amount that the Company would pay to terminate the agreement at the reporting date, taking into account current interest rates and the then current credit worthiness of the counter party. Due to the nature of this instrument and indirectly observable inputs, the Cap is included in Level 2 of the fair value hierarchy as of December 31, 2009.

The following table summarizes the composition and fair value hierarchy of the Company's financial assets and liabilities at December 31, 2009:

Balance at April 2, 2008	\$
Purchases during the period	120
Total change in fair value reported in the consolidated statement of operations	(91)
Balance at December 31, 2008	29
Total change in fair value reported in the consolidated statement of operations	(1)
Balance at December 31, 2009	\$ 28

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***6. Accrued Expenses**

Accrued expense consisted of the following as of December 31, 2009 and 2008:

	2009	2008
Interest	\$ 1,332	\$ 1,198
Rent	1,192	514
Leasehold	699	
Bonus	647	458
Other	363	327
Total	\$ 4,233	\$ 2,497

**7. Incentive Share Plan**

The Hosted Solutions Holdings LLC Incentive Share Plan (the "Plan") permits the grant of incentive stock awards to eligible participants. Stock awards are granted upon approval of the Board of Directors and generally are subject to vesting over a period of five years. Stock-based compensation is issued by Hosted Solutions Holdings LLC and is pushed down to the Company's reporting level as stock-based compensation charges with the offset to capital contribution.

Under the fair value recognition provisions of the Stock Compensation Topic of the FASB Accounting Standards, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period.

The Plan allows the Company to grant Class C shares in Hosted Solutions Holdings LLC to executives and employees of the Company. The fair value of these awards is recorded as compensation cost over the term of vesting period with corresponding increases in member's equity. A summary of the status of unearned restricted shares under the Plan as of December 31, 2009 and 2008, and changes during the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008 are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Non-vested at April 2, 2008		\$	\$
Granted	5,655	0.61	3,449
Non-vested at December 31, 2008	5,655	0.61	3,449
Vested	(565)	0.61	(345)

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Forfeitures	(216)	0.61	(132)
Granted	299	0.65	194
Non-vested at December 31, 2009	5,173	\$ 0.61	\$ 3,166

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***8. Long-Term Debt**

Long-term debt consisted of the following as of December 31, 2009 and 2008:

	2009	2008
Term loan, due in quarterly installments beginning June 30, 2008, with a balloon payment due April 1, 2013; interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 4.75% or at the London Interbank Offered Rate ( LIBOR ) plus a margin of 6% over a term of one, two, or three months. Interest rate as of December 31, 2009 and 2008 was 9%.	\$ 53,325	\$ 54,588
Credit facility, due in quarterly installments beginning June 30, 2011, with a balloon payment due April 1, 2013; interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 4.75% or at LIBOR plus a margin of 6% over a term of one, two, or three months. Interest rate as of December 31, 2009 and 2008 was 9%.	11,250	6,937
Term loan, payable in full on October 1, 2013; Interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 8.25% or at LIBOR plus a margin of 9.5% over a term of one, two, or three months. Interest rate as of December 31, 2009 and 2008 was 12.5%.	20,000	20,000
Credit facility, payable in full on October 1, 2013; Interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 8.25% or at LIBOR plus a margin of 9.5% over a term of one, two, or three months. Interest rate as of December 31, 2009 and 2008 was 12.5%.	3,750	2,313
<b>Total</b>	<b>88,325</b>	<b>83,838</b>
Less current maturities of long-term debt	2,642	1,268
<b>Long-term debt</b>	<b>\$ 85,683</b>	<b>\$ 82,570</b>

Annual maturities of long-term debt for the years subsequent to December 31, 2009, are as follows:

2010	\$ 2,642
2011	3,507
2012	4,126
2013	78,050
<b>Total</b>	<b>\$ 88,325</b>

Under the terms of the loans referenced above, the Company is required to make quarterly payments of principal and/or interest. Furthermore, the loans contain covenants, conditions and financial ratio requirements that impose limitations on the Company, with the most restrictive being the senior leverage ratio. The Company was in compliance with all covenants as of December 31, 2009 and 2008.

The Company has open letters of credit of \$2,500, related to the credit agreements, which expire on March 2, 2013. As of December 31, 2009 and 2008, the beneficiaries have not drawn on these letters of credit.



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**Hosted Solutions Parent LLC and Subsidiary**

**Notes to Consolidated Financial Statements**

**Year Ended December 31, 2009 and**

**for the Period From April 2, 2008 to December 31, 2008**

*(Dollar and share amounts in thousands except per share amounts)*

**9. Revolving Line of Credit**

On April 2, 2008, the Company secured a variable rate revolving line of credit with a syndicate of lenders. The agreement requires the Company's compliance with certain financial and other covenants and expires on April 1, 2013 or upon the acceleration of any obligations pursuant to the agreement. Interest is payable, at the Company's option, at the Prime Rate plus a margin of 4.75% or at LIBOR plus a margin of 6% over a term of one, two, or three months. The interest rate was 9% as of December 31, 2009 and 2008. The Company had an outstanding balance on the line of credit of \$4,534 and \$0 and an available amount of \$466 and \$5,000 as of December 31, 2009 and 2008, respectively. The line of credit is cross collateralized with the other debt to the syndicate of lenders.

**10. Member's Equity  
Capital Structure**

Upon formation, the Company issued one thousand (1,000) membership units in the Company, each of which represents one hundredth percent (.1%) equity ownership interest. Hosted Solutions Holdings LLC (the Member) subscribed for one hundred percent (100%) and has made a capital contribution of ten dollars in consideration of the number of membership units issued.

On April 2, 2008, the Member also made a capital contribution of \$70,765 in conjunction with the acquisition of the Company.

**Management**

As stipulated in the Limited Liability Company Agreement (the Agreement), the business and affairs of the Company are to be carried out by the officers as appointed by the Member. In addition to the powers and authorities expressly conferred upon the officers by the operating agreement, they shall have full and complete authority, power, and discretion to manage and control the business of the Company, to make all decisions regarding those matters, and perform any other acts customary to officers of a business unless approval is required by the Member. As of December 31, 2009 and 2008, there were five appointed officers.

**Capital Contributions and Distributions**

The Member shall not be obligated to make capital contributions to the Company. Distributions shall be made to the Member at the times and in the aggregated amounts determined by the Member.



**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***11. Commitments and Contingencies****Operating Leases**

As of December 31, 2009 and 2008, the Company leased office space under noncancelable operating leases. The schedule below includes initial lease terms and does not include renewal options expected to be exercised by the Company. Future minimum lease payments under the leases in effect as of December 31, 2009 are as follows:

2010	\$ 2,681
2011	2,802
2012	2,961
2013	3,099
2014	3,235
Thereafter	16,216
<b>Total minimum lease payments</b>	<b>\$ 30,994</b>

The Company incurred \$3,277 and \$1,758 of rental expense on noncancelable operating leases during the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively.

Several leases provide for scheduled increases in base rent and free months of rent. Rent expense is charged to operations on a straight line basis over the term of the lease which results in deferred rent payable which represents cumulative rent expense charged to operations from inception of the lease in excess of the required lease payments. Deferred rent expense totaled \$1,192 and \$514 as of December 31, 2009 and 2008, respectively.

**Capital Leases**

During 2009, the Company entered into a capital lease agreement for certain equipment. The cost of the equipment under the capital lease is included in the Consolidated Balance Sheets as property, plant and equipment of \$213 net of accumulated depreciation of \$34 at December 31, 2009. Under the lease agreement, the Company has the option to purchase the equipment at the end of the lease term for one dollar.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2009, are as follows:

2010	\$ 91
2011	91
2012	53
<b>Total minimum lease payments</b>	<b>235</b>

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Present value of minimum lease payments	209
Less current portion of capital lease obligations	78
Long-term capital lease obligation	\$ 131

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Consolidated Financial Statements****Year Ended December 31, 2009 and****for the Period From April 2, 2008 to December 31, 2008***(Dollar and share amounts in thousands except per share amounts)***Purchase Commitments**

During the ordinary course of business, the Company enters into short and long-term purchase commitments for bandwidth, point-to-point, and maintenance services. The Company entered several contracts with monthly commitments with terms ranging from one to three years. The Company paid \$1,865 and \$1,084 for bandwidth, point-to-point, and maintenance services under these purchase commitments during the year ended December 31, 2009 and for the period from April 2, 2008 to December 31, 2008, respectively. Future payments under these purchase commitments in effect at December 31, 2009, with commitment terms in excess of one year are as follows:

2010	\$ 723
2011	433
2012	33
2013	20
2014	18
Total	\$ 1,227

**Litigation**

From time to time, the Company is involved in various litigation which arises in the ordinary course of business. After consultation with its legal counsel, management believes the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

**12. Retirement Plan**

Effective May 1, 2008, the Company adopted a Safe Harbor Plan 401(k) Plan (the Plan) which replaced its existing 401(k) plan. The Company matches employee contributions to the Plan 100% up to 3% and 50% of the next 2%. The Company's contribution was \$200 and \$100 for the year ended December 31, 2009 and the period from April 2, 2008 to December 31, 2008, respectively.

**13. Subsequent events**

The Company has performed an evaluation of subsequent events through April 19, 2010, which is the date the consolidated financial statements were available to be issued.

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ANNEX B

**Hosted Solutions Parent LLC  
and Subsidiary**

**Consolidated Financial Statements**

**September 30, 2010 and 2009**

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**Hosted Solutions Parent LLC and Subsidiary**

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**September 30, 2010 and 2009**

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Balance Sheets****September 30, 2010 and December 31, 2009**

<i>(in thousands of dollars)</i>	<b>(Unaudited) 2010</b>	<b>(Unaudited) 2009</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,030	\$ 9,944
Accounts receivable		
Trade, net of allowance for doubtful accounts of \$646 and \$764, respectively	3,431	3,789
Unbilled	895	789
Inventory	49	35
Prepaid expenses	2,265	1,414
Deposits	3,160	223
Other current assets	1,095	691
<b>Total current assets</b>	<b>17,925</b>	<b>16,885</b>
Property and equipment, net	29,191	31,478
Intangible assets, net	54,609	57,665
Deferred financing costs, net	2,231	2,798
Deferred installation costs, net	1,691	1,642
Goodwill	65,267	65,267
Other assets	250	518
<b>Total assets</b>	<b>\$ 171,164</b>	<b>\$ 176,253</b>
<b>Liabilities and Member's Equity</b>		
Current liabilities		
Accounts payable	\$ 890	\$ 1,198
Accrued expenses	3,805	4,233
Current maturities of long-term debt	3,218	2,642
Deferred revenue	4,826	4,865
Other current liabilities	624	330
<b>Total current liabilities</b>	<b>13,363</b>	<b>13,268</b>
Long-term debt, less current maturities	83,107	85,683
Revolving line of credit		4,534
Deferred revenue	659	541
Other liabilities	74	131
<b>Total liabilities</b>	<b>97,203</b>	<b>104,157</b>
<b>Commitments and Contingencies (see Note 10)</b>		
Member's equity	73,961	72,096
<b>Total liabilities and member's equity</b>	<b>\$ 171,164</b>	<b>\$ 176,253</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Statements of Operations (Unaudited)****For The Nine Months Ended September 30, 2010 and 2009**

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Revenue	\$ 39,158	\$ 36,439
Cost of revenue	20,355	18,712
Gross profit	18,803	17,727
Selling, general and administrative expenses	7,033	7,218
Amortization of intangible assets	3,058	3,058
Operating income	8,712	7,451
Other income (expense)		
Other income	27	28
Interest expense	(7,392)	(7,141)
Total other expense, net	(7,365)	(7,113)
Net income	\$ 1,347	\$ 338

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Consolidated Statements of Cash Flows (Unaudited)****For The Nine Months Ended September 30, 2010 and 2009***(in thousands of dollars)*

	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 1,347	\$ 338
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	9,020	8,297
Amortization of deferred financing costs	617	547
Amortization of deferred installation costs	948	852
Provision for loss on accounts receivable	(118)	367
Non-cash stock based compensation expense	518	525
Changes in operating assets and liabilities:		
Accounts receivable		
Trade	476	(419)
Unbilled	(106)	(572)
Inventory	(14)	38
Prepaid expenses	(851)	(689)
Deposits	(2,937)	(13)
Other current assets	(404)	337
Other assets	268	(296)
Accounts payable	(569)	(4,921)
Accrued expenses	(428)	1,763
Deferred revenue	79	45
Other current liabilities	348	(894)
Other liabilities	(55)	150
<b>Net cash provided by operating activities</b>	<b>8,139</b>	<b>5,455</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(3,420)	(9,507)
Payments on deferred installation costs	(997)	(997)
<b>Net cash used in investing activities</b>	<b>(4,417)</b>	<b>(10,504)</b>
<b>Cash flows from financing activities</b>		
Borrowings on revolver		4,534
Borrowings of debt		5,750
Repayments on revolver	(4,534)	
Repayments of debt	(2,000)	(1,127)
Payments on capital lease obligations	(52)	
Payments of deferred financing costs	(50)	(19)
<b>Net cash (used in) provided by financing activities</b>	<b>(6,636)</b>	<b>9,138</b>
Net (decrease) increase in cash and cash equivalents	(2,914)	4,089
<b>Cash and cash equivalents</b>		
Beginning of period	9,944	8,919
End of period	\$ 7,030	\$ 13,008



**Supplemental disclosure of cash flow information**

Cash paid during the period for Interest	\$ 6,813	\$ 6,613
Noncash investing and financing activities		
Purchases of fixed assets included in accounts payable and accrued expenses	\$ 259	\$ 1,577

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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### **Hosted Solutions Parent LLC and Subsidiary**

#### **Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

#### **1. Summary of Significant Accounting Policies Description of Business and Principles of Consolidation**

On February 15, 2008, the members of Hosted Solutions, LLC entered into an agreement with Hosted Solutions Holdings LLC, Hosted Solutions Acquisition LLC, and certain owners identified within the Asset Purchase Agreement to acquire the assets and assume the liabilities of Hosted Solutions, LLC. The purchase was consummated on April 2, 2008, and the new Company was capitalized by an investment of \$70,765.

Hosted Solutions Parent LLC and Subsidiary (the Company) operates five world class Dual OC-3 secured data centers and provides outsourced managed web hosting and co-location data services to business customers of all sizes located in the Carolinas and in Massachusetts. Hosted Solutions Holdings LLC is the Company's sole equity member. The Company is organized based on the products and services that it offers and operates its business as a single reporting segment.

The accompanying consolidated financial statements include the accounts of Hosted Solutions Parent LLC and its wholly owned subsidiary, Hosted Solutions Acquisition LLC. All significant intercompany transactions and accounts have been eliminated.

#### **Preparation of Interim Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. In our opinion, these financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at September 30, 2010 and December 31, 2009, and the reported amounts of revenues and expenses for the nine months ended September 30, 2010 and 2009. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

The Company considers all investments purchased with remaining maturities of three months or less to be cash equivalents.

#### **Inventory**

Inventory includes computer equipment, parts and supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements***(Dollar and share amounts in thousands except per share amounts)***Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided by straight-line rates intended to distribute the cost over the estimated service life as follows:

	<b>Estimated Useful Life (in years)</b>
Equipment - data centers	2 - 6
Office equipment	7
Furniture and fixtures	8
Leasehold improvements	2 - 15

Equipment recorded under capital leases is amortized using the straight-line method over the shorter of the respective lease term or estimated useful life of the asset. Leasehold improvements are amortized over the lesser of estimated useful life or the life of the leases including expected renewals. Maintenance and repairs are charged to operations as incurred. Major renewals and betterments that extend the useful lives of the assets or increase the productivity are capitalized. Interest expense related to the acquisition of fixed assets is capitalized. Capitalized interest was \$438 net of accumulated depreciation of \$57 and \$27 at September 30, 2010 and December 31, 2009, respectively. When items of property or equipment are sold or retired, the related cost and accumulated depreciation or amortization is removed from the account and any gain or loss is included in operating income.

**Deferred Installation Costs**

Deferred installation costs include both customer up-fit and labor related to direct costs allocated to the installation of equipment for new contracts. Customer up-fit charges are amortized on a straight line basis over the length of the initial contract term. Customer up-fit charges were \$3,255 and \$2,620 net of accumulated amortization of \$2,013 and \$1,372 at September 30, 2010 and December 31, 2009, respectively. The Company recognized amortization expense of \$641 and \$699 related to customer up-fit charges for the nine months ended September 30, 2010 and 2009, respectively. Capitalized labor costs are amortized over a period of 24 months, which is the average term per contract. Capitalized labor costs were \$1,037 and \$675 net of accumulated amortization of \$588 and \$281 at September 30, 2010 and December 31, 2009, respectively. The Company recognized amortization expense of \$307 and \$153 related to capitalized labor costs for the nine months ended September 30, 2010 and 2009, respectively.

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in accordance with the provisions of the Property, Plant and Equipment Topic of the Financial Accounting Standards Board ( FASB ) Accounting Standards. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment, and amortizable intangible assets in relation to operating performance. The Company incurred no impairment charges during the nine months ended September 30, 2010 and 2009.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

**Deferred Financing Costs**

Deferred financing costs, composed of facility, agency, and certain legal fees associated with acquiring new debt financing, are amortized over the term of the related agreement using the effective interest rate method. Capitalized loan fees were \$4,097 and \$4,047 as of September 30, 2010 and December 31, 2009, net of accumulated amortization of \$1,866 and \$1,249, respectively. The Company recognized amortization expense of \$617 and \$547 related to capitalized loan fees for the nine months ended September 30, 2010 and 2009, respectively.

**Intangible Assets and Goodwill**

The Company accounts for intangible assets in accordance with the Intangibles - Goodwill and Other Topic of the FASB Accounting Standards. Intangible assets consist of customer relationships, tradename, and covenants not to compete which are evaluated annually to determine if the remaining useful life is reasonable. Amortization for the identifiable intangible assets is computed using the straight-line method based on the estimated useful lives of the respective assets which are as follows:

	<b>Estimated Useful Life (in years)</b>
Customer relationships	15
Tradename	30
Covenants not to compete	15

Goodwill represents the excess of cost over net assets acquired by the Company. At December 31, 2009, the Company evaluated the realizability of its goodwill. The Company incurred no impairment charges during 2009 and there have been no indicators requiring additional tests during the year.

**Advertising Costs**

Advertising and marketing costs are expensed as incurred and are included in operating expenses. Advertising expense was \$349 and \$499 for the nine months ended September 30, 2010 and 2009, respectively.

**Revenue, Deferred Revenue, and Accounts Receivable**

Revenue is recognized ratably as services are performed. Upfront installation revenue is amortized on a straight-line basis over the initial contract period. The Company's policy is to bill one month in advance, and some customers elect to prepay for longer periods. Customer prepayments and upfront installation revenue are recorded as deferred revenue and amortized into revenue over the service period.

License fees are recorded net in accordance with Revenue Recognition Topic of the FASB Accounting Standards.

The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Payment of all fees are due within 30 days of invoice. Late payments accrue interest at 1.5 percent per month. In the event a customer's account becomes past due for 30 days or more, the Company may at its sole discretion suspend, interrupt, or disconnect the service upon ten days written notice. There is a five day grace period if the customer's account is not paid by the end of the service period, usually 60 days from invoice date. If the customer has made no effort to contact the Company by day 76, then the Company will send a letter stating that the account is being sent to collections.



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### **Hosted Solutions Parent LLC and Subsidiary**

#### **Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

Receivables that management deems uncollectible are charged-off. The Company recognized \$155 and \$780 in bad debt expense for the nine months ended September 30, 2010 and 2009, respectively. Recoveries of receivables previously charged off are recorded when received. In the opinion of management, an allowance for doubtful accounts of \$646 and \$764 as of September 30, 2010 and December 31, 2009, respectively, is adequate. Actual results could differ from the estimates that were used.

#### **Concentration of Credit Risk**

One customer accounts for approximately 10 percent and 15 percent of the Company's outstanding accounts receivable at September 30, 2010 and December 31, 2009, respectively and 4 percent and 3 percent of revenue for the nine months ended September 30, 2010 and 2009, respectively.

#### **Fair Value Measurements**

The Company has adopted the provisions of the Fair Value Topic of the FASB Accounting Standards. The adoption of the Fair Value topic did not impact the Company's operations, but rather, provided the Company with a framework for measuring fair value and enhanced the Company's disclosures about fair value measurements.

#### **Financial Instruments**

The Company has elected to account for a certain derivative instrument (the Cap) as an economic hedge of its debt but has elected not to account for the Cap as a hedge under the provisions of the Derivatives and Hedging Topic of the FASB Accounting Standards. As the Cap was not designated as a hedge for accounting purposes, all changes in the fair market value are recorded in the consolidated statement of operations as a component of interest expense.

#### **Income Taxes**

The Company, a limited liability company, is not a taxpaying entity, and thus no income tax expense has been recorded in the consolidated financial statements. Income of the Company is taxed to the member in its respective income tax return.

#### **Uncertain Tax Positions**

The Company adopted provisions of the Income Taxes Topic of the FASB Accounting Standards on January 1, 2009. The Company may recognize an income tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of the benefit that has greater than a 50 percent likelihood of being realized upon ultimate settlement. The adoption of these provisions did not result in the recognition of an adjustment for the cumulative effect of adoption of a new accounting principle. The Company did not have any unrecognized tax benefit resulting from tax positions related to either the current period or prior period, and had no settlements. No unrecognized tax benefits existed as of September 30, 2010 and the Company does not expect any change in unrecognized tax benefits within the next fiscal year.

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**Hosted Solutions Parent LLC and Subsidiary**

**Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

**New Accounting Pronouncements**

In December 2010, the FASB issued updated guidance when testing for goodwill impairment. The guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This updated guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company does not expect that this guidance will have a material impact on its consolidated financial statements.

In January 2010, the FASB issued authoritative guidance related to fair value measurements. This guidance requires separate disclosure for purchase, sale, issuance and settlement activity in the reconciliation of Level 3 fair value measurements. This guidance is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued the FASB Accounting Standards Codification (the Codification). The Codification is the single source of authoritative nongovernmental US GAAP, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. The Codification eliminates the US GAAP hierarchy contained in Statement of Financial Accounting Standards and establishes one level of authoritative US GAAP. All other literature is considered non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In response, the Company has used plain English or included the references to the Codification, as appropriate, in these consolidated financial statements.

In May 2009, the FASB issued guidance which sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Subsequent Events Topic of the FASB Accounting Standards Codification requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This disclosure is effective for financial periods ending after June 15, 2009.

**2. Depreciation Expense**

Depreciation expense was \$5,964 and \$5,932 for the nine months ended September 30, 2010 and 2009, respectively.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements***(Dollar and share amounts in thousands except per share amounts)***3. Intangible Assets, Net**

The following table summarizes the Company's intangible assets as of September 30, 2010 and December 31, 2009:

	2010	2009
<b>Intangible assets subject to amortization</b>		
Customer relationships	\$ 54,700	\$ 54,700
Tradenname	7,300	7,300
Covenants not to compete	2,800	2,800
	64,800	64,800
Less accumulated amortization	(10,191)	(7,135)
	\$ 54,609	\$ 57,665
<b>Intangible assets not subject to amortization</b>		
Goodwill	\$ 65,267	\$ 65,267

Amortization expense of \$3,056 was recognized for the nine months ended September 30, 2010 and 2009. Amortization expense for intangible assets subject to amortization is estimated to be \$1,021 for the remainder of 2010 and as follows for the years ended December 31:

2011	4,077
2012	4,077
2013	4,077
2014	4,077
2015	4,077
Thereafter	34,224
	\$ 54,609

**4. Fair Value Measurements**

Under the Fair Value Topic of the FASB Accounting Standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under the Fair Value Topic must maximize the use of observable inputs and minimize the use of unobservable inputs. The topic describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the



full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

In November 2008, the Company entered into the Cap agreement for a notional amount of \$45,000 to help manage the risk of rising interest rates on its term debt. The Cap matures on November 16, 2011. The Company did not record an expense related to the Cap for the nine months ended September 30, 2010 and 2009 as there was no significant change in the fair value of the Cap. The fair value of the Cap was estimated by obtaining a quote from the broker and is the estimated amount that the Company would pay to terminate the agreement at the reporting date, taking into account current interest rates and the then current credit worthiness of the counter party. Due to the nature of this instrument and indirectly observable inputs, the Cap is included in Level 2 of the fair value hierarchy as of September 30, 2010 and December 31, 2009.

The following table summarizes the composition and fair value hierarchy of the Company's financial assets and liabilities at September 30, 2010:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents (a)	\$ 7,030	\$ 7,030	\$	\$
Cap agreement (b)	\$ 28	\$	\$ 28	\$

(a) Included in cash and cash equivalents on the unaudited consolidated balance sheet as of September 30, 2010.

(b) Included in other assets on the unaudited consolidated balance sheet as of September 30, 2010.

**5. Incentive Share Plan**

The Hosted Solutions Holdings LLC Incentive Share Plan (the Plan) permits the grant of incentive stock awards to eligible participants. Stock awards are granted upon approval of the Board of Directors and generally are subject to vesting over a period of five years. Stock-based compensation is issued by Hosted Solutions Holdings LLC and is pushed down to the Company's reporting level as stock-based compensation charges with the offset to capital contribution.

Under the fair value recognition provisions of the Stock Compensation Topic of the FASB Accounting Standards, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period.

The Plan allows the Company to grant Class C shares in Hosted Solutions Holdings LLC to executives and employees of the Company. The fair value of these awards is recorded as compensation cost over the term of the vesting period with corresponding increases in member's equity. A summary of the status of unearned restricted shares under the Plan as of September 30, 2010 and December 31, 2009 and changes during the period ended September 30, 2010 are presented below:

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	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Non-vested at December 31, 2009	5,173	\$ 0.61	\$ 3,166
Vested	(1,059)	0.61	(646)
Forfeitures	(599)	0.61	(365)
Granted	274	0.66	181
Non-vested at September 30, 2010	3,789	\$ 0.62	\$ 2,335

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements***(Dollar and share amounts in thousands except per share amounts)***6. Long-Term Debt**

Long-term debt consisted of the following as of September 30, 2010 and December 31, 2009:

	2010	2009
Term loan, due in quarterly installments beginning June 30, 2008, with a balloon payment due April 1, 2013; interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 4.75% or at the London Interbank Offered Rate ( LIBOR ) plus a margin of 6% over a term of one, two, or three months. Interest rate as of September 30, 2010 and December 31, 2009 was 9%.	\$ 51,511	\$ 53,325
Credit facility, due in quarterly installments beginning June 30, 2011, with a balloon payment due April 1, 2013; interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 4.75% or at LIBOR plus a margin of 6% over a term of one, two, or three months. Interest rate as of September 30, 2010 and December 31, 2009 was 9%.	11,064	11,250
Term loan, payable in full on October 1, 2013; Interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 8.25% or at LIBOR plus a margin of 9.5% over a term of one, two, or three months. Interest rate as of September 30, 2010 and December 31, 2009 was 12.5%.	20,000	20,000
Credit facility, payable in full on October 1, 2013; Interest is paid quarterly, at the Company's option, at the Prime Rate plus a margin of 8.25% or at LIBOR plus a margin of 9.5% over a term of one, two, or three months. Interest rate as of September 30, 2010 and December 31, 2009 was 12.5%.	3,750	3,750
<b>Total</b>	<b>86,325</b>	<b>88,325</b>
Less current maturities of long-term debt	3,218	2,642
<b>Long-term debt</b>	<b>\$ 83,107</b>	<b>\$ 85,683</b>

Annual maturities of long-term debt for the years subsequent to September 30, 2010, are as follows:

2011	\$ 3,218
2012	4,834
2013	78,273
<b>Total</b>	<b>\$ 86,325</b>

Under the terms of the loans referenced above, the Company is required to make quarterly payments of principal and/or interest. Furthermore, the loans contain covenants, conditions and financial ratio requirements that impose limitations on the Company, with the most restrictive being the senior leverage ratio. The Company was in compliance with all covenants as of September 30, 2010 and December 31, 2009.

The Company has open letters of credit of \$2,500, related to the credit agreements, which expire on March 2, 2013. As of September 30, 2010 and December 31, 2009, the beneficiaries have not drawn on these letters of credit.

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**Hosted Solutions Parent LLC and Subsidiary**

**Notes to Unaudited Interim Consolidated Financial Statements**

*(Dollar and share amounts in thousands except per share amounts)*

**7. Revolving Line of Credit**

On April 2, 2008, the Company secured a variable rate revolving line of credit with a syndicate of lenders. The agreement requires the Company's compliance with certain financial and other covenants and expires on April 1, 2013 or upon the acceleration of any obligations pursuant to the agreement. Interest is payable, at the Company's option, at the Prime Rate plus a margin of 4.75 percent or at LIBOR plus a margin of 6 percent over a term of one, two, or three months. The interest rate was 9 percent as of September 30, 2010 and December 31, 2009. The Company had an outstanding balance on the line of credit of \$0 and \$4,534 and an available amount of \$5,000 and \$466 as of September 30, 2010 and December 31, 2009, respectively. The line of credit is cross collateralized with the other debt to the syndicate of lenders.

**8. Member's Equity  
Capital Structure**

Upon formation, the Company issued one thousand (1,000) membership units in the Company, each of which represents one hundredth percent (.1 percent) equity ownership interest. Hosted Solutions Holdings LLC (the Member) subscribed for one hundred percent (100 percent) and has made a capital contribution of ten dollars in consideration of the number of membership units issued.

On April 2, 2008, the Member also made a capital contribution of \$70,765 in conjunction with the acquisition of the Company.

**Management**

As stipulated in the Limited Liability Company Agreement (the Agreement), the business and affairs of the Company are to be carried out by the officers as appointed by the Member. In addition to the powers and authorities expressly conferred upon the officers by the operating agreement, they shall have full and complete authority, power, and discretion to manage and control the business of the Company, to make all decisions regarding those matters, and perform any other acts customary to officers of a business unless approval is required by the Member. As of September 30, 2010 and December 31, 2009, there were five appointed officers.

**Capital Contributions and Distributions**

The Member shall not be obligated to make capital contributions to the Company. Distributions shall be made to the Member at the times and in the aggregated amounts determined by the Member.

**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements***(Dollar and share amounts in thousands except per share amounts)***9. Commitments and Contingencies****Operating Leases**

As of September 30, 2010 and December 31, 2009, the Company leased office space under noncancelable operating leases. The schedule below includes initial lease terms and does not include renewal options expected to be exercised by the Company. Future minimum lease payments under the leases in effect as of September 30, 2010 are as follows:

2011	\$ 3,441
2012	3,626
2013	3,732
2014	3,832
2015	3,935
Thereafter	25,613
<b>Total minimum lease payments</b>	<b>\$ 44,179</b>

The Company incurred \$2,674 and \$2,455 of rental expense on noncancelable operating leases during the nine months ended September 30, 2010 and 2009, respectively.

Several leases provide for scheduled increases in base rent and free months of rent. Rent expense is charged to operations on a straight line basis over the term of the lease which results in deferred rent payable which represents cumulative rent expense charged to operations from inception of the lease in excess of the required lease payments. Deferred rent expense totaled \$1,642 and \$1,192 as of September 30, 2010 and December 31, 2009, respectively.

**Capital Leases**

During 2009, the Company entered into a capital lease agreement for certain equipment. The cost of the equipment under the capital lease is included in the Consolidated Balance Sheets as property, plant and equipment of \$213 net of accumulated depreciation of \$85 and \$34 at September 30, 2010 and December 31, 2009, respectively. Under the lease agreement, the Company has the option to purchase the equipment at the end of the lease term for one dollar.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2010, are as follows:

2011	\$ 91
2012	76
<b>Total minimum lease payments</b>	<b>167</b>
Present value of minimum lease payments	157
<b>Less current portion of capital lease obligations</b>	<b>83</b>

Long-term capital lease obligation

\$ 74

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**Table of Contents****Hosted Solutions Parent LLC and Subsidiary****Notes to Unaudited Interim Consolidated Financial Statements***(Dollar and share amounts in thousands except per share amounts)***Purchase Commitments**

During the ordinary course of business, the Company enters into short and long-term purchase commitments for bandwidth, point-to-point, and maintenance services. The Company entered several contracts with monthly commitments with terms ranging from one to three years. The Company paid \$1,600 and \$1,426 for bandwidth, point-to-point, and maintenance services under these purchase commitments during the nine months ended September 30, 2010 and September 30, 2009, respectively.

Future payments under these purchase commitments in effect at September 30, 2010, with commitment terms in excess of one year are as follows:

2011	\$ 1,260
2012	191
2013	78
2014	19
2015	3
Total	\$ 1,551

**Litigation**

From time to time, the Company is involved in various litigation which arises in the ordinary course of business. After consultation with its legal counsel, management believes the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

**10. Retirement Plan**

Effective May 1, 2008, the Company adopted a Safe Harbor Plan 401(k) Plan (the Plan) which replaced its existing 401(k) plan. The Company matches employee contributions to the Plan 100 percent up to 3 percent and 50 percent of the next 2 percent. The Company's contribution was \$205 and \$162 for the nine months ended September 30, 2010 and 2009, respectively.

**11. Subsequent Events**

On November 4, 2010, the Company announced the Member approved the sale of all assets and liabilities of the Company to Windstream Corporation in an all cash transaction valued at \$312,800. The transaction closed on December 1, 2010.

The Company has performed an evaluation of subsequent events through April 4, 2011, which is the date the consolidated financial statements were available to be issued.

**12. Supplemental Guarantor Information**



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Subsequent to the acquisition of the Company by Windstream on December 1, 2010, Windstream designated Hosted Solutions and all of the subsidiaries of Hosted Solutions as guarantors of its guaranteed notes in accordance with SEC Regulation S-X Rule 3-10.

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ANNEX C

**Q-Comm Corporation**

**Accountants Report and Consolidated Financial Statements**

**September 30, 2009, 2008 and 2007**

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**Q-Comm Corporation**

**September 30, 2009, 2008 and 2007**

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**Independent Accountants Report**

Board of Directors

Q-Comm Corporation

Overland Park, Kansas

We have audited the accompanying consolidated balance sheets of Q-Comm Corporation as of September 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Q-Comm Corporation as of September 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, in 2009 the Company changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, which was subsequently incorporated into FASB Accounting Standards Codification (ASC) as Topic 820.

/s/ BKD, LLP

Kansas City, Missouri

January 18, 2010

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**Table of Contents****Q-Comm Corporation****Consolidated Balance Sheets****September 30, 2009 and 2008****Assets**

	<b>2009</b>	<b>2008</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,244,741	\$ 2,655,727
Accounts receivable, net of allowance; \$4,551,045 for 2009, \$3,494,558 for 2008	18,787,315	18,884,143
Short-term investments	3,356,251	4,575,763
Income taxes receivable	2,095,483	
Prepaid expenses and other	14,554,522	4,198,939
Deferred income taxes	1,254,400	1,265,400
Total current assets	46,292,712	31,579,972
<b>Property and Equipment, At Cost</b>		
Fiber line	220,227,276	170,171,431
Switch facilities	129,263,926	125,696,835
Construction in progress	56,552,731	48,692,531
Real estate and buildings	16,161,042	15,076,817
Computer equipment	13,705,803	13,715,451
Leasehold improvements	7,491,654	6,718,269
Transportation equipment	8,011,103	6,635,949
	451,413,535	386,707,283
Less accumulated depreciation	140,198,161	107,846,837
	311,215,374	278,860,446
<b>Other Assets</b>		
Long-term investments	125,397	
Goodwill	36,969,441	37,267,973
Other intangible assets	31,541,751	33,794,192
Deferred expenses	31,285,603	28,569,160
Other	117,010	220,683
	100,039,202	99,852,008
	\$ 457,547,288	\$ 410,292,426

*See Notes to Consolidated Financial Statements*

**Table of Contents****Liabilities and Stockholders Equity**

	2009	2008
<b>Current Liabilities</b>		
Income taxes payable	\$ 218,957	\$ 206,149
Checks in excess of bank balance	2,204,162	1,437,770
Accounts payable	12,022,519	9,296,526
Current maturities of long-term debt	18,494,600	16,852,246
Deferred revenues	17,743,728	16,794,334
Other accrued liabilities	35,238,732	21,768,773
Total current liabilities	85,922,698	66,355,798
<b>Due to Stockholder</b>	3,264,166	3,265,116
<b>Deferred Revenues</b>	12,079,874	13,203,885
<b>Deferred Income Taxes</b>	16,438,400	10,995,700
<b>Long-term Debt</b>	276,985,957	263,439,866
Total liabilities	394,691,095	357,260,365
<b>Stockholders Equity</b>		
Common stock, Class A, \$.0005 par value; 35,000,000 shares authorized, 17,910,953 shares issued and outstanding	10,386	10,386
Common stock, Class B, non-voting; \$.0005 par value; 5,000,000 shares authorized, 1,588,157 (2009) and 1,576,476 (2008) shares issued	791	785
Capital contribution receivable	(62,200)	(62,200)
Additional paid-in capital	29,557,674	29,467,698
Retained earnings	52,280,703	35,067,146
Accumulated other comprehensive loss	(9,256,521)	(4,687,131)
Treasury stock, at cost; 3,338,208 (2009) and 3,156,652 (2008) shares held	72,530,833	59,796,684
	(9,674,640)	(6,764,623)
Total stockholders equity	62,856,193	53,032,061
	\$ 457,547,288	\$ 410,292,426

**Table of Contents****Q-Comm Corporation****Consolidated Statements of Income****Years Ended September 30, 2009, 2008 and 2007**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Net Sales</b>	\$ 242,929,151	\$ 229,280,695	\$ 174,648,127
<b>Cost of Sales</b>			
Depreciation	36,143,313	36,389,427	22,111,967
Other	94,773,841	88,176,450	66,768,943
	130,917,154	124,565,877	88,880,910
<b>Gross Profit</b>	112,011,997	104,714,818	85,767,217
<b>Operating Expenses</b>			
Salaries	36,805,995	34,194,019	32,521,340
Depreciation and amortization	7,052,590	9,012,049	8,215,085
Other	27,999,056	28,739,217	22,498,483
	71,857,641	71,945,285	63,234,908
<b>Operating Income</b>	40,154,356	32,769,533	22,532,309
<b>Other Income (Expense)</b>			
Interest income	1,481,312	1,275,379	1,338,176
Interest expense	(14,527,804)	(15,777,124)	(13,163,159)
Miscellaneous	702,103	(103,731)	334,774
	(12,344,389)	(14,605,476)	(11,490,209)
<b>Income before Income Taxes</b>	27,809,967	18,164,057	11,042,100
<b>Provision for Income Taxes</b>	10,596,410	8,631,300	5,544,700
<b>Net Income</b>	\$ 17,213,557	\$ 9,532,757	\$ 5,497,400

*See Notes to Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Consolidated Statements of Stockholders' Equity****Years Ended September 30, 2009, 2008 and 2007**

	Common Class A	Common Class B	Capital Contribution Receivable	Additional Paid- in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
Balance, October 1, 2006	\$ 10,386	\$ 364	\$ (857,582)	\$ 28,360,535	\$ 138,915	\$ 20,036,989	\$ (3,880,908)	\$ 43,808,699
Net income						5,497,400		5,497,400
Common stock issued		388		1,015,638				1,016,026
Payments received on contributions receivable			562,382					562,382
Purchase of treasury stock, at cost - 261,800 shares							(2,801,665)	(2,801,665)
Change in fair value of interest rate swap agreement, net of taxes of \$615,000					(1,047,931)			(1,047,931)
<b>Balance, September 30, 2007</b>	10,386	752	(295,200)	29,376,173	(909,016)	25,534,389	(6,682,573)	47,034,911
Net income						9,532,757		9,532,757
Common stock issued		33		91,525				91,558
Payments received on contributions receivable			233,000					233,000
Purchase of treasury stock, at cost - 8,480 shares							(82,050)	(82,050)
Unrealized holding loss on available for sale securities, net of tax					(376,763)			(376,763)
Change in fair value of interest rate swap agreement, net of taxes of \$2,095,000					(3,401,352)			(3,401,352)
<b>Balance, September 30, 2008</b>	10,386	785	(62,200)	29,467,698	(4,687,131)	35,067,146	(6,764,623)	53,032,061
Net income						17,213,557		17,213,557
Common stock issued		6		89,976				89,982
Purchase of treasury stock, at cost -181,556 shares							(2,910,017)	(2,910,017)
Unrealized holding gain on available for sale securities, net of tax					227,918			227,918
Change in fair value of interest rate swap agreement, net of taxes of \$2,719,000					(4,797,308)			(4,797,308)
<b>Balance, September 30, 2009</b>	\$ 10,386	\$ 791	\$ (62,200)	\$ 29,557,674	\$ (9,256,521)	\$ 52,280,703	\$ (9,674,640)	\$ 62,856,193

See Notes to Consolidated Financial Statements





**Table of Contents****Q-Comm Corporation****Consolidated Statements of Stockholders' Equity (Continued)****Years Ended September 30, 2009, 2008 and 2007**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Comprehensive Income			
Net income	\$ 17,213,557	\$ 9,532,757	\$ 5,497,400
Unrealized holding gain (loss) on available for sale securities, net of tax	227,918	(376,763)	
Change in fair value of interest rate swap agreement	(4,797,308)	(3,401,352)	(1,047,931)
Comprehensive income	\$ 12,644,167	\$ 5,754,642	\$ 4,449,469

*See Notes to Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Consolidated Statements of Cash Flows****Years Ended September 30, 2009, 2008 and 2007**

	2009	2008	2007
<b>Operating Activities</b>			
Net income	\$ 17,213,557	\$ 9,532,757	\$ 5,497,400
Items not requiring (providing) cash			
Depreciation and amortization	43,195,903	45,401,476	30,327,052
Amortization of loan origination costs	994,747	994,747	888,476
Deferred income taxes	5,453,700	1,129,700	(17,800)
(Gain) loss from on sale/disposal of assets	504,479	59,635	(138,046)
Impairment of goodwill	298,532		
Changes in			
Accounts receivable	96,828	(593,864)	(5,955,803)
Prepaid expenses and other	(10,355,583)	(715,162)	167,065
Income taxes payable	(2,082,675)	3,085,862	(3,953,380)
Other assets	(5,415,843)	(7,028,717)	(3,027,520)
Accounts payable, accrued expenses and deferred revenue	9,339,437	6,709,348	4,651,905
Net cash provided by operating activities	59,243,082	58,575,782	28,439,349
<b>Investing Activities</b>			
Proceeds from sale of equipment	3,483,058	17,740	410,997
Purchase of property and equipment	(72,994,597)	(62,948,505)	(45,845,483)
Cash paid for acquisition		(288,530)	(182,963,724)
Proceeds from sale of acquired assets			240,000
Purchases of intangible assets	(495,893)		
Proceeds from the sale of investments	1,219,512		
Purchases of investments		(129,387)	(1,927,766)
Net cash used in investing activities	(68,787,920)	(63,348,682)	(230,085,976)
<b>Financing Activities</b>			
Checks in excess of bank balances	766,392	(467,779)	1,066,346
Net (repayments) borrowings under line of credit agreement	19,491,200	(4,497,436)	(29,493,763)
Collections on notes receivable	(950)	233,950	562,382
Proceeds from long-term debt	13,735,749	8,445,979	255,736,002
Payments on long-term debt	(18,038,504)	(3,514,196)	(10,612,991)
Payment of loan origination costs			(6,963,226)
Purchase of treasury stock	(2,910,017)	(82,050)	(2,801,665)
Sale of common stock	89,982	91,558	1,016,026
Net cash provided by financing activities	13,133,852	210,026	208,509,111
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>3,589,014</b>	<b>(4,562,874)</b>	<b>6,862,484</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>2,655,727</b>	<b>7,218,601</b>	<b>356,117</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 6,244,741</b>	<b>\$ 2,655,727</b>	<b>\$ 7,218,601</b>

**Additional Cash Payment Information**

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Interest paid (net of amount capitalized)	\$ 14,522,581	\$ 16,000,234	\$ 12,125,188
Income taxes paid	10,583,602	5,543,928	9,498,080
Property and equipment acquisitions in accounts payable	2,112,508		

*See Notes to Consolidated Financial Statements*

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**Q-Comm Corporation**

**Consolidated Statements of Cash Flows (Continued)**

**Years Ended September 30, 2009, 2008 and 2007**

In 2007, the Company purchased all of the capital stock of Norlight Telecommunications, Inc. for \$182,963,724. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 197,052,399
Less cash paid	(182,963,724)
Liabilities assumed	\$ 14,088,675

*See Notes to Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007****Note 1: Nature of Operations and Summary of Significant Accounting Policies*****Nature of Operations***

The Company, through its subsidiaries, is a diversified provider of telecommunications and like services. One of its subsidiaries operates a fiber optic network which spans in excess of 30,000 route miles. Over this network, it provides fiber optic transport, dedicated Internet access and ancillary services to its customers. Its fiber optic transport offerings range from T-1 circuits to 10 Gbps wavelengths. Carriers, in this instance, are referred to as wireless service providers, incumbent local telephone companies, internet service providers, providers of cable television service, competitive local exchange companies, long distance companies and the like. The Company also provides a comprehensive suite of voice and data communications services including local, long distance, broadband and internet connectivity, cable television, home security, network management, hosted PBX and hosted application services. The Company extends unsecured credit to its customers.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Norlight, Inc. (formerly Cinergy Communications Company), Cinergy MetroNet, Inc., Kentucky Data Link, Inc., Equity Leasing, Inc., EIC Insurance, Inc., nGenX Corporation, Norlight Data Centers, Inc., Q Services, Inc. and Norlight Telecommunications, Inc., which was acquired in February 2007 (*see Note 10*). All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Property and Equipment***

Property and equipment are depreciated over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the improvements. Annual depreciation is primarily computed using straight-line methods.

Construction in progress includes expenditures for projects primarily related to new fiber optic cable route installation and collocation projects.

The Company capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred each year was:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Interest costs capitalized	\$ 3,602,000	\$ 3,798,000	\$ 2,492,885
Interest costs charged to expense	14,527,804	15,777,124	13,163,159
<b>Total interest incurred</b>	<b>\$ 18,129,804</b>	<b>\$ 19,575,124</b>	<b>\$ 15,656,044</b>

**Table of Contents**

**Q-Comm Corporation**

**Notes to Consolidated Financial Statements**

**September 30, 2009, 2008 and 2007**

***Income Taxes***

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

***Uncertain Tax Positions***

The Company has elected to defer the effective date of the guidance within ASC 740, *Income Taxes*, which addresses accounting for uncertainty in income taxes (formerly FASB Interpretation No. 48), until its fiscal year ending September 30, 2010. The Company has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of this guidance.

***Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts.

Cinergy MetroNet, a subsidiary of the Company, is required to maintain a Pledged Deposit Account for all unspent proceeds received from the note (*see Note 4*). Unused loan proceeds held in the pledged account were \$13,935 and \$7,806 as of September 30, 2009 and 2008, respectively.

***Revenue Recognition***

Revenue from the use of telecommunication lines is recognized in the month that service was rendered. Revenue from long-term agreements, such as IRU and capacity agreements (*see Note 6*), is recognized on the straight-line method over the term of the contract. Deferred revenue also includes amounts collected one month in advance.

***Other Assets***

Other assets contain equipment and parts staged in the Company's warehouse. This equipment is awaiting deployment on new construction, repairs and maintenance or designated spares. Spare equipment is used in immediate replacement of failed equipment or fiber cuts.

***Stock Option Plans***

At September 30, 2009, the Company has a stock-based Associate compensation plan, which is described more fully in Note 7. Effective October 1, 2006, the Company adopted the fair value recognition provisions related to share-based payments. Accordingly, after October 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled. No fair value disclosures with respect to stock options are presented because, in the opinion of management, such values do not have a material effect.

***Accounts Receivable***

Accounts receivable are stated at the amounts billed to the customers plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of the outstanding receivables, historical collection information and existing economic conditions.





**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

**Short-term Investments**

Investments represent available-for-sale securities (debt and equity securities) for which the Company has no immediate plans to sell but that may be sold in the future.

The components of investments at September 30, 2009 and 2008 are as follows:

	2009	2008
Equity securities	\$ 1,255,048	\$ 1,429,949
Auction rate securities	1,891,500	2,891,500
Exchange traded funds	209,703	
Certificates of deposit		254,314
<b>Total investments</b>	<b>\$ 3,356,251</b>	<b>\$ 4,575,763</b>

Cost approximates market for all the above investments at September 30, 2009 and 2008.

**Reclassifications**

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net earnings.

**Subsequent events**

Subsequent events have been evaluated through January 18, 2010, which is the date the financial statements were available to be issued.

**Note 2: Related Party Transactions**

The Company has an amount of \$3,264,166 due to the majority stockholder and his spouse, which is collateralized by property and equipment, accounts receivable, inventory and other assets. This agreement is also guaranteed by all subsidiaries of the Company, excluding KDL Holdings, LLC, a consolidated entity of KDL, Inc. The majority stockholder's balance of \$2,814,166 accrued interest at 13.0% (payable monthly). The majority stockholder's spouse's balance of \$450,000 accrued interest at rates ranging from 8% to 10% (payable monthly). Principal on both balances is due in full at least 13 months from the date written notification of repayment demand is made by the parties. As of September 30, 2009, no such notification was made. The parties have signed an agreement subordinating these notes to bank notes.

Interest expense incurred by the Company under the above agreements was \$402,835, \$402,835 and \$402,842 for the years ended September 30, 2009, 2008 and 2007, respectively.

**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007****Note 3: Acquired Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets at September 30, 2009 and 2008 was:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets</b>				
Customer relationships	\$ 28,762,000	\$ (5,120,910)	\$ 28,762,000	\$ (3,138,622)
Business systems software	1,713,000	(1,475,083)	1,713,000	(904,083)
Other	714,000	(76,851)	714,000	(47,103)
OMU wireless business	495,894	(165,299)		
	\$ 31,684,894	\$ (6,838,143)	\$ 31,189,000	\$ (4,089,808)
<b>Unamortized intangible assets</b>				
Trade name	\$ 1,000,000		\$ 1,000,000	
Licenses and permits	5,695,000		5,695,000	
	\$ 6,695,000		\$ 6,695,000	

Amortization expense for the year ended September 30, 2009, 2008 and 2007 was \$2,748,335, \$2,583,036 and \$1,506,772, respectively. Estimated amortization expense for each of the following five years and thereafter is:

2010	\$ 2,497,899
2011	2,094,684
2012	2,012,036
2013	1,517,549
2014	1,352,721
Thereafter	15,371,862

The changes in the carrying amount of goodwill for the years ended September 30, 2009 and 2008 was:

	2009	2008
Balance as of October 1	\$ 37,267,973	\$ 36,970,473
Goodwill acquired during the year		297,500
Goodwill written off related to sale of business	(298,532)	
Balance as of September 30	\$ 36,969,441	\$ 37,267,973



**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007****Note 4: Long-Term Debt**

	2009	2008
Note payable, finance company (A)	\$ 625,864	\$ 144,693
Note payable, line of credit (B)	36,000,000	16,508,800
Term note payable (B)	220,192,000	235,800,000
Mortgage note payable (C)	4,983,468	5,147,434
Mortgage note payable (D)	2,370,397	2,441,456
RUS promissory note payable, USA (E)	31,308,828	20,249,729
	295,480,557	280,292,112
Less current maturities	18,494,600	16,852,246
	\$ 276,985,957	\$ 263,439,866

- (A) Notes payable to finance company, bearing interest at 2.97%, with principal due in monthly installments ranging from \$905 to \$909. Notes are collateralized by vehicles. Notes mature in 2011.
- (B) On February 26, 2007, Kentucky Data Link, Inc., a subsidiary of the Company, entered into a credit agreement with a financial institution acting as administrative agent to provide a total commitment of \$280,000,000 through several financial institutions. The agreement is collateralized by a security interest in various types of collateral with the Company and certain subsidiaries who also act as Guarantors. The agreement provides the Company with a revolving line of \$40,000,000 that expires on February 26, 2012 and a term loan commitment of \$240,000,000 that expires on February 26, 2014. The term loan requires quarterly principal payments of \$600,000 through the maturity date, plus monthly interest payments accruing at a variable rate of LIBOR plus 2.25%. The line of credit requires monthly interest payments accruing at a variable rate (LIBOR plus 1.50% - 2.25%) based on the Company's funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This agreement also contains covenants for the parent company and affiliates to maintain certain financial ratios and requires a mandatory repayment on the term note for 50% of any consolidated excess cash flows as defined in the agreement.

For the year ended September 30, 2009, the Company was required to make a mandatory repayment of \$13,500,000 under this agreement subsequent to year end. This amount is included in current maturities of long-term debt.

As of February 2009, the Company increased the revolver from \$40,000,000 to \$49,000,000 with the same expiration date of February 26, 2012.

- (C) Mortgage note payable, due July 1, 2021, payable in monthly installments, plus interest at 6.15% and collateralized by a security interest in real estate.
- (D) Mortgage note payable, due January 1, 2022, payable in monthly installments, plus interest at 6.58% and collateralized by a security interest in real estate.
- (E) Cinergy MetroNet, Inc., a subsidiary of the Company entered into a promissory note payable to the United States of America, acting through the Administrator of the Rural Utilities Service - RUS, to provide borrowings up to \$106,785,000. Advances on the note can be made through November 14, 2010. The agreement requires monthly interest payments beginning the date of each advance accruing at the Direct Cost of Money Interest rate, published by the Secretary of the Treasury. Rates as of September 30, 2009 for outstanding advances currently range from 3.98% to 4.79%. Payments of outstanding principal begin on the first anniversary of the

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month following the initial advance (beginning December 31, 2007) in amounts that will pay all principal and interest due on each advance no later than the maturity date of November 14, 2021.

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**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

Outstanding borrowings are secured by all assets acquired with loan proceeds. The agreement requires the maintenance of defined amounts in member s equity and working capital of the Subsidiary and also contains certain restrictions as to the use of the proceeds as well as payments of dividends or redemption of capital stock. The Company has loan funds available from RUS totaling \$73,186,888.

The following is the maturities schedule at September 30, 2009:

2010	\$ 18,494,600
2011	5,063,107
2012	40,973,750
2013	5,016,949
2014	199,824,221
Thereafter	26,107,930
	<b>\$ 295,480,557</b>

**Note 5: Income Taxes**

The provision for income taxes for the years ended September 30, 2009, 2008 and 2007 includes these components:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Taxes currently payable	\$ 2,455,130	\$ 5,297,600	\$ 5,562,500
Deferred income taxes	8,141,280	3,333,700	(17,800)
<b>Provision for income taxes</b>	<b>\$ 10,596,410</b>	<b>\$ 8,631,300</b>	<b>\$ 5,544,700</b>

**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets are as follows:

	<b>2009</b>	<b>2008</b>
<b>Deferred tax assets</b>		
Allowance for doubtful accounts	\$ 1,820,300	\$ 1,397,700
Accrued expenses and other	3,386,300	2,652,800
Net operating loss carryforwards	4,286,700	3,438,100
Property and sales tax reserves	1,385,200	1,248,000
AMT credits	453,200	949,000
Fair value of interest rate swap agreement	5,348,000	2,629,000
	16,679,700	12,314,600
<b>Deferred tax liabilities</b>		
Accumulated depreciation	(22,526,400)	(15,457,800)
Prepaid expenses and intangibles	(5,380,800)	(3,507,000)
	(27,907,200)	(18,964,800)
<b>Net deferred tax liability before valuation allowance</b>	<b>(11,227,500)</b>	<b>(6,650,200)</b>
<b>Valuation allowance</b>		
Beginning balance	(3,080,100)	(1,033,500)
(Increase) during the period	(876,400)	(2,046,600)
<b>Ending balance</b>	<b>(3,956,500)</b>	<b>(3,080,100)</b>
<b>Net deferred tax liability</b>	<b>\$ (15,184,000)</b>	<b>\$ (9,730,300)</b>

The above net deferred tax liability is presented on the consolidated balance sheets as follows:

	<b>2009</b>	<b>2008</b>
Deferred tax asset current	\$ 1,254,400	\$ 1,265,400
Deferred tax liability long-term	(16,438,400)	(10,995,700)
<b>Net deferred tax liability</b>	<b>\$ (15,184,000)</b>	<b>\$ (9,730,300)</b>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

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	2009	2008	2007
Computed at the statutory rate (34%)	\$ 9,461,723	\$ 6,175,985	\$ 3,754,000
Increase (decrease) resulting from			
State income taxes	2,490,569	2,451,194	1,026,500
Nondeductible expenses and other	(2,232,282)	(1,093,479)	(269,300)
Change in valuation allowance	876,400	2,046,600	1,033,500
AMT credits		(949,000)	
Actual tax provision	\$ 10,596,410	\$ 8,631,300	\$ 5,544,700

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**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

As of September 30, 2009, the Company had approximately \$450,000 of alternative minimum tax credits available to offset future federal income taxes. The credits have no expiration date.

**Note 6: Leasing Activities***Lessor*

The Company enters into operating lease agreements to lease portions of its fiber optic line strands (Indefeasible Right to Use (IRU) agreements) and its fiber optic network capacity (Capacity agreements) through August 2028. An IRU agreement is prepaid by the lessee and amortized over the life of the contract using the straight-line method. A Capacity agreement is paid by the lessee on a monthly basis. Future minimum lease payments receivable and amortization of deferred revenue at September 30, 2009 are as follows:

	IRU Agreements	Capacity Agreements	Total
2010	\$ 1,389,873	\$ 110,140,893	\$ 111,530,766
2011	1,152,007	74,770,056	75,922,063
2012	1,039,812	39,758,695	40,798,507
2013	874,146	22,655,806	23,529,952
2014	752,664	7,136,850	7,889,514
Thereafter	4,489,848	3,386,088	7,875,936
	\$ 9,698,350	\$ 257,848,388	\$ 267,546,738

The Company also enters into various IRU and Capacity agreements that expire within one year. Total fiber and IRU revenues for 2009, 2008 and 2007 totaled approximately \$109,247,000, \$145,672,000 and \$105,691,000, respectively.

*Lessee*

The Company has various IRU agreements to lease a portion of fiber optic line strands from companies with expiration dates through 2047. Amortization expense for the years ended September 30, 2009, 2008 and 2007 was approximately \$1,808,326, \$1,309,070 and \$902,200, respectively.

The Company also has various noncancellable operating leases for equipment and office space, which expire in various years through 2014. Rent expense for 2009, 2008 and 2007 was \$2,510,878, \$2,954,890 and \$2,163,151, respectively. Future minimum lease payments payable and amortization of deferred expenses at September 30, 2009 are as follows:

	IRU Agreements	Other Leases	Total
2010	\$ 2,045,051	\$ 2,008,889	\$ 4,053,940
2011	2,045,051	1,624,159	3,669,210
2012	2,045,051	686,848	2,731,899
2013	2,045,051	26,296	2,071,347
2014	2,045,051	19,936	2,064,987

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Thereafter	22,179,105		22,179,105
	\$ 32,404,360	\$ 4,366,128	\$ 36,770,488

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**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007****Note 7: Incentive Stock Option Plans**

The Company adopted Incentive Stock Option Plans, which are Board of Directors approved for the benefit of key Associates, dated October 1, 1998, January 1, 2001, January 1, 2002, January 1, 2004, January 1, 2005, January 1, 2007 and January 1, 2008. The Company believes that such awards better align the interests of its Associates with those of its shareholders. Option awards are generally granted with an exercise price equal or greater to the market price of the Company's stock at the date of grant; those option awards generally vest based on nine years of continuous service and have ten-year contractual terms. Share awards generally vest over a five-year vesting schedule at the rate of 20% per year, commencing on a date that is five years from the Associate's entrance into the plan. Incentive Stock Option awards provide for accelerated vesting if there is a sale or merger (as defined in the Plans).

A summary of the status of the plans at September 30, 2009, 2008 and 2007 and changes during the years then ended is presented below:

	2009		2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	656,854	\$ 10.28	762,739	\$ 9.52	1,551,174	\$ 3.73
Granted	70,000	18.00	40,000	18.00	193,563	15.46
Exercised	(11,681)	6.22	(66,434)	1.30	(782,028)	1.28
Forfeited	(23,656)	15.49	(79,451)	14.35	(199,970)	2.62
Outstanding, end of year	691,517	\$ 10.95	656,854	\$ 10.28	762,739	\$ 9.52
Options exercisable, end of year	200,646		129,487		156,105	

The following table summarizes information about employee stock options under the plans outstanding at September 30, 2009:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable
\$ 6.22	205,916	1.45 years	\$ 6.22	154,256
10.00	269,538	4.67 years	10.00	46,390
15.00	86,063	7.26 years	15.00	
17.00	35,000	7.26 years	17.00	
18.00	95,000	8.26 years	18.00	

The weighted-average grant-date fair value of options granted during the years ended 2009 and 2008 was \$1.43 and \$0.22, respectively.

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Effective October 1, 2006, the Company adopted the fair value recognition provisions for share-based payments (formerly under the guidance of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*). As allowed by this statement, the fair value of each option award is estimated on the date of grant using a Black Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is base on historical volatility of the NASDAQ Telecommunications Index (^IXUT) and other factors.

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**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2009	2008
Expected volatility	36%	34%
Expected dividends	0%	0%
Expected term (in years)	10.00	10.00
Risk-free rate	3.31%	3.74%

Total compensation cost recognized in the income statement for share-based payment arrangements during the years 2009, 2008 and 2007 was \$17,308, \$5,321 and \$13,405, respectively. The recognized tax benefit related thereto was \$6,058, \$1,862 and \$5,400 for the years ended September 30, 2009, 2008 and 2007, respectively.

As of September 30, 2009 and 2008, there was \$152,533 and \$81,594, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a period of nine and eight years for 2009 and 2008, respectively. The total fair value of shares vested during the years ended September 30, 2009, 2008 and 2007 was \$10,191, \$3,156 and \$19,120, respectively.

Cash received from option exercises under all share-based payment arrangements for the years ended September 30, 2009, 2008 and 2007 was \$72,656, \$86,237 and \$1,002,364, respectively.

**Note 8: Profit Sharing Plan**

The Company has a defined contribution plan covering substantially all employees. The Company's contributions to the plan are determined annually by the Board of Directors. Effective January 1, 2004, the Company elected to incorporate the Safe Harbor Provisions into its defined contribution plan. For 2009, 2008 and 2007, the Company matched 100% of employee deferrals up to 3.0% of eligible compensation and 50% of employee deferrals from 3.0% to 6.0% of eligible compensation. Contributions to the plan were \$1,180,488, \$1,013,473 and \$556,527 for 2009, 2008 and 2007, respectively.

**Note 9: Commitments**

The Company has entered into numerous collocation agreements that allow it to locate equipment in facilities owned by telecommunication providers. Additionally, the Company is involved in numerous pole attachment agreements which allow it to extend its fiber optic network.

Typically, these agreements involve locating multiplexing/muxing equipment (a rack) in local exchange carrier (LEC) central offices. These agreements have specified beginning and ending dates; however, absent notification from either party of the intent to end the agreement, the term automatically converts to a month-to-month agreement with no specified ending date. These agreements typically require minimal rental payments for the use of the space and are assumed to exist in near perpetuity.

Should the Company elect to exit such an agreement, the terms provide that they are responsible for both the removal of the equipment and fiber as well as the cost of returning the space to its original condition.

**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

ASC 410, *Asset Retirement and Environment Obligations* (formerly, FASB Interpretation 47, *Accounting for Conditional Asset Retirement Obligations*) requires a liability to be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable.

The Company believes it has a legal obligation to remove the aforementioned equipment and to restore the facilities upon termination of agreements. However, it believes it does not have a reasonable basis by which to assign probabilities to the timing of the potential agreement terminations and, accordingly, cannot reasonably estimate the fair value of the asset retirement obligation.

**Note 10: Business Acquisitions**

On February 26, 2007, the Company acquired 100% of the outstanding common stock of Norlight Telecommunications, Inc. The results of Norlight Telecommunication, Inc.'s operations have been included in the consolidated financial statements since that date. Norlight is a facilities-based communications company that provides network and Internet Protocol and Enhanced (IP&E) managed services solutions to wholesale and commercial customers. The acquisition is intended to expand the Company's market into a new geographic territory. The Company also expects to reduce costs through economies of scale.

The aggregate purchase price was \$182,963,724. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company obtained third-party valuations of certain property, plant and equipment and intangible assets to determine the fair value of certain assets acquired. Fair value of assets determined by the third-party valuation was \$110,123,000 for property, plant and equipment and \$37,884,000 for intangible assets.

Current assets	\$ 5,617,955
Property, plant and equipment	115,585,565
Intangible assets	37,884,000
Goodwill	36,970,473
Other assets	994,406
Total assets acquired	197,052,399
Current liabilities	10,749,865
Other liabilities	3,338,810
Total liabilities assumed	14,088,675
Net assets acquired	\$ 182,963,724

Of the \$37,884,000 of acquired intangible assets, \$6,695,000 was assigned to the Norlight Trade Name and acquired licenses and permits that are not subject to amortization. The remaining \$31,189,000 of acquired intangible assets was related to established customer relationships, internal business systems software and favorable operating IRU agreements and has useful lives ranging from five to 24 years.

Upon acquisition, the assets and liabilities of the Company were allocated to separate reporting units, which management believes appropriately represents the two significant business units for Norlight Telecommunications, Inc. Effective August 31, 2007, the assets and liabilities of the commercial unit were assigned to Cinergy Communications Company, Inc, which was renamed to Norlight, Inc.



**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

The wholesale reporting unit's assets and liabilities continue to be held under Norlight Telecommunications, Inc. Allocation of acquired assets and liabilities to each reporting unit is as follows at the acquisition date:

	<b>Commercial</b>	<b>Wholesale</b>	<b>Total</b>
Current assets	\$ 2,924,657	\$ 2,693,298	\$ 5,617,955
Property, plant and equipment	14,682,934	100,902,631	115,585,565
Intangible assets	5,955,000	31,929,000	37,884,000
Goodwill	7,148,336	29,822,137	36,970,473
Other assets	164,317	830,089	994,406
Total assets acquired	30,875,244	166,177,155	197,052,399
Current liabilities	1,587,276	9,162,589	10,749,865
Other liabilities	24,742	3,314,068	3,338,810
Total liabilities assumed	1,612,018	12,476,657	14,088,675
Net assets acquired	\$ 29,263,226	\$ 153,700,498	\$ 182,963,724

To better align the activities and synergies of the two business units with the operations of the Company, management combined the activity from the date of acquisition of the commercial unit with Norlight, Inc. (formerly Cinergy Communications Company, Inc.) and the wholesale unit with Kentucky Data Link, Inc.

**Note 11: Interest Rate Swap Agreements**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company had entered into an interest rate swap agreement for a portion of its floating rate debt. Prior to March 2007, the agreement provided for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 4.615% on the notional amount of \$25,000,000. Under the agreement, the Company paid or received the net interest amount monthly, with the monthly settlements included in interest expense. In March 2007, the Company re-designated this agreement as a hedge of the newly acquired floating rate debt (*see Note 4*).

In March 2007, the Company also entered into multiple additional interest rate-swap agreements for portions of the new floating rate debt. The agreements provide for the Company to receive interest from the counterparties at LIBOR and to pay interest to the counterparties at fixed rates ranging from 4.880% to 4.950% on the notional amounts in aggregate of \$216,000,000. Under the agreement, the Company pays or receives the net interest amount quarterly through expiration of the agreements which settle between 2010 and 2012, with the quarterly settlements included in interest expense.

During 2009, the Company also entered into multiple additional interest rate swap agreements that go into effect April 2010, but for which a liability is recorded at year-end, for portions of the new floating rate debt. The agreements provide for the Company to receive interest from the counterparties at LIBOR and to pay interest to the counterparties at fixed rates ranging from 2.595% to 2.655% on the notional amounts in aggregate of \$40,000,000. Under the agreement, the Company pays or receives the net interest amount quarterly through expiration of the agreements which settle between 2010 and 2013, with the quarterly settlements included in interest expense.



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Management has designated the interest rate swap agreements as cash flow hedging instruments, and has determined that they are highly effective and qualify for hedge accounting under the provisions of ASC 815, *Derivatives and Hedging*. As a result, the agreement is recorded at its fair value with subsequent changes in fair value included in comprehensive income.

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**Q-Comm Corporation**

**Notes to Consolidated Financial Statements**

**September 30, 2009, 2008 and 2007**

At September 30, 2009 and 2008, the Company has recorded a liability of \$14,455,676 and \$7,105,868, respectively, relating to the fair value of these agreements, which is included in other liabilities on the accompanying consolidated balance sheets.

**Note 12: Disclosures About Fair Value of Assets and Liabilities**

Effective October 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), which was subsequently incorporated into FASB Accounting Standards Codification (ASC) as Topic 820. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 has been applied prospectively as of the beginning of the year.

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Interest Rate Swap***

The agreements are recorded at fair value with subsequent changes in fair value included in interest expense. The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

***Short-term Investments***

Short-term investments consist primarily of auction rate securities. Fair value is estimated by management based on their discussions with financial institutions, as well as using certain observable inputs, including other transactions of similar securities by other companies and, therefore, are classified within Level 3 of the valuation hierarchy. Remaining short-term investments are equity securities and exchange traded funds that are quoted.

**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ 14,455,676	\$	\$ 14,455,676	\$
Short-term investments	3,356,251	1,464,751		1,891,500

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheet using significant unobservable (Level 3) inputs:

Balance, October 1, 2008	\$ 2,891,500
Purchases, issuances and settlements	(1,000,000)
Balance, September 30, 2009	\$ 1,891,500

Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	\$
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Realized and unrealized gains and losses included in net income for the period from October 1, 2008 through September 30, 2009, are reported in the consolidated statements of income as follows:

Total gains or losses in other income (expense)	\$ (56,629)
Change in unrealized gains or losses relating to assets still held at the balance sheet date	(61,418)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheet at amounts other than fair value.

**Cash and Cash Equivalents**

The carrying amount approximates fair value.

*Long-term Debt*

The carrying amount approximates fair value for the majority of the debt because the interest rate for these instruments is generally variable based on specified financial instruments. The fair value for remaining debt with fixed interest rates is estimated based on the borrowing rates currently available to the Company with similar terms and maturities and funding agencies.

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**Table of Contents****Q-Comm Corporation****Notes to Consolidated Financial Statements****September 30, 2009, 2008 and 2007**

The following table presents estimated fair values of the Company's financial instruments at September 30, 2009 and 2008:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 6,244,741	\$ 6,244,741	\$ 2,655,727	\$ 2,655,727
Short-term investments	3,356,251	3,356,251	4,575,763	4,575,763
<b>Financial liabilities</b>				
<b>Long-term debt and notes payable</b>				
Fixed rate debt	38,662,693	38,662,693	27,838,619	27,838,619
Note payable to stockholder	3,264,116	3,264,116	3,264,166	3,264,166
Variable rate debt	256,817,864	256,817,864	252,453,493	252,453,493
Interest rate swap agreement	14,455,676	14,455,676	7,105,868	7,105,868

**Note 13: Economic Conditions and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain economic conditions and current vulnerabilities due to certain concentrations. Those matters include the following:

**General Litigation**

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material effect on the financial position, results of operations or cash flows of the Company.

**Major Customer**

Approximately 9%, 11% and 13% of the Company's sales were from transactions with one company for the years ended September 30, 2009, 2008 and 2007, respectively.

**Current Economic Conditions**

The current economic environment presents telecommunications companies with circumstances and challenges. The financial statements have been prepared using values and information currently available to the Company.

Current economic and financial market conditions could adversely affect our results of operations in future periods. The current instability in the financial markets may make it difficult for the Company to obtain financing, which could have an adverse impact on the Company's future operating results.

**Q-Comm Corporation**  
**Consolidated Financial Statements and Notes**  
**September 30, 2010**  
**Unaudited**

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**Q-Comm Corporation**

**September 30, 2010**

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**Table of Contents****Q-Comm Corporation****Unaudited Consolidated Balance Sheet****As of September 30, 2010**

<b>Assets</b>	
<b>Current Assets:</b>	
Unrestricted cash and cash equivalents	\$ 12,274,432
Restricted cash	4,435,538
Accounts receivable (less allowance for doubtful accounts of \$2,062,095)	22,874,793
Prepaid expenses and other	12,390,709
<b>Total current assets</b>	<b>51,975,472</b>
Goodwill	36,969,440
Other intangibles, net	29,043,852
Net property, plant and equipment	358,620,025
Deferred expenses	32,156,073
Other assets	10,460,094
<b>Total Assets</b>	<b>\$ 519,224,956</b>
<b>Liabilities and Shareholders' Equity</b>	
<b>Current Liabilities:</b>	
Current maturities of long-term debt	\$ 19,803,430
Accounts payable	18,242,950
Advance payments	19,822,099
Accrued taxes	7,706,940
Accrued interest	107,355
Other current liabilities	15,083,045
<b>Total current liabilities</b>	<b>80,765,819</b>
Long-term debt	304,599,589
Due to stockholders	3,264,166
Deferred income taxes	26,786,800
Other liabilities	20,876,614
<b>Total liabilities</b>	<b>436,292,988</b>
<b>Commitments and Contingencies (See Note 9)</b>	
<b>Shareholders' Equity:</b>	
Common stock, Class A, \$.0005 par value: 35,000,000 shares authorized, 17,619,953 shares issued and outstanding	10,386
Common stock, Class B, non-voting: \$.0005 par value; 5,000,000 shares authorized, 1,408,743 shares issued	800
Capital contribution receivable	(62,200)
Additional paid-in capital	29,838,426
Accumulated other comprehensive loss	(7,135,571)
Retained earnings	70,268,423
Treasury stock, at cost; 3,354,648 shares held	(9,988,296)
<b>Total shareholders' equity</b>	<b>82,931,968</b>



**Total Liabilities and Shareholders Equity**

\$ 519,224,956

*See Notes to Unaudited Consolidated Financial Statements*

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**Table of Contents****Q-Comm Corporation****Unaudited Consolidated Statement of Income****As of September 30, 2010**

<b>Revenues and sales:</b>	
Service revenues	\$ 246,679,132
<b>Total revenues and sales</b>	<b>246,679,132</b>
<b>Costs and expenses:</b>	
Cost of services (exclusive of depreciation and amortization included below)	85,282,148
Selling, general, administrative and other	66,545,373
Depreciation and amortization	48,438,298
<b>Total costs and expenses</b>	<b>200,265,819</b>
<b>Operating income</b>	<b>46,413,313</b>
Other income, net	882,708
Interest expense	(14,734,638)
<b>Income before income taxes</b>	<b>32,561,383</b>
<b>Income taxes</b>	<b>14,401,966</b>
<b>Net income</b>	<b>\$ 18,159,417</b>

*See Notes to Unaudited Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Unaudited Consolidated Statement of Shareholders Equity****Year Ended September 30, 2010**

	Common Stock Class A	Common Stock Class B	Capital Contribution Receivable	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at September 30, 2009	\$ 10,386	\$ 791	\$ (62,200)	\$ 29,557,674	\$ (9,256,521)	\$ 52,280,703	\$ (9,674,640)	\$ 62,856,193
Net income						18,159,417		18,159,417
Other comprehensive income, net of tax:								
Unrealized holding gain on securities					148,848			148,848
Change in fair value of interest rate swaps					1,972,102			1,972,102
Comprehensive income					2,120,950	18,159,417		20,280,367
Stock issued		9		280,752				280,761
Purchase of treasury stock							(313,656)	(313,656)
Other adjustments						(171,697)		(171,697)
Balance at September 30, 2010	\$ 10,386	\$ 800	\$ (62,200)	\$ 29,838,426	\$ (7,135,571)	\$ 70,268,423	\$ (9,988,296)	\$ 82,931,968

*See Notes to Unaudited Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Unaudited Consolidated Statement of Cash Flows****Year Ended September 30, 2010**

<b>Cash Provided from Operations:</b>	
Net income	\$ 18,159,417
Adjustments to reconcile net income to net cash provided from operations:	
Depreciation and amortization	48,438,298
Provision for doubtful accounts	1,297,536
Deferred taxes	10,024,797
Changes in operating assets and liabilities, net:	
Accounts receivable	(5,385,014)
Prepaid and other expenses	4,259,296
Accounts payable	6,220,431
Other current liabilities	(20,155,687)
Accrued taxes	7,706,940
Deferred expenses	(900,218)
Other liabilities	12,346,845
Other, net	(10,231,268)
Net cash provided from operations	71,781,373
<b>Cash Flows from Investing Activities:</b>	
Additions to property, plant and equipment	(93,591,711)
Sale of investment	3,356,251
Other, net	(4,405,789)
Net cash used in investing activities	(94,641,249)
<b>Cash Flows from Financing Activities:</b>	
Repayment of debt	(21,875,064)
Debt issued	50,797,526
Issuance of common stock	280,761
Purchase of treasury stock	(313,656)
Net cash provided from financing activities	28,889,567
Increase in cash and cash equivalents	6,029,691
<b>Cash and Cash Equivalents:</b>	
Beginning of period	6,244,741
End of period	\$ 12,274,432

*See Notes to Unaudited Consolidated Financial Statements*

**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements****September 30, 2010****Note 1: Nature of Operations and Summary of Significant Accounting Policies*****Nature of Operations***

The Company, through its subsidiaries, is a diversified provider of telecommunications and like services. The Company is organized based on the products and services that it offers and operates its business as multiple reporting segments. Kentucky DataLink operates a fiber optic network which spans in excess of 30,000 route miles. Over this network, it provides fiber optic transport, dedicated Internet access and ancillary services to its customers. Its fiber optic transport offerings range from T-1 circuits to 10 Gbps wavelengths. Customers include wireless service providers, incumbent local telephone companies, internet service providers, providers of cable television service, competitive local exchange companies, long distance companies and the like. Norlight Small Business offers data and voice communications services to small business customers. The Company's other operations provide cable television, home security, network management, hosted PBX and hosted application services. The Company extends unsecured credit to its customers.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Norlight, Inc. (formerly Cinergy Communications Company), Cinergy MetroNet, Inc., Kentucky Data Link, Inc., Equity Leasing, Inc., EIC Insurance, Inc., nGenX Corporation, Norlight Data Centers, Inc., Q Services, Inc. and Norlight Telecommunications, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Property and Equipment***

Property and equipment are depreciated over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the improvements. Annual depreciation is primarily computed using straight-line methods.

Construction in progress includes expenditures for projects primarily related to new fiber optic cable route installation and collocation projects.

The Company capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred was:

Interest costs capitalized	\$ 4,213,000
Interest costs charged to expense	13,739,891
<b>Total interest incurred</b>	<b>\$ 17,952,891</b>

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**Q-Comm Corporation**

**Notes to Unaudited Consolidated Financial Statements, Continued**

**Year Ended September 30, 2010**

***Income Taxes***

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

***Uncertain Tax Positions***

The Company accounts for income taxes in accordance with income tax accounting guidance ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term *more likely than not* means a likelihood of more than 50 percent; the terms *examined and upon examination* also include resolution of the related appeals or litigation processes, if any. A tax position that meets the *more-likely-than-not* recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the *more-likely-than-not* recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company files consolidated federal income tax returns. With few exceptions, the Company is no longer subject to state income tax examinations by tax authorities for years prior to 2006. The Company did not have any uncertain tax positions at September 30, 2010.

***Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2010, cash equivalents consisted primarily of money market accounts.

***Restricted Cash***

Cinergy MetroNet, a subsidiary of the Company, is required to maintain a Pledged Deposit Account for all unspent proceeds received from a promissory note payable to the United States of America, acting through the Administrator of the Rural Utilities Service RUS (*see Note 4*). The agreement contains certain restrictions as to the use of the proceeds. Unused loan proceeds held in the pledged account were \$4,435,538 as of September 30, 2010.

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**Q-Comm Corporation**

**Notes to Unaudited Consolidated Financial Statements, Continued**

**Year Ended September 30, 2010**

***Revenue Recognition***

Revenue from the use of telecommunication lines is recognized in the month that service was rendered. Revenue from long-term agreements, such as IRU and capacity agreements (*see Note 6*), is recognized on the straight-line method over the term of the contract. Advance payments also includes amounts collected one month in advance.

***Other Assets***

Other assets contain equipment and parts staged in the Company's warehouse. This equipment is awaiting deployment on new construction, repairs and maintenance or designated spares. Spare equipment is used in immediate replacement of failed equipment or fiber cuts.

***Stock Option Plans***

At September 30, 2010, the Company has a stock-based Associate compensation plan, which is described more fully in Note 7. Effective October 1, 2006, the Company adopted the fair value recognition provisions related to share-based payments. Accordingly, after October 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled.

***Accounts Receivable***

Accounts receivable are stated at the amounts billed to the customers plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of the outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

**Note 2: Related Party Transactions**

The Company has an amount of \$3,264,166 due to the majority shareholder and his spouse, which is collateralized by property and equipment, accounts receivable, inventory and other assets. This agreement is also guaranteed by all subsidiaries of the Company, excluding KDL Holdings, LLC, a consolidated entity of KDL, Inc. The majority shareholder's balance of \$2,814,166 accrued interest at 13 percent (payable monthly). The majority shareholder's spouse's balance of \$450,000 accrued interest at rates ranging from 8% to 10% (payable monthly). Principal on both balances is due in full at least 13 months from the date written notification of repayment demand is made by the parties. As of September 30, 2010, no such notification was made. The parties have signed an agreement subordinating these notes to bank notes.

Interest expense incurred by the Company under the above agreements was \$403,632 for the year ended September 30, 2010.

**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Note 3: Acquired Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets at September 30, 2010 was:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Amortized intangible assets		
Customer relationships	\$ 28,762,000	\$ (7,103,198)
Business systems software	1,713,000	(1,713,000)
Wireless business and other	1,209,894	(519,844)
	<b>\$ 31,684,894</b>	<b>\$ (9,336,042)</b>
Unamortized intangible assets		
Licenses & permits	\$ 5,695,000	
Trade name	1,000,000	
	<b>\$ 6,695,000</b>	

Amortization expense for the year ended September 30, 2010 was \$2,497,900. Estimated amortization expense for each of the following five years and thereafter is:

2011	\$ 2,094,685
2012	2,012,036
2013	1,517,549
2014	1,352,721
2015	1,352,721
Thereafter	14,019,139
	<b>\$ 22,348,852</b>

During the twelve months ended September 30, 2010, there were no changes in the carrying amounts of goodwill held by the Kentucky DataLink or Norlight Small Business segments of \$29,822,137 and \$7,147,303, respectively. The Company completes its impairment review of goodwill annually on September 30 in accordance with authoritative guidance. The Company did not write down goodwill during 2010.

**Note 4: Long-Term Debt**

Note payable finance company (a)	\$ 806,926
Term Note payable (b)	204,243,000



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Mortgage notes payable (c)	7,103,648
Line of credit (b)	47,350,000
RUS payable (d)	64,899,445
Total debt	324,403,019
Current maturities	19,803,430
Long term debt	\$ 304,599,589

- (a) Notes payable to finance company, bearing interest at 2.97%, with principal due in monthly installments ranging from \$905 to \$909. Notes are collateralized by vehicles. Notes mature in 2011.

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

(b) Kentucky Data Link, Inc., a subsidiary of the Company, is party to a credit agreement with a financial institution acting as administrative agent to provide a total commitment of \$295,000,000 through several financial institutions. The agreement is collateralized by a security interest in various types of collateral with the Company and certain subsidiaries who also act as Guarantors. The agreement provides the Company with a revolving line of \$55,000,000 that expires on February 26, 2012 and a term loan commitment of \$240,000,000 that expires on February 26, 2014. The term loan requires quarterly principal payments of \$600,000 through the maturity date, plus monthly interest payments accruing at a variable rate of LIBOR plus 2.25%. The line of credit requires monthly interest payments accruing at a variable rate (LIBOR plus 1.50% - 2.25%) based on the Company's funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This agreement also contains covenants for the parent company and affiliates to maintain certain financial ratios and requires a mandatory repayment on the term note for 50% of any consolidated excess cash flows as defined in the agreement. For the year ended September 30, 2010, the Company was required to make a mandatory repayment of \$12,084,000 under this agreement subsequent to year end. This amount is included in current maturities of long-term debt.

(c) Mortgage notes payable, due July 1, 2021 and January 1, 2022, payable in monthly installments, plus interest at 6.15 percent to 6.58 percent and collateralized by a security interest in real estate.

(d) Cinergy MetroNet, Inc., a subsidiary of the Company entered into a promissory note payable to the United States of America, acting through the Administrator of the Rural Utilities Service - RUS, to provide borrowings up to \$106,785,000. In March 2010, Cinergy MetroNet, Inc. signed a new promissory note for \$69,036,329, the balance remaining under the original promissory note. Advances under the new note can be made through March 14, 2012. Amounts will be due no later than March 14, 2022. The agreement requires monthly interest payments beginning the date of each advance accruing at the Direct Cost of Money Interest Rate, published by the Secretary of the Treasury. Rates as of September 30, 2010 for outstanding advances currently range from 2.67 percent to 4.79 percent. Outstanding borrowings are secured by all assets acquired with loan proceeds. The agreement contains certain restrictions as to the use of the proceeds as well as payments of dividends or redemption of capital stock. The Company has loan funds available from RUS totaling \$4,136,884. The following is the maturities schedule at September 30, 2010:

2011	\$ 19,803,430
2012	7,722,316
2013	7,859,852
2014	8,071,226
2015	8,291,229
Thereafter	272,654,966
	<b>\$ 324,403,019</b>

**Note 5: Income Taxes**

The provision for income taxes for the year ended September 30, 2010 includes these components:

Taxes currently payable	\$ 4,786,756
Deferred income taxes	9,615,210
Provision for income taxes	<b>\$ 14,401,966</b>



**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets are as follows:

Deferred tax assets	
Allowance for doubtful accounts	\$ 824,900
Accrued expenses and other	4,555,000
Net operating loss carryforwards	4,740,000
Property and sales tax reserves	998,200
AMT credits	643,200
Fair value of interest rate swap agreement	4,190,000
Deferred tax liabilities	
Accumulated depreciation	(31,109,800)
Prepaid expenses and intangibles	(6,211,300)
Net deferred tax liability before valuation allowance	(21,369,800)
Valuation allowance	
Beginning balance	(3,956,500)
(Increase) during the period	(727,600)
Ending balance	(4,684,100)
Net deferred tax liability	(26,053,900)

At September 30, 2010, the Company had state net operating loss carryforwards of \$87,588,151, which expire annually in varying amounts through 2029. The Company establishes valuation allowances when necessary to reduce deferred tax assets to amounts expected to be realized. As of September 30, 2010, the Company recorded a valuation allowance of \$4,684,100 related to state loss carryforwards, which are expected to expire and not be utilized. The above net deferred tax liability is presented on the consolidated balance sheets within prepaid expenses and other and deferred income taxes as follows:

Deferred tax asset current	\$ 732,900
Deferred tax liability long-term	(26,786,800)
Net deferred tax asset (liability)	\$ (26,053,900)

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

Computed at the statutory rate (34%)	\$ 11,025,199
Increase (decrease) resulting from	
State income taxes	3,196,911
Nondeductible expenses and other	(357,744)
Change in valuation allowance	727,600

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AMT credits	(190,000)
Actual tax provision	\$ 14,401,966

As of September 30, 2010, the Company had approximately \$643,200 of alternative minimum tax credits available to offset future federal income taxes. The credits have no expiration date.

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Note 6: Leasing Activities***Lessor*

The Company enters into operating lease agreements to lease portions of its fiber optic line strands (Indefeasible Right to Use (IRU) agreements) and its fiber optic network capacity (capacity agreements) through August 2047. An IRU agreement is prepaid by the lessee and amortized over the life of the contract using the straight-line method. A capacity agreement is paid by the lessee on a monthly basis. Future minimum lease payments receivable and amortization of deferred revenue at September 30, 2010 are as follows:

	IRU Agreements	Capacity Agreements	Total
2011	\$ 1,781,555	\$ 105,049,667	\$ 106,831,222
2012	1,236,635	62,738,941	63,975,576
2013	1,071,781	40,376,591	41,448,372
2014	948,672	20,779,302	21,727,974
2015	866,821	8,315,760	9,182,581
Thereafter	5,388,339	5,188,824	10,577,163
	\$ 11,293,803	\$ 242,449,085	\$ 253,742,888

The Company also enters into various IRU and capacity agreements that expire within one year. Total fiber and IRU revenues for 2010 totaled approximately \$104,393,156.

*Lessee*

The Company has various IRU agreements to lease a portion of fiber optic line strands from companies with expiration dates through 2047. Amortization expense for the years ended September 30, 2010 was \$1,952,491.

The Company also has various noncancellable operating leases for equipment and office space, which expire in various years through 2014. Rent expense for 2010 was \$1,671,139. Future minimum lease payments payable and amortization of deferred expenses at September 30, 2010 are as follows:

	IRU Agreements	Other Leases	Total
2011	\$ 1,947,873	\$ 1,624,559	\$ 3,572,432
2012	1,947,873	687,248	2,635,121
2013	1,947,873	26,696	1,974,569
2014	1,947,873	20,336	1,968,209
2015	1,947,873	4,900	1,952,773
Thereafter	20,277,318	19,075	20,296,393
	\$ 30,016,683	\$ 2,382,814	\$ 32,399,497

**Note 7: Incentive Stock Option Plans**

The Company adopted Incentive Stock Option Plans, which are Board of Directors approved for the benefit of key Associates, dated October 1, 1998, January 1, 2001, January 1, 2002, January 1, 2004, January 1, 2005, January 1, 2007 and January 1, 2008. The Company believes that such awards better align the

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

interests of its Associates with those of its shareholders. Option awards are generally granted with an exercise price equal or greater to the market price of the Company's stock at the date of grant; those option awards generally vest based on nine years of continuous service and have ten-year contractual terms. Share awards generally vest over a five-year vesting schedule at the rate of 20% per year, commencing on a date that is five years from the Associate's entrance into the plan. Incentive Stock Option awards provide for accelerated vesting if there is a sale or merger (as defined in the Plans).

A summary of the status of the plans at September 30, 2010 and changes during the years then ended is presented below:

	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	691,517	\$ 10.95
Granted	35,000	18.00
Exercised	(17,426)	12.47
Forfeited	(18,900)	12.08
Outstanding, end of year	690,191	\$ 11.24
Options exercisable, end of year		285,688

The following table summarizes information about employee stock options under the plans outstanding at September 30, 2010:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable
\$ 6.22	196,590	0.45	\$ 6.22	188,590
10.00	260,038	3.66	10.00	97,098
15.00	78,563	6.26	15.00	
17.00	35,000	6.26	17.00	
18.00	120,000	7.26	18.00	

The weighted-average grant-date fair value of options granted during the years ended 2010 was \$13.13.

Effective October 1, 2006, the Company adopted the fair value recognition provisions for share-based payments (formerly under the guidance of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*). As allowed by this statement, the fair value of each option award is estimated on the date of grant using a Black Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the NASDAQ Telecommunications Index (^IXUT) and other factors.



**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Expected volatility	34%
Expected dividends	0%
Expected term (in years)	9.0 years
Risk-free rate	2.56%

Total compensation cost recognized in the income statement for share-based payment arrangements during the year 2010 was \$63,526. The recognized tax benefit related thereto was \$22,234 for the year ended September 30, 2010.

As of September 30, 2010, there was \$521,769 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a period of eight years for 2010. The total fair value of shares vested during the year ended September 30, 2010 was \$17,376.

Cash received from option exercises under all share-based payment arrangements for the year ended September 30, 2010 was \$217,395.

**Note 8: Profit Sharing Plan**

The Company has a defined contribution plan covering substantially all employees. The Company's contributions to the plan are determined annually by the Board of Directors. Effective January 1, 2004, the Company elected to incorporate the Safe Harbor Provisions into its defined contribution plan. For 2010, the Company matched 100% of employee deferrals up to 3.0% of eligible compensation and 50% of employee deferrals from 3.0% to 6.0% of eligible compensation. Contributions to the plan were \$1,323,288 for 2010.

**Note 9: Commitments**

The Company has entered into numerous collocation agreements that allow it to locate equipment in facilities owned by telecommunication providers. Additionally, the Company is involved in numerous pole attachment agreements which allow it to extend its fiber optic network.

Typically, these agreements involve locating multiplexing/muxing equipment (a rack) in local exchange carrier (LEC) central offices. These agreements have specified beginning and ending dates; however, absent notification from either party of the intent to end the agreement, the term automatically converts to a month-to-month agreement with no specified ending date. These agreements typically require minimal rental payments for the use of the space and are assumed to exist in near perpetuity.

Should the Company elect to exit such an agreement, the terms provide that they are responsible for both the removal of the equipment and fiber as well as the cost of returning the space to its original condition.

**Note 10: Interest Rate Swap Agreements**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company had entered into an interest rate swap agreement for a portion of its floating rate debt. Prior to March 2007, the agreement provided for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 4.615% on the notional



**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

amount of \$25,000,000. Under the agreement, the Company paid or received the net interest amount monthly, with the monthly settlements included in interest expense. In March 2007, the Company re-designated this agreement as a hedge of the newly acquired floating rate debt (*see Note 4*).

In March 2007, the Company also entered into multiple additional interest rate-swap agreements for portions of the new floating rate debt. The agreements provide for the Company to receive interest from the counterparties at LIBOR and to pay interest to the counterparties at fixed rates ranging from 4.880% to 4.950% on the notional amounts in aggregate of \$216,000,000. Under the agreement, the Company pays or receives the net interest amount quarterly through expiration of the agreements which settle between 2010 and 2012, with the quarterly settlements included in interest expense.

During 2009, the Company also entered into multiple additional interest rate swap agreements that go into effect April 2010, but for which a liability is recorded at year-end, for portions of the new floating rate debt. The agreements provide for the Company to receive interest from the counterparties at LIBOR and to pay interest to the counterparties at fixed rates ranging from 2.595% to 2.655% on the notional amounts in aggregate of \$40,000,000. Under the agreement, the Company pays or receives the net interest amount quarterly through expiration of the agreements which settle between 2010 and 2013, with the quarterly settlements included in interest expense.

Management has designated the interest rate swap agreements as cash flow hedging instruments, and has determined that they are highly effective and qualify for hedge accounting under the provisions of ASC 815, *Derivatives and Hedging*. As a result, the agreement is recorded at its fair value with subsequent changes in fair value included in comprehensive income.

At September 30, 2010, the Company has recorded a liability of \$11,325,751, relating to the fair value of these agreements, which is included in other liabilities on the accompanying consolidated balance sheets.

**Note 11: Disclosures About Fair Value of Assets and Liabilities**

Effective October 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), which was subsequently incorporated into FASB Accounting Standards Codification (ASC) as Topic 820. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 has been applied prospectively as of the beginning of the year.

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Interest Rate Swap**

The agreements are recorded at fair value with subsequent changes in fair value included in interest expense. The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at September 30, 2010:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents (a)	\$ 12,274,432	\$ 12,274,432	\$	\$
Interest rate swap agreements (b)	\$ 11,325,571	\$	\$ 11,325,571	\$

(a) Included in cash and cash equivalents on the unaudited consolidated balance sheet as of September 30, 2010.

(b) Included in other liabilities on the unaudited consolidated balance sheet as of September 30, 2010.

Realized and unrealized gains and losses included in net income for the period from October 1, 2009 through September 30, 2010, are reported in the consolidated statements of income as follows:

Total gains or losses in other income (expense)	\$ (227,479)
Change in unrealized gains or losses relating to assets still held at the balance sheet date	\$ 148,845

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheet at amounts other than fair value.

**Cash and Cash Equivalents**

The carrying amount approximates fair value.

**Long-term Debt**

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The carrying amount approximates fair value for the majority of the debt because the interest rate for these instruments is generally variable based on specified financial instruments. The fair value for remaining debt with fixed interest rates is estimated based on the borrowing rates currently available to the Company with similar terms and maturities and funding agencies.

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

The following table presents estimated fair values of the Company's financial instruments at September 30, 2010:

	Carrying Amount	Fair Value
<b>Financial assets</b>		
Cash and cash equivalents	\$ 16,709,970	\$ 16,709,970
<b>Financial liabilities</b>		
Fixed rate debt	72,003,092	72,003,092
Note payable to stockholder	3,264,116	3,264,116
Variable rate debt	252,399,926	252,399,926
Interest rate swap agreement	11,325,571	11,325,571

**Note 12: Economic Conditions and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain economic conditions and current vulnerabilities due to certain concentrations. Those matters include the following:

***General Litigation***

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material effect on the financial position, results of operations or cash flows of the Company.

***Major Customer***

One customer accounts for approximately 10 percent of the Company's outstanding accounts receivable at September 30, 2010 and 9 percent of revenue for the year ended September 30, 2010.

***Current Economic Conditions***

The current economic environment presents telecommunications companies with circumstances and challenges. The financial statements have been prepared using values and information currently available to the Company.

Current economic and financial market conditions could adversely affect our results of operations in future periods. The current instability in the financial markets may make it difficult for the Company to obtain financing, which could have an adverse impact on the Company's future operating results.

**Note 13: Business Segments**

The Company organizes itself based on the services and products offered by its subsidiaries. Kentucky DataLink operates a fiber optic network which spans in excess of 30,000 route miles. Over this network, it provides fiber optic transport, dedicated Internet access and ancillary services to its customers. Its fiber optic transport offerings range from T-1 circuits to 10 Gbps wavelengths. Carriers, in this instance, are referred to as wireless service providers, incumbent local telephone companies, internet service providers, providers of cable television service, competitive local exchange companies, long distance companies and the like.



**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010**

Norlight Small Business offers data and voice communications services to small business customers. Cinergy MetroNet offers voice, internet, and cable television services to residential and business customers. Certain other minor operating segments have been aggregated into other operations. These operations provide home security, network management, hosted PBX and hosted application services, as well as administrative services to the other subsidiaries.

The chief operating decision maker reviews each operating segment for profitability and to determine allocation of resources and uses net income as the basis for evaluation of segment performance.

The Company accounts for affiliated sales at current market prices, tariff rates, or negotiated prices. Transactions between entities are eliminated in the consolidated financial statements. Sales to affiliates are not presented separately to the chief operating decision maker. Transactions between affiliates are eliminated in the consolidated financial statements.

	<b>Kentucky DataLink</b>	<b>Norlight Small Business</b>	<b>Cinergy MetroNet</b>	<b>Other Operations</b>	<b>Total Segments</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues and sales	\$ 188,892,895	\$ 51,585,563	\$ 13,507,425	\$ 2,819,624	256,805,507	\$ (10,126,375)	\$ 246,679,132
Operating expense	94,291,717	51,652,160	13,539,709	58,487,335	217,970,921	(66,143,400)	151,827,521
Depreciation and amortization	35,557,255	5,331,429	7,079,349	470,265	48,438,298		48,438,298
Income from operations	59,043,923	(5,398,026)	(7,111,633)	(56,137,976)	(9,603,712)	56,017,025	46,413,313
Interest expense	13,483,400	757,010	744,224	(249,996)	14,734,638		14,734,638
Other income and (expense)	652,831	612,009	103,686	55,531,207	56,899,733	(56,017,025)	882,708
Earnings (loss) before income taxes	46,213,354	(5,543,027)	(7,752,171)	(356,773)	32,561,383		32,561,383
Provision (credit) for income taxes	18,465,248	(1,583,487)	(2,613,800)	134,005	14,401,966		14,401,966
Segment profit (loss)	\$ 27,748,106	\$ (3,959,540)	\$ (5,138,371)	\$ (490,778)	18,159,417	\$	\$ 18,159,417
Assets	\$ 626,934,572	\$ 32,383,840	\$ 79,511,153	\$ 59,637,791	798,467,355	\$ (279,242,398)	\$ 519,224,956
Capital expenditures	\$ 53,267,648	\$ 1,050,041	\$ 38,466,275	\$ 807,747	93,591,711	\$	\$ 93,591,711

**Note 14: Supplemental Guarantor Information**

Subsequent to the acquisition of the Company and certain subsidiaries by Windstream on December 2, 2010 (see Note 15), certain wholly-owned subsidiaries of the Company were designated as guarantors of Windstream's guaranteed notes. These guarantees are full and unconditional as well as joint and several. The remaining subsidiaries are not guarantors of Windstream's guaranteed notes.

The following information presents condensed consolidated and combined financial statements of the parent company guarantor, the subsidiary guarantors, and the subsidiary non-guarantors as of and for the year ended September 30, 2010. Investments consist of investments in net assets of subsidiaries held by the parent company and other subsidiaries, and have been presented using the equity method of accounting.





**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Condensed Consolidated Balance Sheet**

	Parent Guarantor	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets:</b>					
Unrestricted cash and cash equivalents	\$ (4,114)	\$ 953	\$ 12,277,593	\$	\$ 12,274,432
Restricted cash			4,435,538		4,435,538
Accounts receivable (less allowance for doubtful accounts of \$2,062,095)		20,535	22,884,309	(30,051)	22,874,793
Prepaid expenses and other	4,723,895	18,152	7,673,475	(24,813)	12,390,709
<b>Total current assets</b>	<b>4,719,781</b>	<b>39,640</b>	<b>47,270,915</b>	<b>(54,864)</b>	<b>51,975,472</b>
Goodwill			36,969,440		36,969,440
Other intangibles, net			29,043,852		29,043,852
Net property, plant and equipment		2,976,448	355,643,577		358,620,025
Investment in subs	85,607,061		11,755,567	(97,362,628)	
Intercompany receivable		7,765,624		(7,765,624)	
Deferred expenses		370,048	31,786,025		32,156,073
Other assets			10,460,094		10,460,094
<b>Total Assets</b>	<b>\$ 90,326,842</b>	<b>\$ 11,151,760</b>	<b>\$ 522,929,470</b>	<b>\$ (105,183,116)</b>	<b>\$ 519,224,956</b>

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Condensed Consolidated Balance Sheet (Continued)**

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Liabilities and Shareholders Equity</b>					
<b>Current Liabilities:</b>					
Current maturities of long-term debt	\$	\$	\$ 19,803,430	\$	\$ 19,803,430
Accounts payable	27,348		18,245,653	(30,051)	18,242,950
Advance payments			19,846,912	(24,813)	19,822,099
Accrued taxes			7,706,940		7,706,940
Accrued interest			107,355		107,355
Other current liabilities	79,253		15,003,792		15,083,045
<b>Total current liabilities</b>	<b>106,601</b>		<b>80,714,082</b>	<b>(54,864)</b>	<b>80,765,819</b>
Long-term debt			304,599,589		304,599,589
Intercompany payable	7,288,273		477,351	(7,765,624)	
Due to stockholders			3,264,166		3,264,166
Deferred income taxes		15,400	26,771,400		26,786,800
Other liabilities			20,876,614		20,876,614
<b>Total liabilities</b>	<b>7,394,874</b>	<b>15,400</b>	<b>436,703,202</b>	<b>(7,820,488)</b>	<b>436,292,988</b>
<b>Commitments and Contingencies (See Note 9)</b>					
<b>Shareholders Equity:</b>					
Common stock, Class A	10,386		600,127	(600,127)	10,386
Common stock, Class B	800				800
Capital contribution receivable	(62,200)				(62,200)
Additional paid-in capital	29,838,426		50,050,060	(50,050,060)	29,838,426
Accumulated other comprehensive loss	(7,135,571)		(7,135,571)	7,135,571	(7,135,571)
Retained earnings	70,268,423	11,136,360	42,711,652	(53,848,012)	70,268,423
Treasury stock	(9,988,296)				(9,988,296)
<b>Total shareholders equity</b>	<b>82,931,968</b>	<b>11,136,360</b>	<b>86,226,268</b>	<b>(97,362,628)</b>	<b>82,931,968</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 90,326,842</b>	<b>\$ 11,151,760</b>	<b>\$ 522,929,470</b>	<b>\$ (105,183,116)</b>	<b>\$ 519,224,956</b>

**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Condensed Consolidated Statement of Income**

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Revenues and sales:</b>					
Service revenues	\$	\$ 269,177	\$ 246,679,132	\$ (269,177)	\$ 246,679,132
Total revenues and sales		269,177	246,679,132	(269,177)	246,679,132
<b>Costs and expenses:</b>					
Cost of services		80,356	85,268,422	(66,630)	85,282,148
Selling, general, administrative and other		772,607	65,975,313	(202,547)	66,545,373
Depreciation and amortization		764,970	47,673,328		48,438,298
Total costs and expenses		1,617,933	198,917,063	(269,177)	200,265,819
<b>Operating income</b>					
Earnings (losses) from consolidated subsidiaries	18,229,464	(1,348,756)	47,762,069	(17,188,078)	46,413,313
Other income (expense), net	355,018		527,690		882,708
Interest expense	249,996		(14,984,634)		(14,734,638)
Income before income taxes	18,834,478	(1,348,756)	32,263,739	(17,188,078)	32,561,383
Income taxes	675,061	(46,413)	13,773,318		14,401,966
Net income	\$ 18,159,417	\$ (1,302,343)	\$ 18,490,421	\$ (17,188,078)	\$ 18,159,417

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**Table of Contents****Q-Comm Corporation****Notes to Unaudited Consolidated Financial Statements, Continued****Year Ended September 30, 2010****Condensed Consolidated Statement of Cash Flows****Year Ended September 30, 2010****Unaudited**

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Cash Provided from Operations:</b>					
Net income	\$ 18,159,417	\$ (1,302,343)	\$ 18,490,421	\$ (17,188,078)	\$ 18,159,417
Adjustments to reconcile to net income to net cash provided from operations:					
Depreciation and amortization		764,970	47,673,328		48,438,298
Provision for doubtful accounts		1,165	1,296,371		1,297,536
Equity in earnings (losses) from subsidiaries	(18,229,464)		1,041,386	17,188,078	
Deferred taxes	112,400	15,400	9,896,997		10,024,797
Changes in operating assets and liabilities, net	2,190,589	1,718,479	(10,047,743)		(6,138,675)
Net cash provided from operations	2,232,942	1,197,671	68,350,760		71,781,373
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment		(776,785)	(92,814,926)		(93,591,711)
Sale of investment			3,356,251		3,356,251
Other, net			(4,405,789)		(4,405,789)
Net cash used in investing activities		(776,785)	(93,864,464)		(94,641,249)
<b>Cash Flows from Financing Activities:</b>					
Repayment of debt			(21,875,064)		(21,875,064)
Debt issued			50,797,526		50,797,526
Common stock issued	280,761				280,761
Purchase of treasury stock	(313,656)				(313,656)
Net cash provided from (used in) financing activities	(32,895)		28,922,462		28,889,567
Increase in cash and cash equivalents	2,200,047	420,886	3,408,758		6,029,691
<b>Cash and Cash Equivalents:</b>					
Beginning of the period	(2,204,161)	(55,824)	8,504,726		6,244,741
End of the period	\$ (4,114)	\$ 365,062	\$ 11,913,484	\$	\$ 12,274,432

**Note 15: Subsequent Event**

On December 2, 2010, the Company was acquired by Windstream Corporation ( Windstream ). Immediately prior to the closing, the Company transferred the EIC Insurance, Inc., Cinergy MetroNet, Inc., nGenX Corporation and Q Services, Inc subsidiaries to a newly formed company owned by the majority shareholder of Q-Comm, allowing the transfer to qualify as a common control transaction.

Upon completion of the acquisition, Windstream paid the acquired debt and terminated the revolver agreement.

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**WINDSTREAM CORPORATION**

**Offer to Exchange**

**\$200,000,000 aggregate principal amount of 7.75% Senior Notes Due 2020**

**for**

**\$200,000,000 aggregate principal amount of 7.75% Senior Notes Due 2020**

**that have been registered under the Securities Act of 1933, as amended**

**The exchange offer will expire at 5:00 p.m.,**

**New York City time, on \_\_\_\_\_, 2011, unless earlier terminated or extended.**

**PROSPECTUS**

**, 2011**

**DEALER PROSPECTUS DELIVERY OBLIGATION**

**Until \_\_\_\_\_, 2011, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotment of subscriptions.**

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 20. Indemnification of Directors and Officers.**

The following summary is qualified in its entirety by reference to the complete text of any statutes referred to below and the amended certificate of incorporation and by-laws of Windstream Corporation, a Delaware corporation ( "Windstream" or the "Company" ).

Section 102 of the Delaware General Corporation Law, or the DGCL, as amended, allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached the duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that we may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding other than an action by or in the right of the corporation by reason of the fact that the person is or was a director, officer, agent, or employee of the corporation, or is or was serving at our request as a director, officer, agent or employee of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding. The power to indemnify applies (a) if such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (b) if such person acting in good faith and in a manner he reasonably believed to be in the best interest, or not opposed to the best interest, of the corporation, and with respect to any criminal action or proceeding had no reasonable cause to believe his or her conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well but only to the extent of defense expenses, including attorneys' fees but excluding amounts paid in settlement, actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of liability to the corporation, unless the court believes that in light of all the circumstances indemnification should apply.

As permitted by the Delaware General Corporation Law, Article VIII of Windstream's Amended and Restated Certificate of Incorporation eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability (a) for any breach of the director's duty of loyalty to Windstream or its stockholders, (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the Delaware General Corporation Law (regarding unlawful dividends and stock purchases) or (d) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended to authorize further elimination or limiting of directors' personal liability, then the Amended and Restated Certificate provides that the personal liability of directors will be eliminated or limited to the fullest extent provided under the Delaware General Corporation Law.

As permitted by the Delaware General Corporation Law, Article VIII of Windstream's Amended and Restated Certificate of Incorporation provides that (a) Windstream is required to indemnify its directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to certain very limited exceptions, (b) Windstream may indemnify its other employees and agents as set forth in the Delaware General Corporation Law, (c) Windstream is required to advance expenses, as incurred, to its directors and executive officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to certain conditions and (d) the rights conferred by the Amended and Restated Certificate of Incorporation and Bylaws are not exclusive.



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The Delaware General Corporation Law authorizes a corporation to indemnify its directors and officers provided that the corporation shall not eliminate or limit the liability of a director as follows:

- (a) for any action brought by or in the right of a corporation where the director or officer is adjudged to be liable to the corporation, except where a court determines the director or officer is entitled to indemnity;
- (b) for acts or omissions not in good faith or which involve conduct that the director or officer believes is not in the best interests of the corporation;
- (c) for knowing violations of the law;
- (d) for any transaction from which the directors derived an improper personal benefit; and
- (e) for payment of dividends or approval of stock repurchases or redemptions leading to liability under Section 174 of the Delaware General Corporation Law.

The Delaware General Corporation Law requires a corporation to indemnify a director or officer to the extent that the director or officer has been successful, on the merits or otherwise, in defense of any action, suit or proceeding for which indemnification is lawful.

The Company maintains a director and officer insurance policy which insures the directors and officers of the Company against damages, judgments, settlements and costs incurred by reason of certain wrongful acts committed by such persons in their capacities as directors and officers.

### **Item 21. Exhibits and Financial Statement Schedules.**

#### ***(a) Exhibits***

The exhibits to this registration statement are listed in the Exhibit Index, which appears elsewhere herein and is incorporated by reference.

### **Item 22. Undertakings.**

The undersigned registrants hereby undertake:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
  - (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
  - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;
  - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



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- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.
- (5) The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (6) The undersigned registrants hereby undertake to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.
- (7) The undersigned registrants hereby undertake to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Little Rock, State of Arkansas, on the 5<sup>th</sup> day of April, 2011.

**WINDSTREAM CORPORATION**

By: /s/ Jeffery R. Gardner  
 Name: **Jeffery R. Gardner**  
 Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act, this Registration Statement on Form S-4 has been signed by the following persons in the capacities indicated on the 5<sup>th</sup> day of April, 2011.

Signature	Title	Date
/s/ Jeffery R. Gardner <b>Jeffery R. Gardner</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	April 5, 2011
/s/ Anthony W. Thomas <b>Anthony W. Thomas</b>	Chief Financial Officer (Principal Financial Officer)	April 5, 2011
/s/ John C. Eichler <b>John C. Eichler</b>	Controller (Principal Accounting Officer)	April 5, 2011
* <b>Dennis E. Foster</b>	Chairman, Director	April 5, 2011
* <b>Carol B. Armitage</b>	Director	April 5, 2011
* <b>Samuel E. Beall III</b>	Director	April 5, 2011
* <b>Francis X. Frantz</b>	Director	April 5, 2011
* <b>Jeffrey T. Hinson</b>	Director	April 5, 2011
* <b>Judy K. Jones</b>	Director	April 5, 2011
<b>William A. Montgomery</b>		

\*

Director

April 5, 2011

**Alan L. Wells**

\*By: /s/ John P. Fletcher  
(John P. Fletcher)  
**Attorney-in-fact**

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**SIGNATURES**

Pursuant to the requirements of the Securities Act, the Registrants have duly caused this Registration Statement to be signed on their behalf by the undersigned, thereunto duly authorized, in the City of Little Rock, State of Arkansas, on the 5<sup>th</sup> day of April, 2011.

**BISHOP COMMUNICATIONS CORPORATION  
BUFFALO VALLEY MANAGEMENT SERVICES, INC.  
CINERGY COMMUNICATIONS COMPANY OF VIRGINIA  
COMMUNICATIONS SALES AND LEASING, INC.  
CONESTOGA ENTERPRISES, INC.  
CONESTOGA MANAGEMENT SERVICES, INC.  
CT CELLULAR, INC.  
CT COMMUNICATIONS, INC.  
CT WIRELESS CABLE, INC.  
D&E COMMUNICATIONS, INC.  
D&E INVESTMENTS, INC.  
D&E MANAGEMENT SERVICES, INC.  
D&E NETWORKS, INC.  
EQUITY LEASING, INC.  
GABRIEL COMMUNICATIONS FINANCE COMPANY  
HEART OF THE LAKES CABLE SYSTEMS, INC.  
HOSTED SOLUTIONS CHARLOTTE LLC  
HOSTED SOLUTIONS RALEIGH LLC  
IOWA TELECOM DATA SERVICES, L.C.  
IOWA TELECOM TECHNOLOGIES, LLC  
IWA HOLDINGS, LLC  
IWA MN HOLDINGS, LLC  
IWA SERVICES, LLC  
KDL COMMUNICATIONS CORPORATION  
KDL HOLDINGS, LLC  
KERRVILLE CELLULAR, LLC  
KERRVILLE COMMUNICATIONS CORPORATION  
KERRVILLE MOBILE HOLDINGS, LLC  
KERRVILLE WIRELESS HOLDINGS, LLC  
LAKEDALE COMMUNICATIONS, LLC  
LEXCOM, INC.  
NORLIGHT TELECOMMUNICATIONS OF VIRGINIA, INC.  
NUVOX, INC.  
OKLAHOMA WINDSTREAM, LLC  
PCS LICENSES, INC.  
PROGRESS PLACE REALTY HOLDING COMPANY, LLC  
TELEVIEW, LLC  
TEXAS WINDSTREAM, INC.  
VALOR TELECOMMUNICATIONS ENTERPRISES FINANCE CORP.  
VALOR TELECOMMUNICATIONS ENTERPRISES, LLC  
VALOR TELECOMMUNICATIONS INVESTMENTS, LLC  
VALOR TELECOMMUNICATIONS OF TEXAS, LLC  
WINDSTREAM ALABAMA, LLC  
WINDSTREAM ARKANSAS, LLC  
WINDSTREAM BAKER SOLUTIONS, INC.  
WINDSTREAM COMMUNICATIONS KERRVILLE, LLC**

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WINDSTREAM COMMUNICATIONS TELECOM, LLC  
 WINDSTREAM CTC INTERNET SERVICES, INC.  
 WINDSTREAM D&E SYSTEMS, INC.  
 WINDSTREAM DIRECT, LLC  
 WINDSTREAM EN-TEL, LLC  
 WINDSTREAM HOLDING OF THE MIDWEST, INC.  
 WINDSTREAM HOSTED SOLUTIONS, LLC  
 WINDSTREAM INTELLECTUAL PROPERTY SERVICES, INC.  
 WINDSTREAM IOWA COMMUNICATIONS, INC.  
 WINDSTREAM IOWA-COMM, INC.  
 WINDSTREAM KDL-VA, INC.  
 WINDSTREAM KERRVILLE LONG DISTANCE, LLC  
 WINDSTREAM LAKEDALE LINK, INC.  
 WINDSTREAM LAKEDALE, INC.  
 WINDSTREAM LEASING, LLC  
 WINDSTREAM LEXCOM ENTERTAINMENT, LLC  
 WINDSTREAM LEXCOM LONG DISTANCE, LLC  
 WINDSTREAM LEXCOM WIRELESS, LLC  
 WINDSTREAM MONTEZUMA, INC.  
 WINDSTREAM NETWORK SERVICES OF THE MIDWEST, INC.  
 WINDSTREAM NORTHSTAR, LLC  
 WINDSTREAM NUVOX ARKANSAS, INC.  
 WINDSTREAM NUVOX ILLINOIS, INC.  
 WINDSTREAM NUVOX INDIANA, INC.  
 WINDSTREAM NUVOX KANSAS, INC.  
 WINDSTREAM NUVOX OKLAHOMA, INC.  
 WINDSTREAM OKLAHOMA, LLC  
 WINDSTREAM SHAL NETWORKS, INC.  
 WINDSTREAM SHAL, LLC  
 WINDSTREAM SOUTH CAROLINA, LLC  
 WINDSTREAM SUGAR LAND, INC.  
 WINDSTREAM SUPPLY, LLC  
 WIRELESS ONE OF NORTH CAROLINA, LLC

By: /s/ Jeffery R. Gardner

Name: **Jeffery R. Gardner**

Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act, this Registration Statement on Form S-4 has been signed by the following persons in the capacities indicated on the 5<sup>th</sup> day of April, 2011.

Name	Title
/s/ Jeffery R. Gardner	President, Chief Executive Officer (Principal Executive Officer) and Director/Manager
<b>Jeffery R. Gardner</b>	
/s/ Anthony W. Thomas	Chief Financial Officer (Principal Financial Officer)
<b>Anthony W. Thomas</b>	
/s/ John C. Eichler	Controller (Principal Accounting Officer)
<b>John C. Eichler</b>	
/s/ John P. Fletcher	Director/Manager

**John P. Fletcher**

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**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Little Rock, State of Arkansas, on the 5<sup>th</sup> day of April, 2011.

**VALOR TELECOMMUNICATIONS ENTERPRISES II, LLC**

By: WINDSTREAM CORPORATION  
Its: Sole Member

By: /s/ Jeffery R. Gardner  
Name: **Jeffery R. Gardner**  
Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act, this Registration Statement on Form S-4 has been signed by the following persons in the capacities indicated on the 5<sup>th</sup> day of April, 2011.

Signature	Title	Date
/s/ Jeffery R. Gardner <b>Jeffery R. Gardner</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	April 5, 2011
/s/ Anthony W. Thomas <b>Anthony W. Thomas</b>	Chief Financial Officer (Principal Financial Officer)	April 5, 2011
/s/ John C. Eichler <b>John C. Eichler</b>	Controller (Principal Accounting Officer)	April 5, 2011
*	Chairman, Director	April 5, 2011
<b>Dennis E. Foster</b>		
*	Director	April 5, 2011
<b>Carol B. Armitage</b>		
*	Director	April 5, 2011
<b>Samuel E. Beall III</b>		
*	Director	April 5, 2011
<b>Francis X. Frantz</b>		
*	Director	April 5, 2011
<b>Jeffrey T. Hinson</b>		
*	Director	April 5, 2011
<b>Judy K. Jones</b>		

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\*

Director

April 5, 2011

**William A. Montgomery**

\*

Director

April 5, 2011

**Alan L. Wells**

\*By: /s/ John P. Fletcher  
**(John P. Fletcher)**  
**Attorney-in-fact**

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**SIGNATURES**

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Little Rock, State of Arkansas, on the 5<sup>th</sup> day of April, 2011.

**SOUTHWEST ENHANCED NETWORK SERVICES, LP**

**WINDSTREAM SOUTHWEST LONG DISTANCE, LP**

By: Valor Telecommunications Enterprises, LLC  
Its: General Partner

By: /s/ Jeffery R. Gardner  
Name: **Jeffery R. Gardner**  
Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act, this Registration Statement on Form S-4 has been signed by the following persons in the capacities indicated on the 5<sup>th</sup> day of April, 2011.

<b>Name</b>	<b>Title</b>
/s/ Jeffery R. Gardner <b>Jeffery R. Gardner</b>	President and Chief Executive Officer (Principal Executive Officer) and Manager of Valor Telecommunications Enterprises, LLC
/s/ Anthony W. Thomas <b>Anthony W. Thomas</b>	Chief Financial Officer (Principal Financial Officer)
/s/ John C. Eichler <b>John C. Eichler</b>	Controller (Principal Accounting Officer)
/s/ John P. Fletcher <b>John P. Fletcher</b>	Manager of Valor Telecommunications Enterprises, LLC

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to Amendment No. 3 to the Corporation's Registration Statement on Form S-4 filed May 23, 2006)
3.2	Amended and Restated Bylaws of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K dated February 6, 2009)
3.3	Certificate of Incorporation of Buffalo Valley Management Services, Inc. (incorporated herein by reference to Exhibit 3.3 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.4	Articles of Incorporation of Conestoga Enterprises, Inc. (incorporated herein by reference to Exhibit 3.4 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.5	Certificate of Incorporation of Conestoga Management Services, Inc. (incorporated herein by reference to Exhibit 3.5 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.6	Articles of Incorporation of CT Cellular, Inc. (incorporated herein by reference to Exhibit 3.6 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.7	Articles of Incorporation of CT Communications, Inc. (incorporated herein by reference to Exhibit 3.7 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.8	Articles of Incorporation of CT Wireless Cable, Inc. (incorporated herein by reference to Exhibit 3.8 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.9	Articles of Incorporation of D&E Communications, Inc. (incorporated herein by reference to Exhibit 3.9 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.10	Articles of Incorporation of D&E Investments, Inc. (incorporated herein by reference to Exhibit 3.10 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.11	Articles of Incorporation of D&E Management Services, Inc. (incorporated herein by reference to Exhibit 3.11 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.12	Articles of Incorporation of D&E Networks, Inc. (incorporated herein by reference to Exhibit 3.12 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.13	Amended and Restated Certificate of Incorporation of Kerrville Communications Corporation (incorporated herein by reference to Exhibit 3.20 to Amendment No. 1 to the Corporation's Registration Statement on Form S-4 filed June 29, 2005)
3.14	Articles of Incorporation of Lexcom Inc. (incorporated herein by reference to Exhibit 3.14 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.15	Articles of Incorporation of PCS Licenses, Inc. (incorporated herein by reference to Exhibit 3.15 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.16	Articles of Incorporation of Texas Windstream, Inc. (incorporated herein by reference to Exhibit 3.16 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.17	Certificate of Incorporation of Valor Telecommunications Enterprises Finance Corp. (incorporated herein by reference to Exhibit 3.38 to Amendment No. 1 to the Corporation's Registration Statement on Form S-4 filed June 29, 2005)
3.18	Articles of Incorporation of Windstream CTC Internet Services, Inc. (incorporated herein by reference to Exhibit 3.18 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.19	Articles of Incorporation of Windstream Holding of the Midwest, Inc. (incorporated herein by reference to Exhibit 3.19 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.20	Certificate of Incorporation of Windstream Intellectual Property Services, Inc. (incorporated herein by reference to Exhibit 3.20 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.21	Certificate of Formation of Windstream Lexcom Entertainment, LLC (incorporated herein by reference to Exhibit 3.21 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.22	Certificate of Formation of Windstream Lexcom Long Distance, LLC (incorporated herein by reference to Exhibit 3.22 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.23	Certificate of Formation of Windstream Lexcom Wireless, LLC (incorporated herein by reference to Exhibit 3.23 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.24	Articles of Incorporation Windstream Network Services of the Midwest, Inc. (incorporated herein by reference to Exhibit 3.24 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.25	Restated Articles of Incorporation of Windstream Sugar Land, Inc. (incorporated herein by reference to Exhibit 3.25 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.26	Certificate of Formation of Kerrville Cellular, LLC (incorporated herein by reference to Exhibit 3.26 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.27	Certificate of Formation of Kerrville Mobile Holdings, LLC (incorporated herein by reference to Exhibit 3.27 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.28	Certificate of Formation of Kerrville Wireless Holdings, LLC (incorporated herein by reference to Exhibit 3.28 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.29	Articles of Organization of Oklahoma Windstream, LLC (incorporated herein by reference to Exhibit 3.29 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.30	Articles of Organization of Progress Place Realty Holding Company, LLC (incorporated herein by reference to Exhibit 3.30 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.31	Articles of Organization of Televue, LLC (incorporated herein by reference to Exhibit 3.31 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.32	Certificate of Formation of Valor Telecommunications Enterprises, LLC (incorporated herein by reference to Exhibit 3.7 to Amendment No. 1 to Valor Communications Group, Inc.'s Registration Statement on Form S-1 filed May 28, 2004)

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<b>Exhibit No.</b>	<b>Description</b>
3.33	Certificate of Formation of Valor Telecommunications Enterprises II, LLC (incorporated herein by reference to Exhibit 3.33 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.34	Certificate of Formation of Valor Telecommunications Investments, LLC (incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to Valor Communications Group, Inc.'s Registration Statement on Form S-1 filed May 28, 2004)
3.35	Articles of Organization and Conversion of Windstream Alabama, LLC (incorporated herein by reference to Exhibit 3.35 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.36	Certificate of Formation of Windstream Arkansas, LLC (incorporated herein by reference to Exhibit 3.36 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.37	Certificate of Formation of Windstream Communications Kerrville, LLC (incorporated herein by reference to Exhibit 3.37 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.38	Certificate of Formation of Windstream Communications Telecom, LLC (incorporated herein by reference to Exhibit 3.38 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.39	Certificate of Formation of Windstream Kerrville Long Distance, LLC (incorporated herein by reference to Exhibit 3.39 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.40	Certificate of Formation of Windstream Oklahoma, LLC (incorporated herein by reference to Exhibit 3.40 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.41	Articles of Organization and Conversion of Windstream South Carolina, LLC (incorporated herein by reference to Exhibit 3.41 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.42	Articles of Organization of Windstream Supply, LLC (incorporated herein by reference to Exhibit 3.42 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.43	Certificate of Formation of Wireless One of North Carolina, LLC (incorporated herein by reference to Exhibit 3.43 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.44	Certificate of Limited Partnership of Southwest Enhanced Network Services, LP (incorporated herein by reference to Exhibit 3.9 to Amendment No. 1 to the Corporation's Registration Statement on Form S-4 filed June 29, 2005)
3.45	Certificate of Formation of Valor Telecommunications of Texas, LLC d/b/a Windstream Communications Southwest (incorporated herein by reference to Exhibit 3.45 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.46	Certificate of Limited Partnership of Windstream Southwest Long Distance, LP (incorporated herein by reference to Exhibit 3.46 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.47	Certificate of Incorporation of Windstream Iowa Communications, Inc. (incorporated herein by reference to Exhibit 3.47 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.48	Articles of Incorporation of Windstream Iowa-Comm, Inc. (incorporated herein by reference to Exhibit 3.48 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.49	Articles of Organization of Iowa Telecom Data Services, L.C. (incorporated herein by reference to Exhibit 3.49 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.50	Articles of Organization of IWA Holdings, LLC (incorporated herein by reference to Exhibit 3.50 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.51	Articles of Organization of Iowa Telecom Technologies, LLC (incorporated herein by reference to Exhibit 3.51 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.52	Articles of Incorporation of Windstream Baker Solutions, Inc. (incorporated herein by reference to Exhibit 3.52 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.53	Articles of Organization of IWA Services, LLC (incorporated herein by reference to Exhibit 3.53 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.54	Articles of Incorporation of Windstream Montezuma, Inc. (incorporated herein by reference to Exhibit 3.54 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.55	Articles of Incorporation of Bishop Communication Corporation (incorporated herein by reference to Exhibit 3.55 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.56	Articles of Incorporation of Communications Sales and Leasing, Inc. (incorporated herein by reference to Exhibit 3.56 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.57	Articles of Organization of IWA MN Holdings, LLC (incorporated herein by reference to Exhibit 3.57 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.58	Articles of Incorporation of Windstream Lakedale, Inc. (incorporated herein by reference to Exhibit 3.58 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.59	Articles of Incorporation of Windstream Lakedale Link, Inc. (incorporated herein by reference to Exhibit 3.59 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.60	Articles of Organization of Lakedale Communications, LLC (incorporated herein by reference to Exhibit 3.60 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.61	Articles of Organization of Windstream NorthStar, LLC (incorporated herein by reference to Exhibit 3.61 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.62	Articles of Organization of Windstream EN-TEL, LLC (incorporated herein by reference to Exhibit 3.62 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.63	Articles of Incorporation of Heart of the Lakes Cable Systems, Inc. (incorporated herein by reference to Exhibit 3.63 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.64	Articles of Organization of Windstream SHAL, LLC (incorporated herein by reference to Exhibit 3.64 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.65	Articles of Incorporation of Windstream SHAL Networks, Inc. (incorporated herein by reference to Exhibit 3.65 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.66	Articles of Organization of Windstream Direct, LLC (incorporated herein by reference to Exhibit 3.66 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.67	Articles of Organization of Windstream Leasing, LLC (incorporated herein by reference to Exhibit 3.67 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.68	Certificate of Incorporation of NuVox, Inc. (incorporated herein by reference to Exhibit 3.68 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.69	Certificate of Incorporation of Windstream NuVox Arkansas, Inc. (incorporated herein by reference to Exhibit 3.69 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.70	Certificate of Incorporation of Windstream NuVox Illinois, Inc. (incorporated herein by reference to Exhibit 3.70 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.71	Certificate of Incorporation of Windstream NuVox Indiana, Inc. (incorporated herein by reference to Exhibit 3.71 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.72	Certificate of Incorporation of Windstream NuVox Kansas, Inc. (incorporated herein by reference to Exhibit 3.72 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.73	Certificate of Incorporation of Windstream NuVox Oklahoma, Inc. (incorporated herein by reference to Exhibit 3.73 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
*3.74	Amended and Restated Certificate of Formation of Windstream Hosted Solutions, LLC, dated December 2, 2010
*3.75	Amended and Restated Certificate of Formation of Hosted Solutions Raleigh LLC, dated December 2, 2010
*3.76	Amended and Restated Certificate of Formation of Hosted Solutions Charlotte LLC, dated December 2, 2010
*3.77	Amended and Restated Articles of Incorporation of KDL Communications Corporation, dated December 2, 2010
*3.78	Amended and Restated Articles of Incorporation of Equity Leasing, Inc., dated December 2, 2010
*3.79	Amended and Restated Articles of Incorporation of Cinergy Communications Company of Virginia, dated December 2, 2010
*3.80	Amended and Restated Articles of Organization of KDL Holdings, LLC, dated December 2, 2010
*3.81	Amended and Restated Articles of Incorporation of Windstream KDL-VA, Inc., dated December 2, 2010
*3.82	Amended and Restated Articles of Incorporation of Norlight Telecommunications of Virginia, Inc., dated December 2, 2010



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<b>Exhibit No.</b>	<b>Description</b>
3.83	Amended and Restated By-laws of Buffalo Valley Management Services, Inc. (incorporated herein by reference to Exhibit 3.47 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.84	Amended and Restated By-laws of Conestoga Enterprises, Inc. (incorporated herein by reference to Exhibit 3.48 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.85	Amended and Restated By-laws of Conestoga Management Services, Inc. (incorporated herein by reference to Exhibit 3.49 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.86	Bylaws of CT Cellular, Inc. (incorporated herein by reference to Exhibit 3.50 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.87	Amended and Restated Bylaws of CT Communications, Inc. (incorporated herein by reference to Exhibit 3.51 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.88	Bylaws of CT Wireless Cable, Inc. (incorporated herein by reference to Exhibit 3.52 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.89	By-laws of D&E Communications, Inc. (incorporated herein by reference to Exhibit 3.53 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.90	Amended and Restated By-laws of D&E Investments, Inc. (incorporated herein by reference to Exhibit 3.54 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.91	Amended and Restated By-laws of D&E Management Services, Inc. (incorporated herein by reference to Exhibit 3.55 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.92	Amended and Restated By-laws of D&E Networks, Inc. (incorporated herein by reference to Exhibit 3.56 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.93	Kerrville Communications Corporation (incorporated herein by reference to Exhibit 3.58 to Amendment No. 1 to the Corporation's Registration Statement on Form S-4 filed June 29, 2005)
3.94	Amended and Restated By-laws of Lexcom Inc. (incorporated herein by reference to Exhibit 3.58 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.95	Amended and Restated By-laws of PCS Licenses, Inc. (incorporated herein by reference to Exhibit 3.59 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.96	Bylaws of Texas Windstream, Inc. (incorporated herein by reference to Exhibit 3.60 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.97	Bylaws of Valor Telecommunications Enterprises Finance Corp. (incorporated herein by reference to Exhibit 3.76 to Amendment No. 1 to the Corporation's Registration Statement on Form S-4 filed June 29, 2005)
3.98	Bylaws of Windstream CTC Internet Services, Inc. (incorporated herein by reference to Exhibit 3.62 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.99	Bylaws of Windstream Holding of the Midwest, Inc. (incorporated herein by reference to Exhibit 3.63 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.100	Bylaws of Windstream Intellectual Property Services, Inc. (incorporated herein by reference to Exhibit 3.64 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.101	Operating Agreement of Windstream Lexcom Entertainment, LLC (incorporated herein by reference to Exhibit 3.65 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.102	Operating Agreement of Windstream Lexcom Long Distance, LLC (incorporated herein by reference to Exhibit 3.66 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.103	Operating Agreement of Windstream Lexcom Wireless, LLC (incorporated herein by reference to Exhibit 3.67 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.104	Bylaws of Windstream Network Services of the Midwest, Inc. (incorporated herein by reference to Exhibit 3.68 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.105	Bylaws of Windstream Sugar Land, Inc. (incorporated herein by reference to Exhibit 3.69 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.106	Operating Agreement of Kerrville Cellular, LLC (incorporated herein by reference to Exhibit 3.70 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.107	Operating Agreement of Kerrville Mobile Holdings, LLC (incorporated herein by reference to Exhibit 3.71 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.108	Operating Agreement of Kerrville Wireless Holdings, LLC (incorporated herein by reference to Exhibit 3.72 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.109	Operating Agreement of Oklahoma Windstream, LLC (incorporated herein by reference to Exhibit 3.73 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.110	Operating Agreement of Progress Place Realty Holding Company, LLC (incorporated herein by reference to Exhibit 3.74 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.111	Operating Agreement of Televue, LLC (incorporated herein by reference to Exhibit 3.75 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.112	Valor Telecommunications Enterprises, LLC Limited Liability Company Operating Agreement (incorporated herein by reference to Exhibit 3.37 to Amendment No. 1 to Valor Communications Group, Inc.'s Registration Statement on Form S-1 filed May 28, 2004)
3.113	Amended and Restated Limited Liability Company Agreement of Valor Telecommunications Enterprises II, LLC (incorporated herein by reference to Exhibit 3.77 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.114	Operating Agreement of Valor Telecommunications Investments, LLC (incorporated herein by reference to Exhibit 3.36 to Amendment No. 1 to Valor Communications Group, Inc.'s Registration Statement on Form S-1 filed May 28, 2004)
3.115	Operating Agreement of Windstream Alabama, LLC (incorporated herein by reference to Exhibit 3.79 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.116	Operating Agreement of Windstream Arkansas, LLC (incorporated herein by reference to Exhibit 3.80 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.117	Operating Agreement of Windstream Communications Kerrville, LLC (incorporated herein by reference to Exhibit 3.81 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.118	Operating Agreement of Windstream Communications Telecom, LLC (incorporated herein by reference to Exhibit 3.82 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.119	Operating Agreement of Windstream Kerrville Long Distance, LLC (incorporated herein by reference to Exhibit 3.83 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.120	Operating Agreement of Windstream Oklahoma, LLC (incorporated herein by reference to Exhibit 3.84 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.121	Operating Agreement of Windstream South Carolina, LLC (incorporated herein by reference to Exhibit 3.85 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.122	Operating Agreement of Windstream Supply, LLC (incorporated herein by reference to Exhibit 3.86 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.123	Operating Agreement of Wireless One of North Carolina, LLC (incorporated herein by reference to Exhibit 3.87 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.124	Limited Partnership Agreement of Southwest Enhanced Network Services, LP (incorporated herein by reference to Exhibit 3.39 to Amendment No. 1 to Valor Communications Group, Inc.'s Registration Statement on Form S-1 filed May 28, 2004)
3.125	Operating Agreement of Valor Telecommunications of Texas, LLC d/b/a Windstream Communications Southwest (incorporated herein by reference to Exhibit 3.116 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.126	Limited Partnership Agreement of Windstream Southwest Long Distance, LP (incorporated herein by reference to Exhibit 3.90 to Windstream Corporation's Registration Statement on Form S-4 filed January 8, 2010)
3.127	Bylaws of Windstream Iowa Communications, Inc. (incorporated herein by reference to Exhibit 3.118 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.128	Bylaws of Windstream Iowa-Comm, Inc. (incorporated herein by reference to Exhibit 3.119 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.129	Operating Agreement of Iowa Telecom Data Services, L.C. (incorporated herein by reference to Exhibit 3.120 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.130	Operating Agreement of IWA Holdings, LLC (incorporated herein by reference to Exhibit 3.121 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.131	Operating Agreement of Iowa Telecom Technologies, LLC (incorporated herein by reference to Exhibit 3.122 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.132	Bylaws of Windstream Baker Solutions, Inc. (incorporated herein by reference to Exhibit 3.123 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.133	Operating Agreement of IWA Services, LLC (incorporated herein by reference to Exhibit 3.124 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.134	Bylaws of Windstream Montezuma, Inc. (incorporated herein by reference to Exhibit 3.125 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.135	Bylaws of Bishop Communication Corporation (incorporated herein by reference to Exhibit 3.126 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.136	Bylaws of Communications Sales and Leasing, Inc. (incorporated herein by reference to Exhibit 3.127 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.137	Operating Agreement of IWA MN Holdings, LLC (incorporated herein by reference to Exhibit 3.128 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.138	Bylaws of Windstream Lakedale, Inc. (incorporated herein by reference to Exhibit 3.129 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.139	Bylaws of Windstream Lakedale Link, Inc. (incorporated herein by reference to Exhibit 3.130 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.140	Operating Agreement of Lakedale Communications, LLC (incorporated herein by reference to Exhibit 3.131 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.141	Operating Agreement of Windstream NorthStar, LLC (incorporated herein by reference to Exhibit 3.132 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.142	Operating Agreement of Windstream EN-TEL, LLC (incorporated herein by reference to Exhibit 3.133 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.143	Bylaws of Heart of the Lakes Cable Systems, Inc. (incorporated herein by reference to Exhibit 3.134 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.144	Operating Agreement of Windstream SHAL, LLC (incorporated herein by reference to Exhibit 3.135 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.145	Bylaws of Windstream SHAL Networks, Inc. (incorporated herein by reference to Exhibit 3.136 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.146	Operating Agreement of Windstream Direct, LLC (incorporated herein by reference to Exhibit 3.137 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.147	Operating Agreement of Windstream Leasing, LLC (incorporated herein by reference to Exhibit 3.138 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.148	Bylaws of NuVox, Inc. (incorporated herein by reference to Exhibit 3.139 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.149	Bylaws of Windstream NuVox Arkansas, Inc. (incorporated herein by reference to Exhibit 3.140 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)

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<b>Exhibit No.</b>	<b>Description</b>
3.150	Bylaws of Windstream NuVox Illinois, Inc. (incorporated herein by reference to Exhibit 3.141 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.151	Bylaws of Windstream NuVox Indiana, Inc. (incorporated herein by reference to Exhibit 3.142 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.152	Bylaws of Windstream NuVox Kansas, Inc. (incorporated herein by reference to Exhibit 3.143 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
3.153	Bylaws of Windstream NuVox Oklahoma, Inc. (incorporated herein by reference to Exhibit 3.144 to Windstream Corporation's Registration Statement on Form S-4 filed September 29, 2010)
*3.154	Operating Agreement of Windstream Hosted Solutions, LLC, dated December 2, 2010
*3.155	Operating Agreement of Hosted Solutions Raleigh LLC, dated December 2, 2010
*3.156	Operating Agreement of Hosted Solutions Charlotte LLC, dated December 2, 2010
*3.157	Amended and Restated Bylaws of KDL Communications Corporation, dated December 2, 2010
*3.158	Amended and Restated Bylaws of Equity Leasing, Inc., dated December 2, 2010
*3.159	Amended and Restated Bylaws of Cinergy Communications Company of Virginia, dated December 2, 2010
*3.160	Operating Agreement of KDL Holdings, LLC, dated December 2, 2010
*3.161	Amended and Restated Bylaws of Windstream KDL-VA, Inc., dated December 2, 2010
*3.162	Amended and Restated Bylaws of Norlight Telecommunications of Virginia, Inc., dated December 2, 2010
4.1	Indenture, dated October 6, 2010, among Windstream Corporation, certain subsidiaries of Windstream as guarantors thereto and U.S. Bank National Association, as Trustee (incorporated herein by reference to Windstream's Current Report on Form 8-K filed October 8, 2010)
4.2	Form of 7.75% Senior Note due 2020 (included in Exhibit 4.1)
4.3	Registration Rights Agreement, dated January 24, 2011, among Windstream Corporation, certain subsidiaries of Windstream as guarantors thereto and Banc of America Securities LLC (incorporated herein by reference to Windstream's Current Report on Form 8-K filed January 25, 2011)
*5.1	Opinion of Kutak Rock LLP
*12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
*23.1	Consent of PricewaterhouseCoopers LLP
*23.2	Consent of PricewaterhouseCoopers LLP
*23.3	Consent of BKD, LLP
*23.4	Consent of Deloitte & Touche LLP
*23.5	Consent of Kutak Rock LLP (contained in Exhibit 5.1)
*24.1	Powers of Attorney
*25.1	Statement of Eligibility on Form T-1

\* Filed herewith