WINDSTREAM CORP
Form 11-K
June 20, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

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

Commission file number 1-32422

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

Windstream 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of the principal executive office:

Windstream Corporation
4001 Rodney Parham Road
Little Rock, Arkansas 72212

WINDSTREAM 401(k) PLAN
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
As of December 31, 2006
WITH REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

WINDSTREAM 401(k) PLAN
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
As of December 31, 2006

Report of Independent Registered Public Accounting Firm

To Participants and the Benefits
Committee
Windstream 401(k) Plan
Little Rock, Arkansas

We have audited the accompanying statement of net assets available for benefits of the Windstream 401(k) Plan (the Plan) as of December 31, 2006 and the related statement of changes in net assets available for benefits for the period from inception (July 1, 2006) to December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and the changes in net assets available for benefits for the initial period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Moore Stephens Frost
Certified Public Accountants
Little Rock, Arkansas
June 18, 2007

WINDSTREAM 401(k) PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
As of December 31,

	2006
Cash	$ 229,346
Investments, at fair value:	
Common stock	32,460,185
Common collective trust fund	20,612,541
Mutual investment funds	142,201,202
Participant loans	3,394,063
Total investments	198,667,991
Receivables:	
Employer s contribution	219,605
Accrued interest and dividends	200,431
Due from broker	120,224
Total receivables	540,260
NET ASSETS AVAILABLE FOR BENEFITS	$ 199,437,597

The accompanying notes are an integral part of this statement.

WINDSTREAM 401(k) PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the period ended December 31, 2006

ADDITIONS:	
Investment income:	
Dividend income	$ 8,229,452
Interest income	162,042
Net appreciation in fair value of investments	12,127,712
Total investment income	20,519,206
Contributions:	
Employer	4,609,845
Employee	10,205,822
Employee rollovers	114,608
Total contributions	14,930,275
Transfers of assets from Alltel Corporation 401(k) Plan	169,240,954
Total additions	204,690,435
DEDUCTIONS:	
Benefit payments and withdrawals	5,252,838
Total deductions	5,252,838
Net increase	199,437,597
NET ASSETS AVAILABLE FOR BENEFITS:	
Inception of plan, July 1, 2006	
End of year, December 31, 2006	$ 199,437,597

The accompanying notes are an integral part of this statement.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
DECEMBER 31, 2006

1. PLAN DESCRIPTION

Effective July 17, 2006, Alltel Corporation (Alltel) completed the spin-off of its wireline telecommunications business to its stockholders. Immediately after the consummation of the spin-off, the wireline telecommunications business merged with Valor Communications Group, Inc. (Valor) forming Windstream Corporation (Windstream or the Company). Effective July 1, 2006, the Windstream 401(k) Plan (the Plan) was established for eligible bargaining and non-bargaining employees of Windstream and its subsidiaries. The provisions of the Plan, including participant eligibility, contributions and vesting are substantially similar to the provisions of the Alltel Corporation 401(k) plan. On July 3, 2006, the participants account balances and related assets for those participants formerly employed by Alltel were transferred from the Alltel Corporation 401(k) plan to the Plan. On the effective date of the spin-off, the Plan received approximately 1.034 shares of Windstream common stock for each share of Alltel common stock held on July 17, 2006.

The following is a brief description of the Plan, and the administration thereof and is provided for general information purposes only. Participants should refer to the Plan document or the summary plan description for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution employee benefit plan which includes a cash or wage deferral arrangement that covers eligible bargaining and non-bargaining employees of Windstream. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Administration

The Plan is administered by the Windstream Benefits Committee (the Administrator). Effective July 1, 2006, Merrill Lynch Trust Company, FSB (Merrill Lynch or the Trustee) became the trustee of the Plan pursuant to the terms of a trust agreement. Merrill Lynch & Company, Inc. is the record keeper for the Plan.

Participation

Each eligible employee is allowed to make rollover contributions to the Plan immediately upon employment with the Company. For all other purposes of the Plan, eligible non-bargaining employees may participate after six months of service with the Company. Certain eligible bargaining employees may participate in the Plan, to the extent specifically provided in their collective bargaining agreement, immediately upon becoming an eligible employee. Prior service with certain other companies, including previous service with Alltel prior to January 1, 2007, counts toward the service requirements of the Plan. Individuals who are not eligible to participate include leased employees, employees covered by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining (unless the collective bargaining agreement where the employees are covered specifically provides for coverage under the Plan), persons not classified as an employee, and nonresident aliens with no U.S. income.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

1. PLAN DESCRIPTION, CONTINUED

Plan Contributions

Each year, participants may contribute up to 50 percent of their pretax annual eligible compensation to the Plan, as defined in the Plan document. Participant contributions are subject to certain dollar limitations established by the Internal Revenue Service (the IRS), each year. For the 2006 plan year, the annual deferral limit was $15,000.

Windstream will make safe harbor matching contributions to the Plan on behalf of each participant in an amount equal to: (a) 100 percent of the first 3 percent of the participant s eligible compensation contributed to the Plan, plus 50 percent of the next 2 percent of the participant s eligible compensation contributed to the Plan. The Company will make its matching contributions as soon as administratively practicable following the end of the payroll period in which the employee contributions were made. After year-end, the Company will make a true-up matching contribution to the Plan for participants who did not contribute at an even rate throughout the Plan year. The Company may also make, at its sole discretion, an additional matching contribution. No such contribution was made for the period ended December 31, 2006.

Eligible participants who have attained fifty (50) years of age prior to the end of the applicable Plan year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of Section 414(v) of the Internal Revenue Code of 1986, as amended (the Code). Such catch-up contributions are not eligible for additional matching employer contributions.

The contributions are invested according to a participant s investment election. If no investment election has been made, the contributions are invested in a manner deemed appropriate by the Administrator.

The Plan allows for any eligible employee who was a participant in a plan qualified under Section 401 of the Code and who receives a cash distribution from such plan to make a rollover contribution to the Plan. Such rollover contributions are permitted provided the employee is entitled under Section 402 (c)(1) or Section 408 (d)(3)(A) of the Code to rollover a distribution to another qualified retirement plan.

Participant Accounts

Individual accounts are maintained for each of the Plan s participants to reflect the participant s contributions and related employer matching contributions, as well as the participant s share of the Plan s earnings and any related administrative expenses. Participant accounts are valued daily (NYSE trading days) based on the number of shares held and closing prices or net asset values, as applicable. The Plan s earnings and administrative expenses, if applicable, are allocated to participants accounts at least monthly and are based upon participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Vesting, Benefits and Payments

Participants are immediately fully vested in their employee contributions and matching employer contributions to the Plan and the accumulated earnings thereon. Plan assets that have been merged into the Plan may be subject to a vesting schedule. Participants or their beneficiaries, as applicable, are entitled to receive distribution of their Plan account when they retire at age 65 or later, if they become permanently disabled, upon death or upon separation from service with the Company. The Plan provides benefits upon early retirement between ages 55 and 65.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

1. PLAN DESCRIPTION, CONTINUED

Participants may elect upon termination of employment to defer payment of their account balance if it exceeds $1,000. If a participant s account balance is equal to or less than $1,000, the account will be automatically distributed. All distributions will be made in the form of a lump-sum payment. A participant may elect to have a portion of their account invested in Windstream stock to be distributed in shares of Windstream stock. Additionally, participants may withdraw funds from their Plan account with the approval of the Administrator, for hardship reasons as defined by the IRS.

A participant s entire interest will be distributed, or begin to be distributed, no later than April 1 of the calendar year in which the participant attains age 70 $^{1}/2$.

Plan Termination

While it has not expressed any intention to do so, the Administrator has the right to terminate the Plan. In the event that the Plan is terminated, each participant shall be entitled to receive the entire amount of his/her account balance in cash or in assets of the Plan, as the Trustee shall determine. Participants in the Plan are entitled to certain rights and protections under ERISA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The financial statements and supplementary schedule have been prepared to satisfy the reporting and disclosure requirements of ERISA. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Administrator to make estimates and assumptions that affect the amount of assets, liabilities, income and expenses, and disclosures of certain contingent assets and liabilities reported or disclosed in the financial statements. The estimates and assumptions used in preparing the accompanying financial statements are based upon the Administrator s evaluation of the relevant facts and circumstances as of the dates of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements and such differences could be material.

Investments

Investments are stated at their fair value. Shares of common stock are valued at their quoted market price on the last business day of the year. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year-end based on the quoted market price. The Merrill Lynch Retirement Preservation Trust (common collective trust fund) is valued based on the fair value of the underlying assets held by the fund as determined by the fund manager on the last day of the Plan year. Participant loans are valued at the unpaid principal balance, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

During 2006, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the period) appreciated in value as follows:

Common stock	$ 4,940,897
Mutual investment funds	7,186,815
Net appreciation in fair value	$ 12,127,712

The following investments represented 5 percent or more of the Plan s net assets as of December 31:

	2006
Alltel common stock	$23,962,886
Merrill Lynch Retirement Preservation Trust	20,612,541
AllianceBernstein Value Fund	23,834,630
American EuroPacific Growth Fund	11,586,742
BlackRock Total Return II Portfolio	18,788,482
Hartford Growth HLS Fund	11,665,855
Oakmark International Fund	14,691,878
DWS RREEF Real Estate Securities Fund	10,256,129
Vanguard Explorer Fund	13,242,893
Vanguard Institutional Index Fund	34,020,374

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Plan Expenses

As outlined in the Plan document, expenses related to the Plan s operations are paid from the Plan s assets unless Windstream elects to pay these expenses. Windstream paid substantially all of the administrative expenses related to the Plan in 2006.

3. EMPLOYER CONTRIBUTIONS RECEIVABLE

Contributions in the amount of $219,605 due to the Plan from Windstream had not been funded or allocated among the Plan s investments as of December 31, 2006. The employer contributions receivable were funded in cash by the Company and allocated among the Plan s investment funds, according to participant elections, during May 2007.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

4. PARTICIPANT LOANS

Participants can borrow from their account balances amounts not to exceed 50 percent of their account balance, up to a maximum loan amount of $50,000 in accordance with section 72(p) of the Code. Such loans must be repaid through payroll deductions within five years, unless used to purchase a principal residence. Principal and interest is paid ratably through payroll deductions over the term of the loan. If a participant s employment terminates with an outstanding loan and the termination was not a result of a divestiture by the Company, the entire loan must be repaid in full within the time prescribed by the IRS. If the loan is not repaid on time, the unpaid portion will be considered taxable income to the individual. Loans are secured by the balance in the participant s account and bear interest at rates determined by the Administrator upon execution of the loan. Interest rates on the loans outstanding at December 31, 2006 ranged from 2.25 percent to 10.25 percent. The interest rate is calculated by adding 2 percent to the published Prime Rate from The Wall Street Journal.

5. PLAN AMENDMENTS

Effective December 28, 2006 the Plan was amended to incorporate provisions for an employee stock ownership plan that is intended to qualify as a stock bonus plan (the ESOP feature). The Windstream Stock Fund is the portion of the Plan designated as an employee stock ownership plan . This fund is designed to invest primarily in Windstream stock. At any time at which Windstream stock ceases to be publicly traded, all shares held under the ESOP feature distributed by the Trustee may, as determined by the plan administrator, be subject to a right of first refusal . The right of first refusal provides that, upon any subsequent transfer of the Windstream stock, the right to purchase the shares must first be offered to the Plan s trust fund, then, if refused, to the Company. Furthermore, at any time at which Windstream stock ceases to be readily tradable on an established securities market, a participant is to be granted a put option at the time the shares are distributed to the participant. The put option permits the participant to require the Company to purchase the shares at fair market value generally for a period of 60 days after the distribution and for a 60 day period during the plan year following the distribution. In regards to dividends, participants may elect that the dividends be paid in cash or reinvested in Windstream stock through the Windstream Stock Fund.

Additionally, the contribution provisions of the Plan were amended effective January 1, 2007. Windstream will contribute to the Plan on behalf of each participant who is eligible for a Company safe harbor matching contribution an amount equal to 100 percent of the first 6 percent of the participant s eligible compensation contributed to the Plan. For participants covered by certain collective bargaining agreements with Valor Telecommunications of Texas, LP, the Company will contribute an amount equal to 66 percent of the first 6 percent of the participant s eligible compensation contributed to the Plan.

6. TAX STATUS

The Administrator believes that the Plan is designed and operating in accordance with applicable IRS requirements, and therefore believes the Plan is qualified and is tax-exempt as of the financial statement date for the purposes of Section 401(a) of the Code. Contributions and income of the Plan are generally not taxable to the participants until withdrawals or distributions are made.

7. MERGER OF OTHER PLANS

Effective March 1, 2007, the Valor Telecommunications Southwest, LLC Savings Plan (the Valor Plan) and the Windstream Corporation Profit Sharing Plan (the Windstream Plan) were merged into and made a part of the

Plan. The trust fund maintained in connection with the Valor Plan and the Windstream Plan was added to the assets of the Plan s trust fund. Certain protected rights and features under the Valor Plan and the Windstream Plan are included under the Plan. The fair market value of assets transferred to the Plan was $26,593,163 and $187,910,562 as a result of the merger of the Valor Plan and the Windstream Plan, respectively.

WINDSTREAM 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

8. PARTY-IN-INTEREST TRANSACTIONS

Plan investments in the amount of $20,612,541 as of December 31, 2006 are shares of a common collective trust fund managed by Merrill Lynch. Since Merrill Lynch is the Plan trustee, these transactions qualify as party-in-interest transactions. The Plan permits participants to make loans from the Plan in accordance with section 72(p) of the Code. The Plan also invests in Windstream common stock.

9. RECONCILIATION TO FORM 5500

As of December 31, 2006, the Plan had pending distributions to participants who elected to withdraw from the Plan of $204,470. These amounts are recorded as a liability in the Plan s Form 5500; however, these amounts are not recorded as a liability in the accompanying statements of net assets available for benefits in accordance with accounting principles generally accepted in the United States of America.

The following table reconciles the financial statements to the Plan s Form 5500 as filed by the Company as of December 31, 2006 and for the period ended December 31, 2006:

	Benefits Payable	Distributions to Participants	Net Assets Available for Benefits
Per financial statements	$	$ 5,252,838	$ 199,437,597
Accrued benefits payable	204,470	204,470	(204,470)
Per Form 5500	$ 204,470	$ 5,457,308	$ 199,233,127

Schedule I

WINDSTREAM 401(k) PLAN
Schedule H, Line 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
Plan No. 009, EIN 20-0792300
As of December 31, 2006

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost (1)	(e) Current value
*	Merrill Lynch Bank USA	Merrill Lynch Retirement Preservation Trust		$ 20,612,541
	Total Common Collective Trust Fund			20,612,541
	Alliance Capital Management LP	AllianceBernstein Value Fund		23,834,630
	American Funds	American EuroPacific Growth Fund		11,586,742
	BlackRock Advisors, Inc.	BlackRock Total Return II Portfolio		18,788,482
	H L Investment Advisors LLC	Hartford Growth HLS Fund		11,665,855
	Harris Associates, LP	Oakmark International Fund		14,691,878
	New York Life Investment Management LLC	MainStay High Yield Corporate Bond Fund		4,114,219
	Deutsche Investment Management Americas Inc.	DWS RREEF Real Estate Securities Fund		10,256,129
	The Vanguard Group	Vanguard Explorer Fund		13,242,893
	The Vanguard Group	Vanguard Institutional Index Fund		34,020,374
	Total Mutual Funds			142,201,202
	Alltel Corporation	Common stock, $1 par value		23,962,886
*	Windstream Corporation	Common stock, $0.0001 par value		8,497,299
	Total Common Stock			32,460,185
*	Participants	Loans with interest rates ranging from 2.25 percent to 10.25 percent		3,394,063
	Total Investments			$ 198,667,991

* Indicates a party-in-interest.

(1) Not required, as investments are participant-directed.

The accompanying notes are an integral part of this schedule.

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Windstream 401(k) Plan has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Windstream 401(k) Plan

By: /s/ Brent K. Whittington
Brent K. Whittington
Executive Vice President Chief Financial Officer
Windstream Corporation
June 20, 2007

WINDSTREAM 401(k) PLAN
FORM 11-K
INDEX OF EXHIBITS

Exhibit No.	Description of Exhibits	
(23)	Consent of Moore Stephens Frost.	(a)

(a) Filed herewith.