

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone and welcome to the Centennial Communications third-quarter 2008 earnings conference call. Today's call is being recorded. At this time, I will turn the call over to the Director of Investor Relations, Mr. Steve Kunszabo for opening remarks. Please go ahead, sir.

Steve Kunszabo - *Centennial Communications Group - Director, IR*

Good morning and thanks for joining us. I would like to welcome you to our fiscal third-quarter 2008 earnings call. Joining me on the call this morning are CEO, Michael Small; our CFO, Tom Fitzpatrick and our President of U.S. Wireless Operations, Phil Mayberry. Today's call will begin with a discussion of the 2008 third-quarter results followed by Q&A.

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Before I turn things over to Michael, I would like to caution all participants that our call this morning may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which reflect management's beliefs and expectations, are subject to risks that may cause actual results to differ materially. Centennial undertakes no obligation to update or revise these forward-looking statements to reflect events, developments or circumstances after the date hereof. For a discussion of the risks and uncertainties that may affect Centennial's future results, please see Centennial's 2007 Form 10-K, including the risk factors section contained therein and Centennial's other filings with the SEC. For your information, please also note that Centennial expects to file its 10-Q later today.

During the call, we will also be referring to certain non-GAAP financial measures. Please refer to the Investor Relations section of our website for a discussion of these non-GAAP financial measures and a reconciliation to comparable GAAP measures. With that, let me turn things over to Michael.

Michael Small - Centennial Communications Group - CEO

Thank you, Steve. Good morning, everyone. Thank you for joining us. Today, Centennial delivered third-quarter results that reflect strong execution and robust cash flow growth across all our business segments. We have really hit the sweet spot of our deleveraging story where every additional quarter of solid cash flow growth meaningfully accelerates our progress and enhances shareholder return.

Today, I will emphasize a few key points before Tom takes you through our results. These points are our strong U.S. wireless ARPU, including the ARPU associated with our non-subsidized customers. I will also reinforce our premium brand, wireless brand in Puerto Rico and finally, the planned new [undersea] capacity that we are going to be bringing on between the United States and Puerto Rico.

Let's first turn to the US. We have good momentum and we continue to be one of the best retail growth stories in the industry with our retail revenue having grown faster than the industry average for six consecutive quarters. Year to date, our retail AOI has grown 36% and we are pleased with our post-paid additions of 14,900 and churn of 2% during the quarter. This success is sustained by our local market strategy, a superior local network, associates that are well-trained, relentlessly trained through Centennial University. They are located in new and remodeled stores and are small cities and rural communities and this is all rigorously measured and managed at the store level utilizing many monitoring tools, including our signature scoop report.

The financial strength in the U.S. has been driven by strong trends in retail ARPU. We think these are sustainable and let me talk about a few of the drivers. First, we are now selling national rate plans in the vast majority of sales and yet, a majority of our customer base is still on our regional rate plans. As the customer base moves towards national rate plans where we see higher ARPUs, we think that will continue to support the robust ARPUs.

Also, we have had during the year tremendous success in selling feature packages. We are now selling, post-activation, post-sale, over 10,000 features per month through all customer points of contacts -- in our stores, customer care and collections -- and we expect that trend to continue.

Thirdly, this is a trend that is recognized throughout the industry and as we have explained, Centennial is behind some of the national players, but on the same trend line is data ARPU. We expect that to keep growing. We reported \$5.45 in the fiscal quarter just reported and just 9% of retail ARPU.

And finally and perhaps surprisingly to some of you, our non-subsidized customers, which are lower credit customers, are actually showing the highest ARPU of any customer segment we have. We are not particularly exposed to this segment, but it is a trend in the industry and we are having to deal with it and our initial effort in dealing with that industrywide trend of lower credit customers coming into our stores was to focus on cost to acquire and we have done that very successfully. In fact, we make money at the time of sale on these customers.

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What has surprised us is our ability to generate great ARPU out of these customers. We have a new plan we call Talk Easy, which is actually a \$10 upcharge from our standard rate plans that these customers take and they are voracious purchasers of features and even data. So what we see out of this non-subsidized customer segment is great ARPU, very low cost to acquire in exchange for more bad debt and churn, but when we look at it two years out, 50% of these customers are sticking with us and so we may have to sell a couple more to get some to stick in the long run, but we spend nothing. In fact, we make something each time we sell one of these non-subsidized customers. So we have been very happy with this customer segment.

Now turning to Puerto Rico where we have posted adjusted operating income in the wireless side of 13%, our best effort in two years, and we have been doing this by consistently growing subscribers, sustaining a healthy ARPU and keeping the churn in the mid 2s and we are doing this in an environment, as we have described, where it is competitive and the macroeconomic situation has been difficult. All our six customers -- our six competitors now offer an unlimited rate plan, so that is not a clear differentiator for us anymore; although we still believe we have the best unlimited plan. And it is an environment where handset promotions are even slightly more aggressive than we see in the mainland.

But what we see as a trend in the marketplace is that the competition is now moving back towards the low end of the market. They perceive and we think correctly that is where the growth in customers is going to be. While they do that, we will reinforce our premium brand by targeting customers who perceive themselves to be most highly reliant on wireless service. And we are going to do this in two new ways in addition to what we have traditionally done.

One is we are going to expand our geographic coverage. We have always had great coverage on the island and we still maintain the best coverage in Puerto Rico, but now that we have new roaming rates, we are going to include the U.S. much more often in our service packages and emphasize that. And with the addition of BlackBerry, we will now make global roaming available. So the best network in Puerto Rico is now available to our customers as they travel around the world.

The second area that we are going to focus on, which extrapolates from what we have done over the last years, is instead of just adding voice to the bundle, we are going to increasingly add data to the bundle and as I will talk about in just a second, we are best positioned to provide the most wireless data bandwidth on the island. And I will get back to that issue as we talk about the broadband segment, which we will turn to now, which returned more to the traditional levels of revenue and cash flow growth consistent with its historical profile.

In this segment, we have counted to you over the years the value of our broadband fiber network and in the voice world, that was a nice benefit. It becomes dramatically more valuable to us in the data world and in Puerto Rico, we are watching a bandwidth explosion as we speak here today.

A couple of years ago, there was basically only dial-up available on the island and even with the appearance of DSL and cable modems, most of the sales were done at 256 kilobits. We are now watching that begin to change in large part because of Centennial's Instant Internet offering where customers get a megabyte and our partnership with the cable TV operations and they are starting to improve the quality of their plan and in partnership with us, they are offering higher bandwidth and so we are watching an exponential growth in bandwidth in Puerto Rico.

To accommodate this new demand, this explosion of Internet capacity, we expect to add 10 gigabytes of undersea capacity with the new undersea pipe before this summer. 10 gigabytes is the largest available pipe you can buy in undersea capacity in today's economics and we think this is really a seminal event for Centennial because the copper-based networks can't deal with capacities like this. And when you marry the undersea capacity we are buying with Centennial's unique fiber rings on the island, we have an unparalleled ability to serve the voracious bandwidth demands of Puerto Rico going forward.

So in closing, we have a strong and sustainable competitive advantage. We are executing well and our results show strong cash flow growth across all business segments. I look forward to updating you on our momentum and sharing our outlook for fiscal 2009 and the months ahead. Tom, will you please take us through the financials?

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Tom Fitzpatrick - Centennial Communications Group - CFO

Thanks, Michael and good morning, everyone. As Michael discussed, Centennial posted third-quarter results that were characterized by healthy retail performance in our U.S. markets and a marked return to solid cash flow growth in both our Puerto Rico wireless and broadband segments. This was our fourth consecutive quarter of consolidated adjusted operating income growth of more than 10% and one in which we benefited from sustained improvement in many of our operating and financial metrics. We have made clear progress in growing cash flow despite facing external headwinds and really are in the sweet spot of our deleveraging strategy where each incremental dollar of cash flow enhances shareholder returns.

For comparison, our fiscal 2007 financial results have been adjusted to reflect the Universal Service Fund charge in the period to which it relates.

Centennial recorded quarterly consolidated revenue of \$251.2 million and adjusted operating income of \$99.1 million, representing growth of 8% and 11% respectively from the adjusted year-ago period. Our consolidated adjusted operating income margin was 39% for the third quarter. Third-quarter income from continuing operations was \$6.6 million or \$0.06 per diluted share. This compares to income from continuing operations of \$0.3 million or zero per diluted share for last year's third quarter.

On an operating segment basis, U.S. wireless delivered third-quarter revenue of \$137.8 million and adjusted operating income of \$50.5 million, yielding an adjusted operating income margin of 37%. We boosted our local market strategy by investing heavily in training our front-line associates, delighting our customers at every touch point with innovative new features, improving an already superior network when measured on call statistics and targeting our advertising within our footprint to showcase our strength against the most relevant competitors. We continue to expect consistent customer, revenue and cash flow growth in this business.

We generated roaming revenue of \$12.5 million during the period, a 12% year-over-year decline, as we were impacted by a 20% fall in our rate per minute for roaming traffic. The decrease in our roaming yield was partially offset by a 10% increase in voice roaming traffic as we benefited from higher usage from our key roaming partners. We continue to forecast a long-term decline in roaming revenue.

US wireless retail ARPU reached another record during the third quarter, growing 7% year-over-year to \$64 while robust post-paid customer additions of 14,900 were aided by stable post-paid churn of 2%.

Turning now to our Puerto Rico operation, during the fiscal third quarter, Puerto Rico wireless reported revenue of \$82.7 million and adjusted operating income of \$31 million, up 5% and 13% respectively from the year-ago quarter, representing an adjusted operating income margin of 37%. Post-paid ARPU rose slightly to \$66 when compared to the fiscal second quarter, reinforcing our ability to attract a high-quality customer mix and capture a growing data revenue opportunity. Data revenue grew 31% year over year to \$7.06.

As Michael noted, we are increasingly bringing our full arsenal of assets to bear in growing traditional and new revenue streams alike, addressing the enterprise wireless and residential markets in a way that most of our competitors will find difficult to match.

Focusing next on Puerto Rico broadband, which produced revenue of \$33.9 million, a 10% year-over-year increase, and recorded adjusted operating income of \$17.7 million, representing an adjusted operating income margin of 52%. Switched and dedicated revenue rose 12% during the quarter, supported by strong growth in total access lines and equivalents, partially offset by an ongoing decrease in average revenue per line. As I noted last quarter, our access line growth has been in large part due to our cable partnerships and these lines have a lower ARPU.

I would also like to reinforce that our year-over-year comparison for AOI for Puerto Rico broadband was again impacted by increased expense related to the deployment of network capacity in consideration of customer contracts for future service. As

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Michael noted, we expect our costs to more closely align with historical benchmarks for this business as our new undersea capacity is lit in early fiscal 2009.

And finally, a brief update on our capital structure and liquidity position. We closed the third quarter with net debt of \$1.92 billion and have reduced net leverage by approximately three-quarters turn since our dividend recapitalization to 4.9 times.

As I consider our financial position today, it is pretty clear that we are in good shape to weather the current turbulence in the financial market. We expect to generate approximately \$50 million of free cash flow in fiscal 2008 when you consider our current outlook for adjusted operating income, capital expenditures, interest expense and cash taxes.

Our balance sheet is solid and we have a favorable maturity profile with the majority of our debt not coming due for another five years. We had \$234.2 million of total liquidity at the end of the third quarter, consisting of \$84.2 million in cash and \$150 million available under the revolving credit facility.

Lastly, I'd like to point out that our investment portfolio does not include any auction rate securities. With that, I will turn things back to Steve for the Q&A portion of this morning's call.

Steve Kunszabo - Centennial Communications Group - Director, IR

Thanks, Tom. Operator, would you please provide instructions for logging a question?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). David Sharret, Lehman Brothers.

David Sharret - Lehman Brothers - Analyst

Good morning, guys. If I can ask first on the CapEx side, it looked like your CapEx was pretty light in this quarter and you are trending maybe below your full-year guidance, which I think included Spectrum purchases as well. Maybe just an update there if you think maybe you will come in a bit lower than expected on CapEx.

Tom Fitzpatrick - Centennial Communications Group - CFO

Yes, we think we will be real close, Dave. It is some projects we have actually been invoiced for late and we expect a big CapEx quarter in the fourth quarter. So if we don't get all the way to the guidance, we will be darn close.

David Sharret - Lehman Brothers - Analyst

Got you. Got you. And then if I can ask, Tom, following up on your free cash flow and your liquidity, obviously the \$84 million in cash and the free cash flow you are generating, just some of your priorities now as far as using that free cash flow. Obviously a lot of the debt is callable and you haven't called some of it and some important dates coming up as well, but maybe just given some of the discounts where your debt is trading, will you just go through if you have debt repurchase on your mind and how you would use that free cash flow?

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Tom Fitzpatrick - Centennial Communications Group - CFO

Yes, we don't have it on our mind currently. What occurs to us -- holding onto our cash feels good to us right now given the current state of the credit market. We take a look at our senior credit facility with the rate of L plus 200 and regard that as a corporate asset. So the first kind of relevant maturity is our revolver in February of 2010 and so we would want to avoid the early call of the senior credit facility if possible because we really like that rate and sitting on cash in the short term until we see what happens with these credit markets feels right to us at this point.

David Sharret - Lehman Brothers - Analyst

Okay. All right, great. Thanks, guys.

Operator

Brett Feldman, Lehman Brothers.

Brett Feldman - Lehman Brothers - Analyst

Thanks for taking the question. I just wanted to clarify what is going on with the costs associated with the extra cable in Puerto Rico. I think I understand it where you are currently leasing a third-party undersea cable while you are waiting to complete the construction of your own. Is that correct?

Michael Small - Centennial Communications Group - CEO

Correct. That is a good summary description. To give an idea of -- I mean 10 gigabytes is coming on and we have currently between six and seven gigabytes of total capacity Centennial owned off the island and we -- as we do our forecast, we are going to go through that 10 gigabyte capacity coming online very quickly and we will then use the next 10 gigabytes.

We got caught short for a couple of here because of environmental issues in the construction of the new cable. There was -- the contractor hit some coral and the Army Corps of Engineers had to get involved and it took a long time to resolve it and that has been unfortunate for our last two quarters where we have had to rent some short-term capacity, but it also highlighted to us the value of the capacity coming on.

We have been sitting for the last two quarters a little bit more on what our competitors' position would be and it is no fun. So we are really looking forward to this new capacity coming online and think it will make a real difference. We think, right now, we're the bandwidth leader and it is just going to go to the new level in Puerto Rico just as bandwidth is exploding in Puerto Rico.

Brett Feldman - Lehman Brothers - Analyst

Is it just from a timing standpoint? As soon as you have your own capacity built out, can you immediately begin using it or are you obligated to use these third parties for a certain period of time?

Michael Small - Centennial Communications Group - CEO

These are month-to-month on what we got from the third party and we will begin shutting down some of that expense. It certainly won't add any more and will probably shut down some of the expense.

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Brett Feldman - *Lehman Brothers - Analyst*

Okay, good. So the margin benefit will be right when you complete the cable?

Michael Small - *Centennial Communications Group - CEO*

Yes, it should be -- if we are fortunate, we will see a little bit of a help in the fourth quarter, but it would take a real surprise in the projects where we don't see it in the first quarter of next year.

Brett Feldman - *Lehman Brothers - Analyst*

Okay, and then on the top line in the same segment, I think you guys gave pretty good color on what is going on with the switched access lines and how you're benefiting from the cable relationships. What about the rest of the business, particularly the enterprise side? Last quarter, you talked about a little bit of price competition, particularly coming from America Movil. I'm just wondering if you can maybe give a little more color on the demand patterns both in terms of access line trends and ARPU trends.

Michael Small - *Centennial Communications Group - CEO*

Yes. The growth -- we are seeing good demand that we actually think since the government accounts became available to us more readily since the transaction. The government got out of owning a portion of the Puerto Rico Telephone Company at the same time America Movil came in. So we are actually seeing pretty good growth. But what we are seeing on price compression is, on the enterprise, is for two reasons. It's a combination of a tough economy that has been going on for now two years in Puerto Rico. So it's kind of built into our numbers and what we've been living with and we learned how to operate there, but customers are more price-sensitive. At the same time, the new technology, the new IP-based networks give more cost effective solutions, so we actually have a way to give them the services they want at a lower price.

We think we are getting to be at the inflection point where the volume is going to start helping us. We have figured out how to sell these new IP-based services to more customers faster and we are going to start getting in front of the curve of making up in volume what we are having to give in price or even just giving price because the technology is better and the costs are lower. I mean this is a cost curve business now. Increasingly as you are getting into the optical fiber world, you can deploy a lot of bandwidth at low cost and that is going to -- the long-run trend of that is going to accrue to Centennial because we have the most bandwidth at the lowest cost.

The transition point, which I would say we are largely through, was a bit painful as you are coming off the prices -- the prices you used to get for a T1 isn't the same as what you're getting for an equivalent amount of Internet bandwidth, but we are going to start selling a lot more bandwidth. So I think we are at the inflection point where we start winning this trade-off of volume versus price.

Brett Feldman - *Lehman Brothers - Analyst*

Well, one of the trends that AT&T has been highlighting is that when you do migrate customers over to IP, you do see revenue dip immediately because it is an attractive price, but then they tend to buy more services over time. Are you seeing the same dynamic or is it a little bit too early to see that yet?

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Michael Small - Centennial Communications Group - CEO

No, we are absolutely seeing the same dynamic and that is because the issues of the new IP world is you get a lot more bandwidth at a lower price with much greater flexibility because you're dealing with a softswitch and you can interface with any application server to deliver new services. So that is absolutely happening in Puerto Rico and we have the salesforce and the sales support team and the engineers to deliver those services to customers and we actually think, by a wide margin, the best people team to do that in Puerto Rico. So that is the inflection point we are talking about.

And maybe another analogy out there is this is the IBM problem of 10 or 20 years ago where the computers got -- weren't expensive enough to live by just selling more computers and so you had to start selling services associated with it and you can actually -- we are seeing the same thing. We need to be selling solutions to our customers. We need to be partners with our customers, so we get the IP bandwidth in there, in their location and then we find ways to make their businesses better by partnering with them and get paid for doing that.

Brett Feldman - Lehman Brothers - Analyst

Okay. And then just one last higher-level question. The economic situation for the broad economy is a bit fluid right now and you clearly had solid top-line operating trends in your fiscal third quarter. Now that we are into the fiscal fourth quarter, have you seen anything materially change? Have ARPU trends gone outside what seasonal patterns would be? I am just wondering whether there is something we should be anticipating for the last quarter of the year?

Michael Small - Centennial Communications Group - CEO

No, the two trends that have been pointed out for the economy that affect Centennial most directly, which is Puerto Rico and Michigan, we have been living with for a long time and there has been no discontinuities in the last few weeks or months. As I explained in the U.S., we have even outperformed our own expectations for ARPU and it has been for those four reasons -- continuing to sell more -- the higher value national plan, selling the features, the data ARPU trends, as well as higher ARPU than average ARPU on our non-subsidized customers and those trends aren't changing.

Brett Feldman - Lehman Brothers - Analyst

Great. Well, thank you for taking the questions.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss - Raymond James - Analyst

Good morning, guys. A couple questions for you. Puerto Rico wireless, year-over-year. Do you think you guys have turned the corner and now have got that back on a nice growth trajectory given the economy that you just talked to and the competitive aspects down there?

Michael Small - Centennial Communications Group - CEO

We have visibility to consistent growth in Puerto Rico, a highly competitive market. I think the key to our long-run success in a maturing market is market segmentation is differentiation and we are going to establish the premium brand, reinforce the

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premium brand in Puerto Rico at a time when customer -- our competitors will, we believe, go more towards the low end based on what we see them doing in the marketplace and based on their corporate cultures.

And on the top end, some of this will be brand positioning, but some of it will be targeting specific customer segments where we are really looking to gain subs. It is not going to be as mass market. A big growth area for us will be leveraging off our business customer base. We are seeing business wireless growing and we think we are going to work harder on affinity plans to -- I think we will be working harder on affinity plans to sell the employees of some of our larger customers or larger governmental and educational institutions. That will be a growth area.

Instant Internet, which gets included in our wireline, will be a growth area and we will -- our BlackBerry customers, the global roamers where we were out of the market, is a new growth area for us. So we do not anticipate lighting up the mass market, but we see enough avenues to sustain customer growth and customer profitability in Puerto Rico wireless.

Ric Prentiss - *Raymond James - Analyst*

Picking up on that last point, is it -- the expansion of that geographic coverage, the new rates as far as getting roaming to the US, how does America Movil handle that? Obviously Verizon was on the island previously and I would assume they had good rate packages back to the U.S., but does America Movil really focus on that customer segment?

Michael Small - *Centennial Communications Group - CEO*

We don't think they will. I can't -- our assumption is they will see the growth in Puerto Rico at the low end. A little history on Puerto Rico, when we got there, it was heavily a pre-paid market. Centennial said big buckets and don't be afraid to push the send button and there is low land-line penetration and we can make good post-paid business. That worked very well. Everybody ran our way after we showed that it was successful.

Now, when you look at Puerto Rico compared to a lot of Latin America, it is underpenetrated and why is it underpenetrated is everybody has ignored the low end of the market. So rather than participating with our competitors on that now untapped opportunity at the low end, we are going to let them go there and we are going to reinforce our premium brands.

Ric Prentiss - *Raymond James - Analyst*

Great. Second question, maybe for Tom, on the CapEx being light, but you got some invoices ready, is that related back to the fiber project that Michael was saying would be done before summer then?

Tom Fitzpatrick - *Centennial Communications Group - CFO*

A little bit of it is that, but just in the U.S., we have a fair number of invoices on projects that have been recently completed. So it is just --think of it as timing, Ric.

Ric Prentiss - *Raymond James - Analyst*

Okay. As we look starting already to think about fiscal '09, is that when the bulk of the fiber build would come in then? Just trying to get some sense for --.

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Michael Small - Centennial Communications Group - CEO

The fiber build is not an expensive project in the grand scheme of our whole capital budget. It is a difficult project because you have landing rights on each end and you need -- it is a big permitting process and they are hard to get the projects done, but it is not a material percentage of our capital.

Ric Prentiss - Raymond James - Analyst

Got you. And then the final question, maybe for Mayberry, is on the U.S. data ARPU. Nice improvement there. Obviously, it helped drive some of the U.S. beating internal expectations on ARPU. Where could this head? How fast can it ramp up and where do you see the biggest opportunity in moving data ARPU up?

Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

Hi, Ric. I don't know how fast. We are going to grow it as quickly as we can. The primary place that we are going now is that we have picked up the BlackBerry productline and we are selling a lot more of that at about closer to \$40 a subscriber and that is where the growth that we anticipated coming from.

Michael Small - Centennial Communications Group - CEO

And Phil always runs the business for profitability, so we have had a real emphasis on SMS because it is the most profitable and really the earliest adopted data service. Over time, we will broaden -- keep broadening the mix of data revenues.

Ric Prentiss - Raymond James - Analyst

Okay. Well, good luck, guys. Nice quarter.

Operator

James Breen, Thomas Weisel.

James Breen - Thomas Weisel - Analyst

Thanks. A couple questions. One, in Puerto Rico, it seems as though the margins stepped up quite a bit and I am just wondering how you feel about that from a sustainability standpoint going forward. And then in the U.S., can you just talk a little bit about the competitive dynamics here, what we know so far coming out of the most recent auction in terms of overlapping your territories? Thanks.

Michael Small - Centennial Communications Group - CEO

On Puerto Rico margin, a lot of the margin improvement in Puerto Rico was related to better management of phones, what subsidy we have based on what type of transaction, including upgrades and exchanges and insurance, as well as new sales and some of that was based on the learnings we had in the U.S. and we think, even though it is a high subsidy market in Puerto Rico, we have got more efficient dealing in that market and it looks like that should hold.

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On the new Spectrum, I think that's a five-year out plus kind of issue from my perspective until it is relevant in the marketplace. I mean I think you will see trials and you'll see stuff happening prior to that, but before it reaches our territory on the new 700 megahertz Spectrum. Phil, do you have any other comments on the competitive dynamic in the U.S.?

Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

We are studying the auction results and mostly we -- people already have Spectrum in our area, so we will continue to study it and look at it and make some conclusions after we get through looking at who all bought.

James Breen - Thomas Weisel - Analyst

Great. And have you seen any impact in the U.S. from any of the new pricing plans that have come out for Sprint or any of the other carriers?

Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

Not yet. The number of people that run over \$100 is relatively small, so it was a good price point from our perspective.

Michael Small - Centennial Communications Group - CEO

Summarized as much to do about nothing.

James Breen - Thomas Weisel - Analyst

Okay. Thank you very much.

Operator

Ana Goshko, Banc of America.

Ana Goshko - Banc of America - Analyst

Hi, thanks very much for taking the question. Just wanted to follow up again on the question on the margin that's pretty dramatic in the wireless (technical difficulty). So looked at in round numbers on a sequential basis, revenue increased by (technical difficulty) but EBITDA increased by \$4 million, and there was a \$2 million (technical difficulty) cost reduction there quarter to quarter. And my hunch is a lot of that was really subscriber acquisition cost for the handset subsidy, both because your pace of growth conditions is starting to slow after the initial periods on the unlimited plan, and also because I know you were incurring a lot of upgrade costs from existing customers. So I just wanted to test that hypothesis and to see if potentially there was more of that coming up in the next quarter.

Michael Small - Centennial Communications Group - CEO

I think the phones and phone subsidy is a big component of the increase and explains both to the improvement and the profitability, but it is not so much as a decline in selling rate as just getting more efficient. And some of it has been adjusting our insurance program. Some of it has been coming up with more different types of phones for different market segments. So we varied the subsidy according to who is buying with more discrimination than in the past.

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So it is always a competitive market, and to have to keep making decisions day by day, but right now I think our phone management sophistication is better in Puerto Rico than it was.

Ana Goshko - Banc of America - Analyst

Okay. Just asked another way, is there any potential based on continued momentum in these efforts for you to actually have a continued absolute dollar decrease in cost, and/or are you comfortable with kind of the 37% margin range being sustainable or do you think there's (technical difficulty)?

Michael Small - Centennial Communications Group - CEO

Well, we're not going to make new forecasts on margins going forward, but explaining how we made the improvement quarter-over-quarter, which is phone management, and that component looks sustainable as I sit here right now.

Ana Goshko - Banc of America - Analyst

Okay. The second question I just wanted to touch back with Tom on the caution on using cash right now for any kind of debt reduction. You know, it looks like you have got very strong comfort with free cash flow for the year and you don't have any maturities coming up until 2011. Are you concerned about potentially being able to refinance the credit facility in 2011, and that is your caution?

Tom Fitzpatrick - Centennial Communications Group - CFO

I wouldn't call it caution as much as opportunism that the rate on our senior credit facility at L plus 200 is a corporate asset, and we want to protect that as long as we can. So sitting on cash makes us not even need a revolver which would otherwise make us call that facility earlier. So there is no caution or no concern whatsoever about refinancing the facility. It is rather we want to hold onto it for as long as we can because it is a corporate asset.

Ana Goshko - Banc of America - Analyst

Right. But you would be able -- I mean the last debt that you actually repaid were your 10.75 bonds which you paid down at par, and you have got bonds that are trading anywhere from 5 to 15 points discount from par right now. So you could technically bring in a chunk if you wanted to.

Tom Fitzpatrick - Centennial Communications Group - CFO

Yes, we are aware of that.

Ana Goshko - Banc of America - Analyst

Okay, great. Thank you very much.

Operator

Susan Lee, Credit Suisse.

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Susan Lee - *Credit Suisse - Analyst*

Hi, good morning, guys. Just a few quick questions on guidance. I'm assuming that you guys are still reaffirming on that and just kind of on Puerto Rico, the [net], that kind of looked a little light this quarter despite better post-paid churn. Can you just kind of comment on the growth (inaudible) and what you guys are kind of seeing in the competitive environment there? And lastly, I think you guys have been getting a lot of questions on the Puerto Rico ARPU and just kind of wanted to see what you guys are seeing in terms of how this expansion of the geographic coverage impacted ARPU kind of going forward and when you will start seeing a benefit to that in the coming quarters? Thanks.

Tom Fitzpatrick - *Centennial Communications Group - CFO*

Let me just confirm guidance.

Michael Small - *Centennial Communications Group - CEO*

Okay. One of the implications of working on managing phone costs to improve margin is you are not chasing net adds as aggressively as you could be while you are doing that. I would -- so I don't know -- it is hard to be explicit about what the trade-off was there, but we have clearly focused on improving our phone costs during the quarter. And our number -- we weren't unhappy with the number. It has been pretty consistent with what we have been doing and that is kind of -- my expectation is consistent subscriber growth in Puerto Rico. We are not looking, based on our premium brand strategy, to see a big number in net adds.

On ARPU, I think we have got to keep doing all these things to keep our ARPU in Puerto Rico by building the premium brand, expanding the data usage, expanding the coverage. I would not expect an increase in the ARPU.

Susan Lee - *Credit Suisse - Analyst*

Okay, so just kind of keeping it sustained with the additional I guess roaming?

Michael Small - *Centennial Communications Group - CEO*

Correct.

Susan Lee - *Credit Suisse - Analyst*

Okay. Okay, great. I will see you guys next week at the TTI Wireless forum.

Michael Small - *Centennial Communications Group - CEO*

Great.

Operator

Kevin Coyne, Goldman Sachs.

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Kevin Coyne - *Goldman Sachs - Analyst*

Hi, good morning. Thanks for taking my call. Just a question on the footnote on wholesale subscribers. I guess there was a termination of the agreement on 35,000 of those subscribers. I was wondering if you could say when that happened during the quarter and what type of ARPU you were generating from these subscribers.

Tom Fitzpatrick - *Centennial Communications Group - CFO*

There was no revenue from those subscribers during the quarter, so it is -- as you see the result for the third quarter, it is effectively as if there were no wholesale customers for the entire quarter.

Kevin Coyne - *Goldman Sachs - Analyst*

Okay. So meaning --.

Tom Fitzpatrick - *Centennial Communications Group - CFO*

It will be zero going forward. Zero wholesale customers going forward.

Kevin Coyne - *Goldman Sachs - Analyst*

So I guess were they receiving service during the quarter with no revenue?

Tom Fitzpatrick - *Centennial Communications Group - CFO*

There was very minimal -- based on the terms of the contract, there was a minimum for 50,000 customers, but the underlying provider was -- the retailer did not have many customers under that contract, so we kind of ratified both contractually and in our reporting what was happening anyway. That customer base has pretty much disappeared. It was never -- they were always very, very low ARPU customers and they never factored -- they were never in our reported ARPU stats. We only reported the ARPU based on retail customers. So it's a non -- it was a non-issue when we had them basically and it is a non-issue now that they are gone.

Kevin Coyne - *Goldman Sachs - Analyst*

Okay. In terms of -- someone had mentioned before about just the dynamics in your home U.S. footprints. Obviously, we know housing pressure, consumer slowdown, etc. I was just wondering in terms of some of your market checks, could you -- maybe you can elaborate a little bit -- could you be receiving a potential benefit from some of these pressures where a household is let's say faced with potentially cutting the cord and going to one device, potentially cutting even their high-speed access line and potentially using your device as the only source of Internet access? I wonder if you are seeing that at all and if it is something maybe we could expect going forward if we think a consumer slowdown will continue.

Michael Small - *Centennial Communications Group - CEO*

I actually do think that is a trend and we are going to capitalize on it in both Puerto Rico and the U.S. We are selling home phone service. Phil, do you want to talk a little bit about your home phone product?

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Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

Sure, Michael. Kevin, we have picked up three products that work for a fixed wireless replacement through our network that ring the extensions in your house and act very much like a land line in your home and two of those have data capability. We have got advertising campaigns that we are running to try to capitalize on that with the selling premise being that a family can save \$200 or \$300 a year by subscribing with us and we are having a great deal of success with it.

Michael Small - Centennial Communications Group - CEO

So our belief, and this is just based on what I observe in our family and just others, no one wants to answer the home phone anymore because you assume it is for someone else or it is a telemarketer. Yet, there is a real reluctance to give up the home telephone number because it is something you have had forever and if we can sell companion home phone service, which will probably be a lower use line than the wireless line, that kind of companion pricing, and we tell people port your number to a wireless device in your house, everybody is happy. The customer saved \$20 a month on a phone they don't want to answer anyway.

Kevin Coyne - Goldman Sachs - Analyst

Excellent. Thank you.

Operator

Phil Cusick, Bear Stearns.

Phil Cusick - Bear Stearns - Analyst

Hey, guys. Thanks for taking the call. A couple of different subjects I just want to hit quickly. One, as you talk about the low end, can you help us think about your porting ratios? Where are a lot of those customers coming from? We see Sprint out there sort of walking away from the low-end business because they have been losing money on those customers. Is that where a lot of those subs are coming from?

Michael Small - Centennial Communications Group - CEO

Well, we have to -- Phil, you can comment on where they are coming from, but low end is the wrong way to describe it.

Phil Cusick - Bear Stearns - Analyst

I'm sorry. How about low-credit customers.

Michael Small - Centennial Communications Group - CEO

Yes, and they are turning out to be very lucrative customers. They have great lifetime value for us and I think most of the industry has not given as good as -- we are giving a deal where the customer really gets to use the phone like they want to use it and not pay per minute and stuff like they. We put very tight credit caps so they can't get online and we get a lot of money in front rather than after the fact to control it. So this is, in many ways, a better value than (inaudible) a true post-paid type of plan available to the customer. So Phil, talk about where you think they come from.

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Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

They are land-line replacement, they are people who -- some of them, a fairly large fraction, have never had wireless service on a post-paid plan. They are coming from -- those customers that haven't had a post-paid plan are coming from the traditional prepaid product and they want all the advantages and capabilities that they get on a post-paid plan.

The porting doesn't really give you a good feel for where they are coming from, but we do know that some of the research is saying that this is a high priority purchase for them and they want to pay for it because it is their only means of staying in touch. It is their only telecommunications product, so it is good all the way around.

Phil Cusick - Bear Stearns - Analyst

What do you think we should be looking for from the churn side going forward as you bring this type of customer on?

Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

It is in the four point range right now.

Phil Cusick - Bear Stearns - Analyst

That type of subprime customer is around the four?

Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

Yes, right now.

Michael Small - Centennial Communications Group - CEO

What we have been seeing actually is the trend line on that -- it was in the upper to mid-fours a few months ago and it has fallen to just about four now. So on these low subsidized customers, the trend line is improving. On our subsidized customers, the trend line is holding to slightly improving, but our overall churn is going up because the mix is moving towards the non-subsidized customers. Having said that, at the end of the quarter, we are up to -- 13% of total customers are these non-subsidized. It is still not a big percentage of our customer base.

Phil Cusick - Bear Stearns - Analyst

What is it as a percentage of gross adds in the quarter?

Michael Small - Centennial Communications Group - CEO

Yes, at this stage, we are actually -- we are not going to give you that number yet because we actually have been moving around a lot as we have been experimenting with different offers. So some months, it is a small percentage of our base and some of our gross adds and some months, it is significant. When we settle in on more steady-state, we will apprise you on where we think that is.

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Phil Cusick - *Bear Stearns - Analyst*

Okay. And then a different topic, it seems like laptop cards are probably helping a lot. You are advertising it pretty heavily. Can you tell us how many of those you have on the books right now? And also help me think about this. As you think about these cards on a fully loaded basis, assuming that they are driving CapEx, they are driving network capacity needs, do you think this is an accretive net income margin customer, accretive to margin percentage? So is it a higher margin customer long term including all the usage?

Michael Small - *Centennial Communications Group - CEO*

Yes, well, first, this is a bigger business for us in Puerto Rico than in the U.S. In the U.S., we have an EDGE network everywhere and we are just trialing in Ft. Wayne on a very limited, not even a customer trial, just internal trial the HSDPA network. In Puerto Rico, we have the EV-DO Rev A network and that network -- it is a very satisfying customer experience. We can all debate how fast is fast enough, but this is -- for things most people like to do, it works very well. We have been actually pleasantly surprised on how much throughput you get on the EV-DO network. When you first launch a GPRS network, the second person got on the sell side and it degraded. It was slow and not great capacity. EV-DO, we are watching a bunch of customers get on the network.

We think anybody who has a mobile device or an air card is an extremely profitable customer in any level of reasonable usage. When we do the Instant Internet product where you have a PC in the home using the EV-DO for your Internet access, some customers can have usage levels where it is no longer profitable for us. But that is measured in 2%, 3% of the customers and we are about to take steps to deal with that.

We've recognized that issue for a while that you could get to that usage level where it becomes unprofitable, but we wanted to see how the customer used it, what they did with it, is this legitimate use or not legitimate use. Are they reselling something? What are they doing? We are exploring the tools to inspect the traffic to understand it, but on balance, we are convinced this is a very profitable business for us, particularly since we are getting \$60, or on a bundled basis \$50. If you have a wireless account, it's \$50. If you don't have a wireless account with us, it is \$60. We are making good money, comparable margins to the rest of our business if not better.

Phil Cusick - *Bear Stearns - Analyst*

Do you anticipate putting sort of a high-end cap, like a five gig cap on those or something?

Michael Small - *Centennial Communications Group - CEO*

Yes, the cap is likely to be higher than five gig. It might be around 10 and it is likely to be introduced very shortly here. So over 95% of our customers, even on the Instant Internet product, are under -- will be under the 10 gig cap.

And it is interesting also, while we're on that subject and why the bandwidth explosion is coming, we are seeing the average Instant Internet user is three gigabits per month. The average RAZR user is about three megabits a month. You have a thousandfold disparity. I have heard industry, and we know PDA might be 10 or 15 meg a month for a typical user and some people burn 20, 30 meg. And iPhone reports are that people are using 100 megabytes.

So as you begin to be able to get video on a stream that is useful, the bandwidth goes through the roof and it is quite clear to me the devices on a wireless basis that make video more accessible are rapidly coming and that is why we love our position in Puerto Rico. We have that fiber that is incremental cost to us. The backhaul is nothing to speak of at a wireless user level and yet, we see our wireless competitors paying us a percentage of their revenue today that is likely to double or triple as this wireless bandwidth explodes.

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So from a Centennial perspective, we are going to start making money with this wireless bandwidth explosion because we have the broadband pipes in Puerto Rico.

Phil Cusick - *Bear Stearns - Analyst*

Okay. And then can you tell us how many of those subs are in Puerto Rico at this point?

Michael Small - *Centennial Communications Group - CEO*

We haven't disclosed that, but it is -- it is getting to a meaningful number. We are going to debate disclosure on that for next year. Some of the issues of doing that is what are the appropriate new devices to put in the category? We have Instant Internet, we have the data cards, we have the machine-to-machine sales. We have the BlackBerrys. But when you add all that up, the new devices are important to the growth. Particularly in Puerto Rico, they are going to be important to our growth as a premium provider and we are going to have to find the right way to communicate that to all of you. It is just -- it is just we are in transition and it is hard to decide what is the right way to communicate it.

Phil Cusick - *Bear Stearns - Analyst*

Okay, thanks, guys.

Operator

Randy Baron, SM Investors.

Randy Baron - *SM Investors - Analyst*

Hey, guys. Good morning. I have just -- I guess I am on the tail end here -- a couple of housekeeping follow-up questions and then some general theory ones. I am curious on the undersea pipe that you are building, I know with Ric you said it is kind of a small number, but what percentage of CapEx is it and is it in this year's CapEx or next year's number?

Michael Small - *Centennial Communications Group - CEO*

Well, right now, what we are building to be specific is from San Juan to St. Croix, so a run from Puerto Rico over to the U.S. Virgin Islands and where we can hop onto the Mid-Atlantic crossing of cable of Global Crossing. So we don't really want to be in the business of -- and we aren't building the -- we are buying an IRU you on that new cable for some dark fiber -- a pair of dark fibers between those two locations.

Our CapEx is likely to be consistent on undersea capacity year in/year out and it is likely to be 5% of our total CapEx give or take. It is not -- it is not a big number for us. The reason -- and anybody can buy an undersea pipe like we can at those kind of numbers. The reason it is a strategic asset for us is we can actually fill up 10 gigabits pipes. We had the share of traffic and secondly, we also have the terrestrial network. So if someone buys a 10 gig pipe undersea, they have got to come talk to us and building a terrestrial network is expensive. That is a multi \$100 million initiative. So when you add it all up, that we can fill up the pipes at a 10 gig increment and we have the terrestrial too, that is the competitive advantage for Centennial.

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Randy Baron - *SM Investors - Analyst*

Well, I think another competitive advantage is going to be this roaming in Puerto Rico. I am hoping you can just kind of expand a little more. What percent of the kind of Puerto Rico base do you think is going to roam to the U.S., what percent is going to take this global roaming option, A. B, when are you starting to offer it and then C, what are the rates you are going to be paying for global roaming for example?

Michael Small - *Centennial Communications Group - CEO*

Well, we are offering it now and the reason it is really important, it is not a high percentage of the population, but it is a high percentage of our business customers who have been buying through business solutions from us for a long time and particularly, the decision-makers on those accounts. So we use to lose -- the only reason we lost wireless business to our biggest corporate customers is the decision-maker was getting a BlackBerry from someone else and we couldn't provide it. Now that we can -- now we can do that. So it is -- that is why I was emphasizing we should see business wireless customers grow quickly. It's a small segment of the market, but it is a segment of the market where we dominate on the wireline side.

And our costs, we can't disclose those to the U.S. but they are -- roaming rates, you have seen what has happened in our effective rate per minute, our roaming revenue and it is now down in the \$0.06 range. So I won't comment, but it is now where -- for customers who live in Puerto Rico and they really live in Puerto Rico, we can let them travel quite a bit when we are selling rate plans at \$50 and above. The numbers work for us, we are pretty confident.

Randy Baron - *SM Investors - Analyst*

Okay. Let me just ask two more general or broader questions. One is related to this U.S. non-subsidized customer amount, you said it is 13% of the base and they have the highest ARPU. What is the differential, what is the variance in the ARPU and is it because data is higher? Is it because -- why? What is the difference?

Michael Small - *Centennial Communications Group - CEO*

Well, we won't give you the variance yet, but one is we are charging \$10 more for the rate plan per month right upfront. Secondly, we charge for misbehavior. You disconnect, reconnect, charges, paying for that and customers have not had an opportunity to buy wireless on this basis before. So they were paying big bills for prepaid and so now they are buying a lot of features and add-on services in addition. But it is -- it is a nice number. We are not talking and about \$1.00 or \$2.00 difference. These customers are paying us --.

Randy Baron - *SM Investors - Analyst*

When you said, Michael, that some months that is a small percentage of the base and some months, that is significant, are those months when you are subsidizing more and less, is that the correlation? What makes it some months bigger than others?

Michael Small - *Centennial Communications Group - CEO*

We have been working on dealing with the increasing trend of lower credit customers coming in our door for a long time and one of the ways you learn is you keep trying different things and monitor, measure very carefully what happens. So we have explored a bunch of different offers and it is basically trading off how much money you get upfront versus how much extra you charge on an ongoing basis and under what terms. Phil, do you want to talk a little bit about some of the things we have tried?

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Phil Mayberry - Centennial Communications Group - President, U.S. Wireless

Sure. Randy, the primary driver of the volume is the advertising and you walk a fine line when you do mass media advertising on non-subsidized customers with having a negative impact on your base brand of trying to be a better, higher end kind of company. So the primary driver in the gross activation volume is advertising and a little bit on the offer, but under no circumstances are we ever going to sell these where they leave our store that we have an investment in them. So that is the critical differentiator of the two. When we sell one of those non-subsidized customers, we either make a little money or worst case, we are going to be breakeven on the variable costs to acquire that customer. And so it is not really so much the promotion and amount of subsidy because we don't subsidize it, it is primarily driven by how much and where we are advertising the product.

Randy Baron - SM Investors - Analyst

And then let me just ask one last question and I will hop off. Phil, you had said you still want to go through the results of the auction and kind of see the competitive landscape. Michael, maybe I can just ask you a broad question, which is strategically -- I mean it seems to me, having not participated, I don't know maybe you've opened the door, [U.S. Siler] is a great example, seems to have bought a lot of Spectrum around your neighborhoods in the upper U.S. I'm just curious if you can give kind of just a step-back perspective on your take without -- understanding you haven't gone through the specifics yet.

Michael Small - Centennial Communications Group - CEO

Yes, I mean 700 megahertz is great Spectrum and LTE, our fourth generation, is going to be an incredibly valuable technology. It is a question of when you spend your money to get there and we have always been kind of last and fast in technology in the U.S. So if we wait -- we see exactly what is happening with all our roaming partners in the industry and then spend our money then.

Of all the issues out there, the timeframe to get to fourth-generation solution is not foremost on our mind. We are wrestling with supplying 3G right now and we think that investment is going to be happening. So, yes, I think the people who -- if we had \$9 billion flying around the park for four or five years, we would have bought that stuff too and more power to them that they get to do it. And it is a great strategic asset, absolutely, but it is a pretty good period of time before that is going to be relevant.

Randy Baron - SM Investors - Analyst

Okay, thanks.

Michael Small - Centennial Communications Group - CEO

All right, well, thank you. We have got to wrap this. Steve?

Steve Kunszabo - Centennial Communications Group - Director, IR

That concludes the Q&A portion of our call. Thanks for your participation. Beginning later this morning, you can access a replay of the call on Centennial's website.

Operator

Thank you. That does conclude our conference call today. We appreciate your participation. You may disconnect at this time.

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