FINAL TRANSCRIPT

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WIN - Q4 2008 Windstream Communications Earnings Conference Call

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PRESENTATION

Operator

Welcome to the fourth quarter 2008 Windstream Communications earnings call. All lines are placed on mute.

We will now like to introduce our speaker, Rob Clancy, Senior Vice President and Treasurer. You may begin, sir.

Rob Clancy - *Windstream Communications - SVP, Treasurer*

Thank you, [Chandra]. Good morning, everyone. We appreciate you joining us this morning.

Today's conference call was preceded by our fourth quarter 2008 earnings release which has been distributed on the news wires and is available from the investors relation section of our website. Today's conference call should be considered together with our earnings release and related financial information. Today's discussion will include certain forward-looking statements, particularly as they pertain to guidance and other outlooks on our business.

Please review the Safe Harbor language found in our press release and in our SEC filings which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements. Today's discussion will also include certain non-GAAP financial measures. Again, we refer you to the IR section of our website where we have posted our earnings release and supplemental materials which contain information and reconciliations for any non-GAAP financial measures.

During the fourth quarter, Windstream completed the sale of our wireless business to AT&T for approximately $60 million in cash. Accordingly, we have presented the operating results of the wireless business again this quarter as discontinued operations, which includes the incremental tax expense relatable to the taxable gain on this sale. Finally, we've provided our pro forma results from current businesses, which include VALOR and CT Communications and exclude our publishing and wireless business for all periods. We will make references to these pro forma results from current businesses including the year-over-year comparisons during our call.

Participating in our call this morning are Jeff Gardner, Windstream President and Chief Executive Officer and Brent Whittington, Windstream Executive Vice President and Chief Financial Officer. At the end of the call, we will take a few questions. With that, here's Jeff Gardner.

Jeff Gardner - *Windstream Communications - President and CEO*

Thank you, Rob, and good morning, everyone. Let me start with a few comments about 2008 and then review our fourth quarter operational results. Brent will then cover our financial performance and our 2009 guidance.

First, let me say that I am extremely proud of the entire Windstream team for all that we have accomplished in 2008, particularly amid a difficult economic environment. We continue to lead the RLEC industry in many key operational metrics and once again, we met the financial goals we set forth a year ago. A real tribute to our team's focus and ability to manage this business to sustain free cash flow. Additionally, we completed the integration of CT Communications and exceeded the operating and capital synergies originally targeted.

During 2008, Windstream generated $763 million in free cash flow, an increase of almost $100 million year over year, largely due to managing the core business to flat OIBDA growth, lower capital expenditures and reduced cash taxes. Our dividend payout ratio was 58% for the year and we returned $645 million or 85% of our free cash flow to shareholders in the form of dividends and share repurchases in 2008. Operationally, our team continued to focus on expanding our sales and distribution channels with an emphasis on multiple dwelling units and other alternative channels.

We continue to make improvements in the quality of our broadband offerings by deploying ADSL two plus in early 2008, which essentially allowed us to double the broadband speeds offered and to introduce a ten to 12 meg product. Additionally, we enhanced our core IP network, which provides IP interconnection between all of our major markets and access to the Internet, thereby increasing our overall capacity and providing a platform to offer advanced data services going forward. Collectively, these initiatives position Windstream well competitively and enable additional revenue-generating opportunities in the future.

Turning to a few specifics on our fourth quarter operational results. We added 16,000 new high-speed Internet customers this quarter. Bringing our total customer base to nearly 979,000, an increase of almost 12% year over year. Our overall broadband penetration is now at 32% of total access lines and residential broadband penetration is approximately 49% of primary residential lines. While broadband growth is slowing, in part due to our higher penetration, we are pleased with the increase in new customers subscribing to three meg speeds and higher, which was almost 70% of gross adds in the fourth quarter. This, combined with customers coming off promotional pricing, resulted in a lift in broadband ARPU during the fourth quarter.

We added nearly 23,000 digital TV customers in the quarter, bringing our total customer base to approximately 274,000 or 15% penetration of primary residential lines. We are pleased with the progress we continue to make selling and bundling the Dish product which meaningfully improves overall customer retention. During the quarter, access lines declined by approximately

48,000 and we ended the year with approximately 3.04 million customers. This represents a decline in total access lines of 5.2% year over year. Although this year over year line loss is up sequentially, we continue to leased the RLEC industry, which is a function of the progress we have made in increasing our alternative distribution channels as well as great execution on retaining customers.

During the first fourth quarter, we did see an increase in nonpay disconnects, coupled with a slower sales environment, which is likely related to the weakness in the broader economy. Even with this incremental pressure on access lines, we delivered strong free cash flow, which our model is all about. We ended the year with cable, voice competition at roughly 60% of total access lines, which is up from 50% at the end of 2007. We expect the pace of new competitive launches to slow from previous years and the proactive steps we have taken to expand our distribution channels, improve customer service levels and increase our retention efforts will fortify our competitive position.

We ended the quarter with just over two million long distance customers, representing 66% penetration of total access lines. We experienced disconnects during the quarter, primarily related to low usage and out of territory customers. We are increasing the penetration of our long distance packages which led to a slight increase in long distance revenue year over year.

Our business channel continues to perform exceptionally well with revenue growth driven by expansion of broadband, next generation data services and special access. From a regulatory and legislative perspective, we support the Administration's focus on expanding high-speed Internet access and are hopeful that the program will include a combination of grants and tax incentives with provisions to expand service to unserved rural communities.

We also continue to support comprehensive reform of the current intercarry compensation rules. Including uniform rates for all traffic that will allow carriers to invest in their networks and bring additional services to rural America. And we look forward to working with the new FCC to achieve meaningful reform in these areas. Strategically, we continue to believe that consolidation makes sense in this industry. It is important that we stay focused on delivering solid operational metrics and financial results so that we will be well positioned if strategic opportunities, that are in the best interests of our stakeholders, come along.

Additionally, we remain confident that the business will continue to produce strong cash flows. Given the current economic and credit environment, we plan to preserve our liquidity and may opportunistically consider other free cash flow accretive initiatives with a bias towards debt repurchases. In summary, we are pleased with our results for the fourth quarter of 2008. Windstream continues to perform as well, demonstrating the defensiveness of our business in one of the worst economies in decades. As well as the hard work and dedication of our entire team.

Looking too 2009, we will continue to focus on our sales and marketing initiatives to improve our competitiveness. While we expect broadband unit growth to slow, we will focus on achieving incremental revenue by selling faster speeds and other complimentary broadband services. Additionally, we have taken aggressive steps to improve our overall cost structure. While we may not be completely immune from the broader economic challenges, we believe our business is well economic challenges, we believe our business is well positioned and we remain competent in our ability to sustain cash flows over time.

Now let me turn the call over to Brent to discuss the financial results.

Brent Whittington - *Windstream Communications - EVP, CFO*

Thanks, Jeff. And good morning, everyone.

For the fourth quarter on a GAAP basis, Windstream achieved consolidated revenue of $778 million. Operating income of $277 million and $0.19 of diluted earnings per share. Our GAAP results include the following items which lowered EPS by $0.06. A loss of $10 million in discontinued operations, primarily related to the taxable gain and related tax effect from the sale of the wireless business. Severance charges of almost $4 million on an after-tax basis related to the head count reduction we completed during the quarter. And a noncash adjustment to deferred taxes of $14 million related to a restructuring of our corporate entities, completed in 2008.

Let me turn to our pro forma results from current businesses. For the quarter, Windstream achieved consolidated revenues of $778 million, a decrease of 2% year over year and consolidated OIBDA of $401 million, a decrease of 3% year over year, which includes approximately $6 million in restructuring charges. Excluding these charges, OIBDA was roughly $407 million, a decline of 2%. Operating income for the quarter was $277 million.

Within our wireline segment, total revenues were $764 million, a decrease of 2% year over year, largely due to continued declines in access lines. Long distance revenues increased $1 million year over year, driven mainly by continued sales of our long distance package offerings. Data and special access revenues increased $19 million or 10%, the result of additional high-speed Internet customers and growth in our data products. Switched access and USF revenues declined $11 million year over year or 7%, driven by a decrease in switch minutes related to the reduction in access lines.

In addition, since we migrated to a price cap form of regulation on July 1st of this year, we have eliminated the broadband surcharge previously assessed on high-speed Internet customers. While this is OIBDA neutral given the corresponding decline in expense, this change did result in $3 million of lower USF revenues this quarter. Miscellaneous revenues declined by $8 million year over year, half of which was related to the termination of certain network management services that we provided to Alltel since the spinoff in 2006.

Turning to expenses, this quarter wire line cash expenses declined by $5 million or 1.5% year over year and to the lowest level we have seen in almost three years, even when considering the $6 million of restructuring charges I mentioned earlier. In fact, if you exclude those restructuring charges, cash expenses are down nearly 3%. This improvement resulted largely from lower cost of services, which decreased $13 million or 5%, both sequentially and year over year. And was attributable to several factors; including reduced overtime and lower fuel costs, offset somewhat by higher bad debt expense and certain one-time expenses reported in the fourth quarter of 2007. Cost of products increased $4 million year over year, due to PC sales.

Within SG&A, expenses decreased by $2 million or 2% year over year, largely related to lower advertising spend during the quarter. For the fourth quarter, wire line OIBDA was $401 million, a decrease year over year of $12 million or 3%, driven primarily by the $6 million in restructuring charges with the remainder related to revenue declines. Excluding the restructuring charges, wire line OIBDA declined 1% year over year.

In our product distribution business, revenues were $69 million, a decline of roughly $11 million, largely related to internal sales. This quarter, we spent $98 million in capital expenditures, bringing our year to date spend to $317 million. And as Jeff mentioned, we generated $763 million in free cash flow, defined as net cash from operations less capital expenditures, which is an increase of 14% year over year and represents a 58% dividend payout ratio.

From a balance sheet perspective, we ended the year with $297 million in cash, which included approximately $60 million from the sale of the former CT Wireless business to AT&T in November. Our net leverage ratio was 3.1 times.

For the full year, we generated consolidated revenue of $3.2 billion, a decrease of 1.5% year over year. OIBDA totaled $1.64 billion, down $11 million or 1%, primarily due to additional restructuring charges that I mentioned earlier, as well as the loss of the revenues associated with the network management services provided to Alltel.

Early in 2008 we provided the investment community with guidance on revenue, OIBDA and capital expenditures for Windstream. And our initial guidance included the expected contributions of the wireless business. We also lowered our capital expenditure guidance midway through the year and are very pleased to were that we met the guidance ranges in all categories for 2008. And importantly achieved nearly flat OIBDA year over year, which is a remarkable accomplishment, particularly in this very difficult economic environment.

Let me now make a few comments about the funding status of our pension plan and we mentioned this had on our third quarter call. As of January 1, 2008, our pension plan assets were approximately $1 billion and our pension plan was overfunded which means we are not required to make any cash contribution in 2009, although we could elect to make a voluntary contribution. Like many pension plans, we experienced a significant decline in our asset values in 2008.

Based on preliminary estimates, we believe our pension asset value is slightly above 80% of the funding target and, therefore, we do not expect to make a voluntary contribution during 2009. However, we will incur a significant increase in noncash pension expenses in 2009, which I'll cover momentarily. We do expect to make a cash contribution in 2010 of approximately $20 million to $25 million net of taxes as a result of these declines.

For 2009, there are several variables to consider in connection with our annual guidance. First, we continue to expect declines in voice and switched access revenues, but we also expect these declines to be mostly offset by the continued growth in our data and special access revenues. Additionally, we expect to receive lower USF revenues related primarily to the conversion to price cap as these revenue streams are now largely based on access lines and not our costs. We also expect a decline in overall cash expenses year over year, as we continue to focus on improving our cost structure.

As I mentioned earlier, given the difference between our pension assets and expected liabilities, we will experience a significant increase in noncash pension expense. This increase reflects the negative planned returns in 2008 as well as Windstream's accounting methodology, which accelerates recognition of the effects of large changes in plan asset valuation. Specifically, we expect noncash pension expense to increase approximately $90 million in 2009 as compared to 2008. But importantly, this pension expense will be a noncash charge and will not effect our free cash flow.

With this in mind, we expect 2009 revenue to be within a range of minus 4% to flat year over year or specifically a range of $3.045 billion to $3.170 billion. We expect an OIBDA decline of between 4% and flat, excluding the additional noncash pension expense and a decline of between 9% and 5% year over year when factoring in the additional noncash pension expense that I just mentioned. Specifically, we expect OIBDA of $1.485 billion to $1.550 billion, which again includes $90 million of increased noncash pension expense.

Finally, we expect to spend $290 million to $320 million on capital expenditures. Our guidance assumes net cash interest of roughly $395 million and cash taxes in the low 30% range, which does not contemplate any potential benefits from the current stimulus packages being discussed in Washington. With all of these variables, we expect to generate $685 million to $755 million in free cash flow, resulting in a dividend payout ratio between 58% and 64%.

In summary, we're very pleased with our results for both a fourth quarter and full year 2008. During 2009, we expect to see some effect from the greater macro economic challenges. However, despite this, we believe the business is well positioned to succeed and continue to generate sustainable cash flows throughout the year.

With that, we'll now take a few of your questions. Operator, if you could, please, review the instructions and open the call to questions now and thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Your first question comes from the line of Simon Flannery.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you very much, good morning. It was encouraging to see the guidance, particularly for free cash flow for 2009. A couple of questions off of that. Firstly, CapEx is now down about 10% of revenues and you say it could be flat to down, say another 10%. Can you give us a sense of what you think maintenance CapEx is? Already, it's about as low as we've seen historically for the telco sector, and the RLEC certainly being able to squeeze more out of CapEx, but what are sort of the buckets of that?

And then secondly, I think these results contrast with some of the wire line results we saw out of the bells last week and they've got a different mix of enterprise and some telco TV and so forth. But perhaps you could talk about what you see are the differences in your business mix? Is it because you're more rural or is your business customer base different, is it your exposure to LD is lower? How do you account for your ability to sort of hold margins much more stable than the bigger bells on the wire line side? Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

Sure. Simon, good morning, and thanks for the questions. Brent, I'd like you to take the CapEx question and I'll answer the questions on the difference between us and the RBAC's.

Brent Whittington - *Windstream Communications - EVP, CFO*

We continue to make improvements just overall in how we make decisions about spending around CapEx. I mean that was one of the reasons we updated guidance throughout the year and continue to get more and more focused on that as we move into 2009. Our numbers are right around 10% of revenue, which I think is a sustainable number for us going into the future.

Our percentage spend directed toward maintenance and buildout hasn't changed materially in the past, which is still a lot of different ways to kind of quantify what you call maintenance, but we typically attribute that to about 75%. If you think about what's changed in the business over the last few years, we're developing less capitol to buildout of our broadband infrastructure. We've largely got that complete now, almost 80%, addressability to almost 88%. Continue to invest in upgrading our network and one of the outcomes of that you saw last year with ADSL two plus.

There's no question that in this year and factored into our guidance in next year, we've seen some softness in subdivision buildout that's probably helping to the tune of $10 million to $20 million, but nothing more significant than that. So we're comfortable with the guidance for sure and I think our team has just continued to get better about the management of that number.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you.

Jeff Gardner - *Windstream Communications - President and CEO*

To the second part of the question, I think there are pretty significant differences between Windstream and how the RBACs are performing. And it's mostly around the fact that we're a rural telephone company. That's what we focus on 100% of the time. We have very significant differences in terms of residential access line losses. This is something that we spend a good deal of time on in terms of trying to figure out better ways to reach our customer, to build distribution channels and we have not ever at Windstream taken for granted that access line losses are a given.

We're disappointed to see a slight uptick this quarter, but we're really focused on driving better access line performance over time. So I think that's just -- it's just a real area of emphasis for us. And with respect to the enterprise customer, about one third of our business, just over $1 billion of our revenue streams are related to the enterprise customer. We have seen very little competition in our markets. We've become very targeted with respect to selling bundles to our business customers, working to sell high-speed data products and I think, again, that's a very big difference in terms of the markets that we're in.

Windstream's access lines per square mile are under 20 and so, again, slightly less competition. I think the rule thesis that investors really believed in when we put this company together is that rural carriers will have less competition and thus will be in a better position to maintain cash flows over a long period of time. And I think that's absolutely playing out. When you look at what we went through in 2008 with respect to the economy and producing numbers that generate 14% growth in free cash flow, I think that just illustrates the strength of the model.

Simon Flannery - *Morgan Stanley - Analyst*

Great. That was very helpful. Thank you.

Operator

Thank you. Your next question comes from the line of Michael Rollins, Citi.

Michael Rollins - *Citigroup - Analyst*

Hi, good morning. Just a question on operating leverage. I was wondering if you could give us an update. As you look at just the telco business, take out product distribution, if you lose a dollar of revenue, how much cash flow on average is lost from that? And then as you think about some of the initiatives you talked about on the call earlier, is there room for more aggressive cost cutting or further LD price increases to help fight against that negative operating leverage? Thanks.

Brent Whittington - *Windstream Communications - EVP, CFO*

Michael, I mean, I guess, when you lose a dollar of revenue, how much in costs can you take out, it's a tough question to answer because it depends on the type of revenue. But I mean if you look overall last year, we lost revenues predominantly from the voice side of the business. We continue to grow LD. Broadband was a great story and I think everyone understands the pressure on the wholesale revenue stream.

So as you start looking at variable costs when your business is declining and you're losing some access lines, many of your costs are variable and those are the levers we continued to focus on. There aren't what I'd call big kind of opportunities for cost reductions. It's a lot of little things across the board. That's what our team stays focused on throughout the year. We got focused on that at the beginning of the year knowing the challenges we were going to face and it's something that we do well.

You really saw that show up in the fourth quarter. We had some head count reductions we had to announce preparing for 2009, adjusting our cost structure to be more in line with the customer counts we were seeing at that time. In addition, continuing to make improvements in our cost structure. So even if you look at our '08 year versus '07, pressure on revenue notwithstanding, we still were able to grow margins. So I think that is a testament to the amount of variable costs that you've got to help offset that pressure.

Michael Rollins - *Citigroup - Analyst*

Great. Thank you.

Brent Whittington - *Windstream Communications - EVP, CFO*

You're welcome.

Operator

Our next question comes from the line of Michael Nelson, Stanford Group.

Michael Nelson - *Stanford Group - Analyst*

Hi, thanks for taking the question. Hi, Jeff, in your prepared remarks, you mentioned your distribution network. Can you talk about what you're doing differently, how you're using your local agent network, your retail sales, door to door marketing, and does that entail any increased costs? And then also given the current economic environment, what are you doing differently on your save desk and how do you position the green street product? Thanks

Jeff Gardner - *Windstream Communications - President and CEO*

Great questions. On distribution we're doing a number of things there. First of all, the retail channel has been there for a long time and we've really brought to bear some better performance management around the retail channel, really getting focused on managing that channel to increase its share of our total gross gain and we've seen increases this year. So that traditional channel has become more productive.

The other big things there that I'd like to talk about, yes, the local agent development is an important focus of ours. It's still relatively a small part of our distribution network, but it's something that we are still encouraged that can offer us some potential down the road. Door to door has been particularly effective when we've got an aggressive offer in the marketplace, it allows us to compete head to head with our cable competitors in those markets. And we've used that much more aggressively this year and we picked the markets where that's most effective which tend to be our most competitive markets. So -- and we do some of that internally with internal door to door sales people and some through third parties. And we'll continue to do that throughout 2009.

The other area that we've become very focused on, because in our top six markets, our urban markets, if you will, or suburban markets, those markets are -- have been particularly challenging from -- over the last three years for us. And mostly, a large part of that relates to a high number of multiple dwelling units in those markets. And so for the last 18 months, we've been very focused on developing that multi-dwelling unit approach in the marketplace. Hiring some people in the field, we have invested in these alternate channels, but we've done it, as you've seen, while maintaining our margins.

And so I think our challenge is to continue to find ways to build gross gain. And on the retention side, we've continued to work with customers to make sure that they understand what makes the most sense for them. So if we get an unbundled RLEC customer or residential line customer calling in, we're going to make them aware of a bundled price that may work for them given there are hard times. Folks are looking at ways to reduce their expenses and we're trying to make sure that they're on our absolute best plan. And so I think with retention, that's an area where we've invested heavily this year as well.

Not only from the resources that we have to answer the phones, but really on performance management so that our managers can stay very much focused on what trends they're seeing because you're absolutely right. The reasons for customers calling in these days are much more around controlling their bill and so we're equipping those folks with tools to really get to those issues. So the customers may not walk away with a lower bill, but will walk away feeling better about the value they're getting from Windstream. And I think it's a combination of all of those things.

Michael Nelson - *Stanford Group - Analyst*

Great. Thank you.

Jeff Gardner - *Windstream Communications - President and CEO*

You're welcome.

Operator

Your next question comes from the line of Tom Seitz with Barclays.

Tom Seitz - *Barclays Capital - Analyst*

Hi, thanks for taking the question. Maybe Jeff, first. Can you give us an update on the integrated set top box, when we might see it, whether or not it's an ARPU opportunity for you or whether you're viewing it basically the way you're viewing the current satellite as just a churn reduction opportunity? And then Brent, can you let us know if there's going to be any impact at all to special access from the Alltel-Verizon merger? I mean do you move to a master contract with Verizon that maybe has rates that are different than what was going on with the Alltel? That's it.

Jeff Gardner - *Windstream Communications - President and CEO*

Okay. Thanks, Tom. With respect to the set top box, I can't be specific as to when that will be deployed in the marketplace at this point in time. But I think to the broader question, really what our challenge is, we are in a great position with 49% of our residential customer base already subscribing to our broadband product. That's a huge position for us in the marketplace. Our challenge now is to get busy with our products and services to monetize that broadband connection. Our Dish penetration is up to 15%, so together, I think that's a really strong combination.

We're going to be doing a lot of things like selling security suites, selling our home networking product, tech help to provide computer support to our customers. Working internally and with third parties to really focus on monetizing that broadband box -- broadband connection. And at the same time finding ways to -- where we do have the triple play to really take advantage of that so that customers can use their broadband connection to manage their video viewing products. And we're looking at a number of services in that area in addition to the set top box.

Tom Seitz - *Barclays Capital - Analyst*

Just real quick, is that -- are these first half initiatives generally speaking or second half initiatives, just --?

Jeff Gardner - *Windstream Communications - President and CEO*

Yes. We've got a number of these going on right now and throughout the year we're going to be trialing a couple of new services. So I think it's going to be first half and then really the whole game with respect to broadband, that's really what our business is going to be all about for the next two years is focusing on a continuing stream of products designed to monetize that broadband connection.

Brent Whittington - *Windstream Communications - EVP, CFO*

And, Tom, let me address your question on special access. There are really two things we've got to consider there in that merger. I mean you've got kind of a rate issue and volume issue. The rates, those are at tariff rates today, so we don't expect really any pressure as it pertains to that. As it pertains to volume, to the extent there is any network grooming redundancy , they're on circuits that aren't fully utilized, there could be some impacts. We factor that into our guidance this year and don't expect that to be significant enough such that we're going to have to be talking about

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Tom Seitz - *Barclays Capital - Analyst*

Okay. Great. Thank you very much.

Brent Whittington - *Windstream Communications - EVP, CFO*

Thank you.

Operator

Your next question comes from the line of David Barden, Banc of America.

David Barden - *Banc of America - Merrill Lynch - Analyst*

Hi, guys, thanks for taking the question. Maybe two if I could. First, just as kind of the first major rural player to kind of announce results, what are you guys assuming or how would we as investors think about the broadband stimulus plans that are being brandied about impacting a Company like Windstream? Does it potentially mean higher CapEx that you get back in tax rebates, or customer subsidies leading to higher take rates for broadband in rural areas? Does it really have any impact in '09 at all or is it just so much in the air you just can't comment?

And I guess the second question if I could is I think ever since you guys were singled out in the Wall Street Journal last year for having been involved in M&A talks, one of the larger overhangs on the stock remains a belief that the moment the debt markets open up, you guys will be looking to execute on an M&A transaction. And I guess if you could speak to kind of where you're head is at now about -- and how eager you are to consolidate in order to preserve growth versus how content you can be kind of doing what you do every day would be helpful. Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

Sure. David, first on your broadband question, with regard to the stimulus package. We're very encouraged that the new Administration seems to be very focused on rural broadband. And we haven't factored any impact from that into our 2009 plan at this point in time, but I think -- because we're unsure as to whether it's going to be tax credits or subsidies for customers. I think there are a couple of areas. We would love to find a way, an economic way to reach out beyond our 88% availability that we have today to drive better broadband penetration rates, especially in rural America.

So I think it's ultimately going to be a net positive. How much of that have will impact 2009 is hard to say, but I would just say at this point we believe it's upside. We've been working very hard and with the new Administration to really put forth our ideas on what might work best. Not only is there an opportunity to reach out to that last 12% of our customers who can't get broadband through Windstream today, but also the subsidy issue that you raised. There's many customers who are in our footprint today who simply can't afford it and that's a big opportunity as well.

With respect to M&A, we still believe, as I said, that consolidation makes sense. Are we waiting to jump on something immediately when the debt markets open up? I think that's overstated. We've always said what we're trying to do from a long-term perspective here is to look for transactions that are free cash flow [accreate] I have to our shareholders. And do deals that make sense for our shareholders and kind of fit our long-term view of the industry. Having said that, if no deals come about, I think we've got a real strong business here that's of a scale and a scope. You've seen what we've done in our first three years. We've managed our OIBDA very aggressively.

And so I think the best way to think about it is that if Windstream finds an opportunity where we think we can drive cash flow accretion and improve the long-term return outlook for our shareholders, we're going to do it. But it's not something that we absolutely have to do to continue to produce the kind of results that you've seen from us over the last few years.

David Barden - *Banc of America - Merrill Lynch - Analyst*

I appreciate those comments. If I could just quick follow up with one is just on the buy back, which is scheduled to be completed this year, obviously you've said you have a bias towards debt repurchase. Could you just comment on whether you're still committed to conclude the buy back by the end of the year?

Brent Whittington - *Windstream Communications - EVP, CFO*

David, to say we're committed to conclude the buy back I think would be tough. I mean as we kind of indicated, right now we're favoring debt repurchases, but as much as anything, we're protecting our cash. We're not real sure when the markets settle out, what the long-term cost of capital on either the debt or the equity side is going to look like. And so, as opposed to rushing out and letting go of that cash and making some short-term decisions, we're being a little patient before we deploy that cash. So I think I would be hard-pressed to say we're committed to fully executing it. It still remains in our tool kit and is something that will still get consideration as we progress throughout the year.

David Barden - *Banc of America - Merrill Lynch - Analyst*

Alright guys, thanks a lot.

Jeff Gardner - *Windstream Communications - President and CEO*

You're welcome. And I'll just add to that. It is not our intent to accumulate cash indefinitely, but I think all of you can agree that the markets that we're seeing today are pretty unprecedented. So we believe, as Brent said it's in our best interest to accumulate cash in the short run and continue to look at these accretive opportunities over time. But we'll look at that as we see this kind of economic situation evolve over the next quarters and months.

Operator

Your next question comes from the line of Mike McCormack, JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

Hi, guys, thanks. Brent, maybe just a follow-up on that last question on debt. Maybe give us a sense of what you're looking at there. I mean the term loan A I guess comes due in 2011 and you've got the revolver out there as well, but even with paying down those instruments, it seems like the cash gets pretty significant. So north of 11% equity dividend yield, doesn't it make some sense to have a more balanced approach on that? And secondly, on D&A guidance for 2009, can you give us a sense for why that's up year-over-year and how we should be thinking about that maybe a little bit longer term?

Brent Whittington - *Windstream Communications - EVP, CFO*

Okay. On the debt, I mean, yes, your math is right. And in terms of our maturities through 2011, we feel very good about that. And I don't want to necessarily say what specific debt instruments we might look to buy back, but certainly our bank debt and early in December, frankly, our bonds as well that have come back, both look like the pricing there was very favorable. So I'd say that's still in terms of a consideration in what we're thinking.

As it pertains to D&A, I think we just need to get back to you on that. I'm not sure about any specifics that you're looking for there, but it's only about $2 million, so I don't think it's a significant item at all. Mike, we can follow up on that later if that's okay.

Mike McCormack - *JPMorgan - Analyst*

Yes, that's fine. I was just looking at the CapEx number versus the D&A number and it continues to trail by a wide margin, so just thinking that might have some sort of collapse over some period of time.

Brent Whittington - *Windstream Communications - EVP, CFO*

Well, yes and one thing to think about as it pertains to D&A for us, we follow is just a math [asset] accounting, so our gross plan is a driver of depreciation as much as anything. So that's a harder analysis to do given that type of methodology, Mike.

Mike McCormack - *JPMorgan - Analyst*

Okay, great, thanks, Brent.

Brent Whittington - *Windstream Communications - EVP, CFO*

You're welcome.

Operator

Your next question comes from the line of Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

Hi, thanks a lot, good morning. Couple of questions. You guys mentioned an uptick in nonpaid disconnects in the quarter. I am wondering if you could give us a little more granularity around that sort of residential versus small business trend? And then also how that trended in the quarter, was it sort of relatively even or did you see sort of a pickup through the quarter to where the exit rates may have been higher than the entry rates?

And then second question just on pension, the $90 million of '09 pressure, can you just give us some more granularity around this just to understand the acceleration, maybe what the, the mechanics are, what triggers the acceleration and sort what have the thresholds are? And then the second part of that, as we think about this sort of eliminating what would generally be a smoothing factor, does this mean the full pressure is built into '09 and you may get some relief in 2010? Thanks.

Brent Whittington - *Windstream Communications - EVP, CFO*

Okay, Jason, so I'll take the first part. So MPDs, we mention that as much as anything because I think it's first and foremost on investors' minds these days. But as Jeff kind of indicated, it was slight and slight to the tune of about 3,000 customers. And not even a high water mark that we've seen over the last 24 to 30 months in our business. So if you look at the timing on that during the quarter, we really saw a little bit of an uptick in November, but it came back down in December. So it's nothing that we're alarmed by. Those are trends that happen sometimes and we're actually staying keenly focused on bad debt, but it's nothing that we've got any particular significant concerns about right now.

Now, as it pertains to the pension. $90million going -- in '09 versus '08 is a significant increase, which is why we mentioned it separately. And even gave OIBDA guidance on a with and without basis. Our accounting kind of policy as it pertains to pension really works like this; any gains and losses in excess of at a corridor of 17.5% are accelerated into our earnings over a five-year period of time. So that's really the math. And clearly the market performed overall much worse than 17.5% in this past year. That's the reason that you're seeing such a significant increase in our pension expense on a year over year and that continues for a five-year period of time.

Now, the gains and losses inside that corridor are actually recognized into our earnings more in line with the 12 to 15-year period. So kind of a service period over which the participants in that pension kind of earn that benefit. So that's really the mechanics on that and that's really the smoothing that you'd see as a result. So changes that you'd see in pension from here on are really going to be a function of where assets go thereafter.

Importantly, though, as it pertains to the cash contribution, we have no obligation to make a cash contribution into the pension in 2009. It's above the 80% funding level, which means no plan limitations for participants and so the first payment we've got to make is in 2010 to help begin making up that short fall. So that is the math there, Jason.

Jeff Gardner - *Windstream Communications - President and CEO*

And just to add, Jason, so the big difference here with Windstream is we accelerate the recognition of that over five years as Brent said. As compared to if we didn't elect this corridor accounting, which we elected many years ago, a Company may take that over 15 years. So as Brent said, it's noncash, it's more conservative kind of take the hit over the first five years, but it doesn't really drive anything from a cash flow perspective in the business. And we believe our pension behaved like everybody else's in terms of similar losses.

Jason Armstrong - *Goldman Sachs - Analyst*

Yes. Okay. Great. That's really helpful. Thanks, guys.

Brent Whittington - *Windstream Communications - EVP, CFO*

You're welcome.

Operator

Your next question comes from the line of Jason [Moser], Raymond James.

Jason Moser - *Raymond James - Analyst*

Good morning. It looks like enterprise and spectral access continue do well in this environment. I was wondering if you could talk about what you've been seeing kind of in December and January, the trends there and just your broader thoughts going into the remainder of 2009? And on the video side, it looks like another quarter of pretty strong adds. Did you guys have any video promos in the quarter? And have you looked at doing into --working with Dish for a joint promo to drive up more subscriber additions? Thanks.

Jeff Gardner - *Windstream Communications - President and CEO*

Sure. I'll take the first part on the enterprise segment.

We were very encouraged with the fourth quarter in terms of what we saw there, Jason with respect to both our sales of high-speed data products. Our CPE sales were very strong, which I this is a good indicator of a -- that business customers in our markets were still making capital investment decisions. And should bode well for us going into 2009. It's a key part of our 2009 plan, to bring products our business customers that add value, that help them run their businesses better and really drive performance within their companies so that these things make sense even in challenging times. So we're very encouraged with the opportunity in that sector and, again, that represents some 33% of our business.

On the video side, we are now at 15% penetration of our Dish products, very high relative to anybody in our space that you look at. We've been very effective at selling Dish into our base and that's really a credit to all of our sales and marketing team. We have -- we didn't run anything special, like there was no huge special promotion in the fourth quarter. We always are running some type of promotion, but we didn't do anything special. And as far as the first quarter, we are partnering with Dish on an offer to kind of kick off the year.

I think there's a good opportunity with all the -- with all the movement around this digit -- going to digital TV, even if that gets suspended, that's a good opportunity for us to sell Dish and get people focused on it. And we really believe in Dish. The reason our numbers are so strong in that area is we place an incredible emphasis within our Company on selling the triple play. And it has a huge impact on our churn over the long run.

Jason Moser - *Raymond James - Analyst*

Great, thank you.

Rob Clancy - *Windstream Communications - SVP, Treasurer*

All right. Chandra, we have time for one more question.

Operator

Your next question comes from the line of Barry McCarver, Stephens, Incorporated.

Barry McCarver - *Stephens, Inc. - Analyst*

Hi. Good morning, guys.

Jeff Gardner - *Windstream Communications - President and CEO*

Good morning.

Barry McCarver - *Stephens, Inc. - Analyst*

Just made it in. You've touched on most of my questions. I did have one more question on the enterprise side. I noticed a couple of days ago you put out a press release announcing an expansion of your agreement with Mitel and if I understand it's rolling out that product solution to your entire footprint. I'm wondering if you could help us monetize what that may mean for enterprise revenue, particularly given that you've said it's an important factor in 2009?

Brent Whittington - *Windstream Communications - EVP, CFO*

Barry, Mitel really for us was just an effort at the beginning of the year to have another kind of strong player in our product lineup for our business sales team to offer to customers. CPE, Jeff kind of already alluded to, has been a great success story for us in both '08 and '07. Our strategy from a business standpoint really revolves around owning that go CPE, that equipment relationship with the customer. And the Mitel product lineup as much as anything was just an incremental product to give them more tools and more products to sell to their customer base. So I think it really just helps us in terms of having a better lineup with customers. Thank you.

Barry McCarver - *Stephens, Inc. - Analyst*

Okay, guys. That's all I had. Thanks.

Rob Clancy - *Windstream Communications - SVP, Treasurer*

Thanks, Barry. We appreciate you folks joining us this morning. [Mary Michaels] and I will be available throughout the day for additional questions.

Operator

Thank you for your participation. This concludes today's teleconference. You may disconnect at this time.
