

# FINAL TRANSCRIPT

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**CYCL - Q1 2008 Centennial Communications Earnings Conference Call**

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**Tom Fitzpatrick**

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## CONFERENCE CALL PARTICIPANTS

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**James Breen**

*Thomas Weisel Partners - Analyst*

**David Sharret**

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## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Centennial Communications first quarter 2008 earnings conference call. Today's call is being recorded.

At this time I'll turn the call over to the Director of Investor Relations, Mr. Steve Kunszabo, for opening remarks. Please go ahead, sir.

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**Steve Kunszabo** - *Centennial Communications Corporation - Director Investor Relations*

Good morning and thanks for joining us. I'd like to welcome you to our fiscal first 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 first quarter results followed by Q&A.

Before I turn things over to Michael, I'd 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.

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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 that may affect Centennial's future results please see our 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'll also be referring to certain non-GAAP financial measures. Please refer to the Investor Relations section of our Web site 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.

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**Michael Small** - *Centennial Communications Corporation - CEO*

Thanks, Steve. Good morning, everyone. Thank you for joining us.

This morning, Centennial announced solid first quarter results that showed we're on the right track in building our leading regional wireless and broadband franchises. We continue to give more value to our customers and are being rewarded for it. Our consolidated ARPU grew to a record \$69.

We're serving over 1.1 million high value wireless customers and they're sticking with us. We've kept our churn low and stable. We're investing more than we ever have in trading our frontline associates at Centennial University and have developed a reputation and brand that is well regarded where we do business.

When we chose to compete with a local strategy many years ago, we weren't entirely sure where it would take us, but we were sure that we operated in five and six player markets and could pursue a global scale strategy. We had to get better fast.

Our strategy had to be about having the best network in our local markets, the strongest retail distribution presence through company operated stores, and the best trained sales and customer care associates. Sponsoring events in our local communities is also important. It's where we live and work. We're proof that a local strategy can compete alongside a scale strategy and be successful.

In the U.S, we began fiscal 2008 much like we ended fiscal 2007 delivering one of the strongest quarters in our company's history. We again produced quarterly adjusted operating income above \$50 million while posting total ARPU of \$71.

When you really break it down, the success of our retail business is best explained this way: We're adding high quality customers at a consistent pace by giving them more value for their money. Why do our customers choose us? That's a straightforward answer, too. We believe that we have the best network where our customers live and most often use their phone.

Our retail distribution is more than 90% company operated and staffed by frontline associates that are rigorously educated to follow a sales process that we've evaluated, tested, and based on customer feedback is proven to work. Key initiatives we've launched, including extended hours for our retail locations and our new when you want it handset program, continue to be valuable differentiators for our subscribers.

Our Blue Nation offering, which we introduced a few months ago, is a natural evolution for our popular Blue Region plans also continue to make steady progress. Also, we've just begun to offer BlackBerry service throughout our footprint, a move that surely helped attract high value wireless customers and support a robust ARPU.

With strength in our core markets, good momentum in our underpenetrated Michigan footprint, a definitive agreement for new markets in Ohio and a strong local team, we continue to expect great things from our U.S. wireless business.

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Moving now to our Puerto Rico operation, where our outlook continues to anticipate renewed revenue and AOI growth in the coming quarters. We continue to re-establish our leadership with high value wireless customers on the island benefiting from a 25% increase in the ARPU of our new subscribers since we've launched our unlimited plan.

The unlimited plan has helped protect our core subscriber segment but we can't stop here because the competitive environment in Puerto Rico is tough. Four out of our five competitors have since launched an unlimited plan and our costs to add a customer has risen as many players are heavily subsidizing handsets to attract and retain customers.

Our aim, like in U.S. wireless, is to give our customers more value for the dollars they spend with us. How do we keep our edge? We continue to expand our leading wireless and fiber network infrastructure.

Our EVDO coverage reaches more than 85% of the island's population and we're deploying Rev A to sustain our bandwidth leadership. With the acquisition of Islanet now closed, we've picked up 2.5 gigahertz spectrum in Puerto Rico and we'll continue to evaluate and expand a deployment of WiMAX as the technology evolves. We stand ready as our customers move from the megabyte to the gigabyte world.

Bandwidth leadership is quickly becoming a decisive factor in Puerto Rico and we're well positioned to take advantage of this opportunity. As an example, we introduced new feature packages to stimulate data usage and continue to enjoy a meaningful contribution from our residential EVDO service called Instant Internet.

Our sales of this popular high-speed wireless service remain brisk in this historically underserved broadband market and we have an important opportunity to give our customers more value by bundling it with traditional wireless products.

We're getting the job done in key areas in our Puerto Rico wireless business. Our subscriber growth has been consistent for three quarters, our churn has improved and is on solid footing in the mid two's, and our ARPU is firm due to a strong improvement in the quality of our customer base.

We're signing up more individual plans and fewer companions and our companions are paying us nearly twice what they did one year ago. We're on the right track. We're going after high ARPU customers by offering a superior network and customer care experience and we continue to state renewed cash flow growth in this segment during fiscal 2008.

Turning now to Puerto Rico broadband where we've recently taken a number of steps to widen our target market beyond the large commercial and telecommunications carriers we've traditionally served. As we consider our overall approach to Puerto Rico broadband market, we see a few key paths to support ongoing success.

One, continue to grow share with the enterprise customers, often Fortune 500, by delivering an increasingly IP centric portfolio of connectivity and networking solutions, two, support telecommunications carriers as wireless data adoption increases their backhaul requirements and need for bandwidth.

Three, expand our addressable markets to serve small and medium-sized business. Our Islanet acquisition along with the versatility of our IT based soft switch are critical first steps in reaching these customers in a more efficient and profitable way.

Four, a growing opportunity to serve the government market now that the local incumbent is no longer government owned, and five, the residential market has largely been untapped by Centennial in Puerto Rico. Our cable partnerships are a good first step that allow us to compete in this \$500 million segment and win share from the wireline incumbent.

We're now attacking Puerto Rico's telecom market from all sides, large enterprise, small and medium business, and residential, and see this comprehensive plan as a key to our future growth. Our strong track record in the industry dominated by scale players gives us confidence that our local market strategy continues to work.

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Although there are fewer regional wireless carriers as a result of rapid consolidation in our industry, we believe we're well positioned to sustain our competitive advantage and grow organically by connecting with our local markets. We look forward to updating you on our progress as we move through fiscal 2008.

With that, I'll turn it over to Tom for a more detailed financial review.

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**Tom Fitzpatrick** - Centennial Communications Corporation - CFO

Thanks, Michael, and good morning, everyone.

As Michael touched on, Centennial delivered results that were characterized by record upgrading performance in our U.S. wireless business and sustained progress on key metrics in our Puerto Rico wireless segment despite a difficult operating environment due to both the highly competitive market landscape and the soft economy.

We continue to win by having the best performing networks in our operating territory, the most direct and accessible retail distribution, and a strong brand that is rooted in serving our local markets better than anyone else. This is the winning formula that we believe will support our organic growth and create shareholder returns through balanced deleveraging.

Centennial reported quarterly consolidated revenue of \$248 million and adjusted operating income of \$100 million, representing growth of 10% and 9% respectively from the year ago period. Our consolidated adjusted operating income margin was 40% for the first quarter.

First quarter income from continuing operations was \$6.3 million, or \$0.06 per diluted share. This compares to a loss from continuing operations of \$0.3 million, or zero per diluted share for last year's first quarter.

On an operating segment basis, U.S. wireless posted first quarter revenue of \$137.6 million and adjusted operating income of \$53.1 million. (Inaudible) in an adjusted operating income margin of 39%.

The important steps we've taken to transform this business are really paying off and we believe we're one of the best growth stories in this rapidly evolving industry. It's worth emphasizing that we've achieved record results despite a consistent decline in high margin roaming revenue. We have visibility to sustain customer growth, robust ARPU, and strong retail revenue and AOI growth in this segment.

We recorded roaming revenue of \$18 million during the period, a 7% year-over-year decrease as roaming minutes fell 5% from the year ago period. We continue to forecast a long-term decline in roaming revenue.

U.S. wireless retail ARPU and minutes of use both set new records during the first quarter as retail ARPU grew 11% year-over-year to \$62 while minutes of use rose 21% to approximately 1040 minutes reaching over 1,000 minutes for the first time.

Moving now to our Puerto Rico operation. During the fiscal first quarter, Puerto Rico wireless reported revenue of \$81.3 million, up 5% from the year ago quarter and posted adjusted operating income of \$28.7 million representing an adjusted operating income margin of 35%. While our first quarter AOI was down from last year, we continue to expect that our full-year Puerto Rico wireless results will show growth from fiscal 2007.

Post-paid ARPU pushed up to \$67 during the quarter, a sequential increase despite ongoing pressure on equipment revenue due to aggressive handset promotions that have become commonplace in the current competitive environment.

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As Michael noted, perhaps the most significant benefit we've observed since launching our unlimited plan is the dramatic improvement in our customer profile. We're making more sales to our highest credit class and six out of 10 gross additions are now individual plans. Five out of 10 sales were individual plans before the unlimited launch.

Our companion plans have twice the monthly recurring charge they had one year ago with the unlimited companion remaining the most popular choice for our customers. It's worth sharing that most of our competitors do not offer companions with their unlimited offerings.

Data revenue again grew at a solid pace and remains a meaningful contributor to overall ARPU reaching \$6.15, or nearly 10% of total ARPU in the first quarter. The much improved customer profile and healthy data revenue will help sustain our robust ARPU as we move through fiscal 2008.

Focusing next on Puerto Rico broadband, which generated revenue of \$32 million, a 6% year-over-year increase and recorded adjusted operating income of \$18.2 million representing an adjusted operating income margin of 57%. Switched and dedicated revenue also rose 6% during the quarter supported by strong growth in total access lines and equivalents partially offset by an ongoing decrease in average revenue per line.

Our collaboration with the cable industry is beginning to show real progress, adding notably to our growth in access line equivalents and revenue during the first quarter.

And finally, a brief update on our capital structure and liquidity position. We closed the fourth quarter with net debt of \$1.94 billion and have reduced net leverage by over one half turns since our dividend recapitalization to 5.2 times.

We also announced the final redemption of our \$20 million outstanding 10.75 senior subordinated notes. This is an important milestone in our deleveraging progress as it allows us to look elsewhere in our capital structure to prepay debt and garner interest expense savings. We had \$261.7 million of total liquidity at the end of the first quarter consisting of \$111.7 million in cash and \$150 million available under the revolving credit facility.

With that, I'll turn things back to Steve for the Q&A portion of this morning's call.

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**Steve Kunszabo** - Centennial Communications Corporation - Director Investor Relations

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (OPERATOR INSTRUCTIONS) We'll go to Pat Dyson of Credit Suisse.

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**Pat Dyson** - Credit Suisse Securities - Analyst

Good morning, guys.

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**Michael Small** - Centennial Communications Corporation - CEO

Hi, Pat.

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**Pat Dyson** - *Credit Suisse Securities - Analyst*

I guess the first question would be, you know, with all of the consolidation that's going on in this sector and you guys have specifically seen some consolidation recently with Sun Com and T-Mobile, can you just give us your sense as to how that particular transaction and what it will do to the Puerto Rico market will benefit you or potentially there could be a negative out of that as far as how T-Mobile could approach the market just to give us your sense there?

**Michael Small** - *Centennial Communications Corporation - CEO*

Hi, Pat, this is Michael.

I guess it's premature to predict exactly what T-Mobile will do but in general, we make our living by being the local player against national players and so the more nationally consistent our competitors are, generally the better it is for us. The less likely, you know, a national player's less likely to respond locally to what we do. So time will tell but our initial reaction is given our local market strategy we'd rather compete against the big guys.

**Pat Dyson** - *Credit Suisse Securities - Analyst*

Could you, along that same line of questioning, could you provide any update as far as what you're seeing from America Mobile right now as far as their entrance into the market presently?

**Michael Small** - *Centennial Communications Corporation - CEO*

A few comments. One is they've done nothing crazy as a new entrant. I mean they've invested a lot to advertise that they're the new guys on the block, and I think they've been steadily investing in their networks.

I believe they're deploying with JSM, which is (inaudible), and when that's ready they may do something even more aggressive in the marketplace. They have boosted the DSL offering, the fixed line side, so there's more speed and some price reduction but mostly more speed for the dollar.

**Pat Dyson** - *Credit Suisse Securities - Analyst*

Okay.

And then on roaming, roaming in the U.S. came in better than our expectations. How did the number come in versus your expectations? And I know you commented that you expect for roaming to decline over the long-term, but is your guidance still in place for the 15 to \$20 million declines you're expecting for fiscal '08?

**Tom Fitzpatrick** - *Centennial Communications Corporation - CFO*

Yes, that's still our guidance.

**Michael Small** - *Centennial Communications Corporation - CEO*

It's slightly stronger in the current quarter due to the data revenue which is subscribing but we're standing by our guidance.

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**Pat Dyson** - *Credit Suisse Securities - Analyst*

Okay. And then I guess just a final question and I'll let someone else get on.

Along the lines of my first question in all of the consolidation that is going on, where does that position Centennial right now as you look at the Company, Michael, in thinking about your strategic options or maybe even from an operational perspective, what does that do, what changes does that provide for the Company in how you think about it?

**Michael Small** - *Centennial Communications Corporation - CEO*

Well, as we indicated throughout the prepared script, we think our local market strategy's resonating. There's a large customer segment that likes the service and the treatment we provide our customers and so I don't see that changing any time soon.

And as we've always said, we'll do what's best for our shareholders and if we can, we'll find the highest value for the shareholders so we're certainly open, but that statement has no bearing on our ability to compete. We're out there and we're winning in the marketplace every day.

**Pat Dyson** - *Credit Suisse Securities - Analyst*

Okay. Great. Thank you.

**Operator**

We'll go to Ric Prentiss of Raymond James.

**Ric Prentiss** - *Raymond James & Associates - Analyst*

Yes, good morning, guys.

**Michael Small** - *Centennial Communications Corporation - CEO*

Hi, Ric.

**Ric Prentiss** - *Raymond James & Associates - Analyst*

I wanted to touch first on the U.S. business. Can you talk to us a little bit about, you mentioned the Blue Nation offer that you've had for several months I think it was maybe there for almost the entire quarter in the Blue Region plan. Can you talk to us a little bit about what kind of gross adds share you saw for those kind of fairly new plans that you were introducing?

And then on the U.S. side, the data was a pretty impressive increase. You mentioned that you just started offering BlackBerrys. Was that within the quarter just reported or in this quarter that just started?

**Michael Small** - *Centennial Communications Corporation - CEO*

I'll turn these questions over to Phil Mayberry here. So take them away.

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**Phil Mayberry** - Centennial Communications Corporation - President U.S. Wireless Operations

Hi, Ric.

Blue Nation was the only offer during the quarter except for companion plans that we sold to existing Blue Region so basically, every activation minus about 7 or 8% was on Blue Nation. BlackBerry rolled out about 10 days ago.

**Ric Prentiss** - Raymond James & Associates - Analyst

Okay.

If you look at your, I'm traveling today so I don't have my third quarter or my fiscal year-end number here, but wasn't it like 340, 350 that you did in data ARPU last quarter and then this quarter just reported was 428?

**Phil Mayberry** - Centennial Communications Corporation - President U.S. Wireless Operations

Yes, quarter-over-quarter was 352 growing to 428 up 22% and year-over-year it's up 78% from 240 to 428. You still got some upside on it so it's a real positive thing that we're growing it as much as we have and we've got, still have some legs on it to help us with the overall ARPU.

**Ric Prentiss** - Raymond James & Associates - Analyst

Pretty exciting upside there.

If you look at kind of the \$0.75 a quarter change do you think that pace can kind of continue? Should we think \$0.50 a quarter I mean heading towards \$6 seems to be a no-brainer over the next several quarters.

**Michael Small** - Centennial Communications Corporation - CEO

All right. Phil, don't go there.

**Ric Prentiss** - Raymond James & Associates - Analyst

That would be a definite maybe.

**Michael Small** - Centennial Communications Corporation - CEO

I think I'll get Ric in our next budget (inaudible).

**Ric Prentiss** - Raymond James & Associates - Analyst

All right. Well let me ask another question then.

You guys mentioned the Highland spectrum. I think that deal or the definitive agreement was announced back in mid September but time to close you think maybe year-end, it's kind of on the FCC, we've got a lot of deals in the pipeline for the FCC to look at. How do you think yours stacks in there and what makes you think you can get it done by year-end, calendar year-end?

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**Michael Small** - Centennial Communications Corporation - CEO

Well, what would our General Counsel comment on this?

**Tony Wolk** - Centennial Communications Corporation - General Counsel

I think that should close probably in the next 30 days we would expect.

**Ric Prentiss** - Raymond James & Associates - Analyst

And is it just spectrum, there's no customers?

**Tony Wolk** - Centennial Communications Corporation - General Counsel

That's correct.

**Ric Prentiss** - Raymond James & Associates - Analyst

Is that why you think it closes pretty quick, because that would be just like a 45 to 60-day kind of closing, right?

**Tony Wolk** - Centennial Communications Corporation - General Counsel

That's right, Ric, there's no overlap.

**Ric Prentiss** - Raymond James & Associates - Analyst

Great. Well, good luck, guys.

**Michael Small** - Centennial Communications Corporation - CEO

Thank you.

**Tom Fitzpatrick** - Centennial Communications Corporation - CFO

Thanks, Ric.

**Michael Small** - Centennial Communications Corporation - CEO

Yes, that acquisition of spectrum we think is pretty valuable to us because it's immediately adjacent to Fort Wayne and Lima, Ohio, has clear community of interest with Fort Wayne and it's one of our leading complaint areas that we don't have coverage going that way into Ohio. In fact, no one has GSM coverage along some of those roads in that territory, so it'll be the first GSM coverage in some locations.

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**Ric Prentiss** - *Raymond James & Associates - Analyst*

Great. Thanks, Michael.

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**Operator**

We'll go next to James Breen of Thomas Weisel Partners.

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**James Breen** - *Thomas Weisel Partners - Analyst*

Great. Thanks, guys. Just a couple questions.

One, on the competitive front in Puerto Rico, Michael, you talked about other companies offering some handset subsidies. What have you seen from a pricing standpoint in terms of some of the other plans that they're offering? Are they still sort of on par as they were last quarter or are they a mixed launch?

And then secondly, with respect to the capital structure, Tom, you paid off the \$20 million this quarter. What can you do near-term or what other issues are out there near-term that you could pay off as we look over the next three or four quarters? Thanks.

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**Michael Small** - *Centennial Communications Corporation - CEO*

So first on Puerto Rico and the competitive environment of wireless, the initial response was phones, you know, several months ago when we first launched new plans, bigger discounts on phones and we saw cost to acquire increase as a result and we weren't unhappy with that because, as we said in our script, the ARPU was up 25% for the new customers so we're paying a little more to get a more valuable customer.

The second initiative competitive response was for people to begin to match our unlimited, although we believe, and we think the marketplace believes, no one matched fully our unlimited. It was kind of, they tried to stop some of the bleeding by saying they had it, too, but didn't have all of the features or benefits of ours, principally the unlimited companion, but we also had better rates for roaming and LD to the U.S. than the other unlimited plans.

And now, I think we're starting to see a little more of the marketplace starting, our competitors swing more towards the low ends and away from the unlimited offering because I think that will be a trend in the marketplace. It seems like we're defending share, taking share among the high credit, heavy users of service on the islands and I think most of the competitors, particularly if you analyze their traditional style of the marketplace, are focusing more low end and that's where most industry observers believe most of the growth is going to be going forward in Puerto Rico, so we pretty well have chosen to defend the high end and we think there's a steady shift of many of the competitors more towards the low end.

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**James Breen** - *Thomas Weisel Partners - Analyst*

Okay, and --

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**Tom Fitzpatrick** - *Centennial Communications Corporation - CFO*

And Jim, as to where we would go next with the pay down, we can always take out bank. We note that the holdco floaters are callable at 1-03, January 1st so the way we look at this is we're going to go for the, we'll take out the instrument that has the highest net present value to us from taking it out and one we're sure we get a pay back on kind of what we view as the relevant time frame.

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**Operator**

We'll go next to David Sharret of Lehman Brothers.

**David Sharret** - *Lehman Brothers - Analyst*

Good morning, guys.

If I can just ask on churn, in the U.S. churn picked up a little bit. Just wondering if that's just seasonal, up about 40 basis points and if you could just remind us (inaudible) that will come down in the next couple quarters or if there's anything else you're seeing there?

And then in Puerto Rico, as well, I know you're sort of comfortable in this churn range. Do you think there's any chance for it to decline further given where you are on unlimited and just if you could remind us, I don't know if had said what percentage of your subs are on unlimited as of today or the end of the quarter.

**Michael Small** - *Centennial Communications Corporation - CEO*

We didn't disclose a figure for unlimited percent but it continues to build. We said 50% and the migrations have slowed down but the net adds are all exclusively unlimited and there still is a steady pace on the migrations.

Churn in the U.S, well first let me do Puerto Rico. We're sticking with the mid two's and that it's going to stay in that range and are not forecasting anything differently in light of the competitive response to the plan and due to the tough economy in Puerto Rico at the moment. So we think it was a good thing that we got over half our customer base on to the U plan and churn would have been worse due to the general conditions in Puerto Rico if we hadn't done that.

On the U.S, the number one issue is seasonality and if you look year-over-year we went from 1.9 to 2.0, so it's pretty much the same.

But, Phil, if you want to make a few additional comments in what you're seeing in churn area?

**Phil Mayberry** - *Centennial Communications Corporation - President U.S. Wireless Operations*

Sure, Michael.

Most of it was seasonalization as you go into the back-to-school, you see people making choices on what they're going to spend their money on, and there's no single magic answer on it. A little bit of it was because we tightened up our collection efforts due to the macro economics.

A little of it's the TDMA customer turn, we still got 6, 7% of the base out there's got TDMA, and we've been looking at the profitability on the TDMA customers in choosing whether or not we want to lose them on almost an individual basis rather than invest in giving them a new GSM phone. A little of it was our testing on some more credit challenge that have high MPV, and a little bit of it was due to the process that we have in place to control the number of customers that are converting from the Blue Region to the Blue Nation.

The customers expect to be able to change to Blue Nation with the same rate plan and we've not been allowing that. You have to go to a higher priced plan and there are some small fees for converting and we're using that to control how many people convert, so some of the regional coverage people have decided to leave rather than pay the higher price.

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We're taking each of those single little things that all contribute to the change in the churn rate and we're working them based on keeping an eye on revenue and profitability. Sometimes churn is something that you look at and say, I can't make any money giving a TDMA customer a new phone so I choose to let them leave. So we're working all of those, we're (inaudible) all of them.

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**David Sharret** - *Lehman Brothers - Analyst*

If I could just follow-up on Puerto Rico. You mentioned in the release in terms of, I think, it was higher acquisition costs and retention efforts. Is that impacting EBITDA there and is that tied still to the unlimited plan offering or is that just increased competition?

Just trying to figure out if that's something that you'll see some step back and some of that spending you said also you've seen slower migrations that can maybe help EBITDA in the next few quarters or is that just competition, this is just, we're going to see this for the next few quarters and potential medium-term?

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**Michael Small** - *Centennial Communications Corporation - CEO*

Yes, the slowdown in migrations helps us financially because, well, certainly in the early days some of the migrations were driven by people who had big overage charges migrating so on balance we won that but at the beginning, the people with the most overage migrated. And then there's also just a lot of activity around the migrations, so that going away, or not going away but diminishing is a benefit to AOI.

The tougher competitive environment basically people come into the market that re-energize competitors and they've had some times at least partially match our unlimited plan and the fact that the economy is still pretty tough in Puerto Rico, that's going to persist for a while.

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**David Sharret** - *Lehman Brothers - Analyst*

Right. Okay. Thanks.

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**Operator**

We'll go next to Ana Goshko of Banc of America.

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**Ana Goshko** - *Banc of America Securities - Analyst*

Hi, thank you.

First I know you've had a couple of questions on the competitive environment. I wanted to ask specifically about Open Mobile which I believe launched in the early part of the summer and I believe it's like a Leap metro-like all unlimited model, and they do have a couple of plans with price points below your \$49.99 plan. So wondering, you know, like in the U.S, is that very sort of low end targeted, are they subsidizing phones, is there a heavy advertising blitz and are you feeling any impact from them yet?

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**Michael Small** - *Centennial Communications Corporation - CEO*

Yes, the offer you described correctly. It's very similar to the U.S. Leap metro offers, and the main difference is, I mean, they're depending on the plan but they're 35 to \$40-some but there's no subsidy on the phone, so we include the phone for \$49.99. It is, I think, primarily they're going after a different segment.

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We're the very top end. We're the Ritz Carlton or whatever, the Mercedes of the market. If you can afford Centennial, you want it, it's the heavy user. And so we've been seeing the credit profile of our customers improving since we launched U plan. When we look at our net adds they're almost exclusively coming out of the top credit class, so that's been a real positive change.

I think Open Mobile is gaining subs way more than it was when it was Mobistar. They have a much better network and they have much clearer offering to the marketplace, but it's at the other end of the spectrum.

Now, is there some overlap and when we examine our porting ratios do we see they are doing better than they used to be? Yes, but are they anywhere near our most relevant competitor at this stage? No.

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**Ana Goshko** - Banc of America Securities - Analyst

Okay. And then, thanks.

And then in Puerto Rico on the wireless side on the ARPU side, wondering if you can give us some sense or some anecdotal information on the \$49.99 and the \$30 price points which of the \$30 being the companion plan, what are your actual, like, incremental new ARPUs once you take into account the phone care and the data plan? So on average, if you have a companion signing up for the \$30 plan, what really is the effect of ARPU that you're seeing on that gross add?

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**Michael Small** - Centennial Communications Corporation - CEO

Yes, every time we add a new customer, it's accretive to ARPU by a little bit. The gross additions are exceeding install base at the moment, and we sell nearly 90% of all customers each of the feature package that includes some data as well as the traditional custom calling features and the phone care package which is at a minimum insurance and may include an upgrade program.

That's virtually all customers are taking that. It's why we get there and then you throw in a little roaming, a little long distance, a little USF and then some of the regulatory charges gets us to the overall answer.

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**Ana Goshko** - Banc of America Securities - Analyst

Okay. That's helpful. Thank you very much.

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**Operator**

(OPERATOR INSTRUCTIONS) We'll go to Christopher Taylor of Evergreen Investments.

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**Christopher Taylor** - Evergreen Investments - Analyst

Thanks.

Good execution, but I'm trying to understand the underlying logic of the Company. You're in Michigan, New Orleans, Puerto Rico, GSM, TDMA wireless, broadband. What's your underlying theme here? What's the long-term logic of the Company?

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**Michael Small** - Centennial Communications Corporation - CEO

Good question. The geography is to some degree historical accident, we got the licenses where we get the licenses along the way. Over time we've improved those geographies so they're all decent clusters, but the underlying logic is we have paid attention to those local markets and we do whatever it takes to be successful in the local market.

We do not try to pursue a scale strategy. That becomes most relevant to the customer in that we own our own stores in those areas, we don't choose very many dealers at all and then we put a huge amount of training into our frontline associates.

So if you're in a little town somewhere, you can walk into our nice new store, nicely refurbished store, well staffed with people who have had hundreds of hours of training or you can go next door to someone who threw the dealers sign up for one of the national carriers and had someone who gets an e-mail every now and then on what they should be selling, and that's a real difference to a customer in a small town.

But we also make strategic decisions to the local marketplace and Puerto Rico makes sense to run fiber, in the U.S. it doesn't. In the U.S. it made sense to do GSM because that was the right roaming relationships.

In Puerto Rico, the population density and the huge capacity requirements made sense to go CDMA, and we find if you really do right things in the local markets customers will pay you for it and you now see us having industry leading ARPU's across the board as a result.

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**Christopher Taylor** - Evergreen Investments - Analyst

I mean, you kind of argue with execution and obviously you're doing a good job there, but I guess my concern is with this acquisition musical chairs going on that the music stops pretty soon and you're too confusing to be of interest to anyone. Is that a reasonable concern?

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**Michael Small** - Centennial Communications Corporation - CEO

We've always owned both businesses, the U.S. and Puerto Rico, which is complicated as a strategy alternative. There's no doubt about that and it's probably the reason we owned Centennial, you know, the (inaudible) in Blackstone were able to buy it nine years ago, that strategics generally [won] one piece or the other and less likely both.

We think our, as we've discussed several calls, we think our alternatives, the friction to pursuing alternatives declines as our capital structure becomes more callable at lower cost. We've often cited June of next year is when the ten and one-eighth \$500 million ten and one-eighth become callable, but having said that, the decisive issue to date has been the reason we haven't participated in consolidation is we believed in our future and we've been able to grow the business at a faster rate than so far anybody's been willing to pay us to own it, and as soon as that calculus changes, we'll figure out what we got to do for an exit strategy but right now we're creating value for shareholders by running the business.

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**Christopher Taylor** - Evergreen Investments - Analyst

That you are. Just a quick question, sorry.

The new, the 10 new board members, does that signal anything, especially the Hawaii telecom predominantly?

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**Michael Small** - *Centennial Communications Corporation - CEO*

We believe we have selected the two directors because they're well qualified and will be able to contribute, but what it signals is that, well, Blackstone exited, and the Blackstone board member resigned at the same board meeting, and we've been watching Welsh Carson distribute shares to now and know that at some point we may have additional directors leaving and we didn't want to be behind the curve, so instead of just adding one for one, we decided to get a little in front of this issue to maintain continuity at the board.

**Christopher Taylor** - *Evergreen Investments - Analyst*

Great. Thank you very much.

**Operator**

We'll go next to Ric Prentiss at Raymond James.

**Ric Prentiss** - *Raymond James & Associates - Analyst*

Hey, guys, a quick follow-up question.

On your Cap Ex, I think, I just want to confirm you're still looking at approximately \$140 million for the fiscal year for both Cap Ex and spectrum and if so, how does that kind of update us on what your thoughts are on the 700-megahertz auctions and also how much Cap Ex you might put to work in Highland to buildout those adjacent markets to Fort Wayne.

**Tom Fitzpatrick** - *Centennial Communications Corporation - CFO*

140 is our guidance. That includes any spectrum that we need including the 700-megahertz auction.

**Michael Small** - *Centennial Communications Corporation - CEO*

Yes, and the high Highland Cap Ex will all be within guidance for this year. We will not do an extensive build there, but we'll do enough to at least solve the customer complaint issues about not having GSM coverage leading out of Fort Wayne into Ohio.

**Ric Prentiss** - *Raymond James & Associates - Analyst*

How much Cap Ex do you think you'll spend out in that kind of edge out strategy there?

**Michael Small** - *Centennial Communications Corporation - CEO*

It's within the guidance, but it won't be a big number. It's going to be a few million dollars.

**Ric Prentiss** - *Raymond James & Associates - Analyst*

Got you. Okay. Thanks, guys.

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**Operator**

And at this time I'll turn the conference over to Mr. Kunszabo for any additional remarks.

**Steve Kunszabo** - *Centennial Communications Corporation - Director Investor Relations*

Thanks for your participation. Beginning later this morning you can access a replay of the call on Centennial's Web site or by dialing 888-203-1112. Thanks and have a great day.

**Operator**

That concludes today's conference. We thank you for your participation.

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