

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to the Centennial Communications Fourth 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.

Steve Kunszabo - *Centennial Communications Corp - Director, Investor Relations*

Good morning, and thanks for joining us. I'd like to welcome you to our Fiscal Fourth Quarter 2008 Earnings Call. Joining me on the call this morning are CEO Michael Small, our CFO Tom Fitzpatrick, our President of U.S. Wireless Phil Mayberry, and our President of Centennial De Puerto Rico, Carlos Blanco. Today's call will begin with a discussion of the 2008 fourth quarter results, followed by Q&A.

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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 and uncertainties 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 discussion of the risks and uncertainties that may affect Centennial's future results, please see Centennial's 2008 Form 10-K, which will be filed later today including the risk factors section contained therein, and Centennial's other filings with the SEC.

During the call we'll also be referring to certain non-GAAP financial measures. Please refer to the Investor Relations section of our website for 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 Corp - CEO*

Thanks Steve. Good morning everyone, thank you for joining us. This morning, Centennial reported fourth quarter results that reflect our ability to grow cash flow and enhance equity returns through deleveraging with a strong collection of assets and good execution by our local team. We generated \$1 billion of annual consolidated revenue and over \$400 million of adjusted operating income for the first time in our 20-year history. Important milestones along Centennial's deleveraging path.

As I meet with our stakeholders throughout the year, the two most fundamental questions I'm asked time and again are first -- how do you win in the land of giants in the U.S.; and second, how will you continue to differentiate yourself and seize the initiative in an intensely competitive Puerto Rico market? I'll answer these important questions before Tom takes you through our results and outlook for fiscal 2009.

First, we win in the United States with the proven local market strategy that features our Blue Shirt Trusted Advisors. And this has produced one of the industry's highest quality customer bases. In Puerto Rico, our strong and unique collection of assets allows us to comprehensively approach the enterprise, residential, and wireless market and satisfy the demand for bandwidth in a way that our competitors find difficult to match.

First, in the U.S., our well-trained, trusted advisors in great retail locations throughout our footprint, combined with an exceptional network, attracts high quality customers with solid ARPUs. The evidence supporting the effectiveness of our local market strategy and the quality of our customer base is strong. First, over 97% of our customer base is post-paid, unlike much of the industry that has -- we have very few prepaid customers, and no reseller relationships. All of our customer growth in fiscal 2008 came from the post-paid segment. Second, we're delighted with the quality of our new customer activation. Retail ARPU of new activation in the fourth quarter of this completed year was 19% higher than the installed base.

We are also very effective in selling post activation to our customers. We do this at every touch point we have, whether it's sales, customer care, or collection. In fact, we're now selling approximately 1,000 new feature packages each and every day at these customer touch points.

We also have a real opportunity to continue to grow our ARPU through data opportunities. As most of you know, we by virtue of being a regional carrier, choose to launch our new network technologies sometimes after the national players when we're sure that the technology is the right one, when we know we have the roaming, and the new technology available to us when the cost curves have come down. And as a result, we have an opportunity to continue to grow our data revenues, because we lag somewhat behind. We still only have 10% of our retail ARPU coming from data, and we expect that to continue to grow particularly as our customers begin the adoption of advanced services such as Blackberries, PDAs, and air cards.

Overall, our retail ARPU reached \$65.00 in the fourth quarter, an 8% increase from a year ago, and over a 30% rise from four years ago. We think this is one of the best retail ARPUs in the industry.

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We have a solid track record of competing successfully against national players. Our local market strategy works when you remain passionate about our proven sales and customer care philosophy that emphasizes direct, high-quality interactions with our customers.

One key initiative in fiscal 2009 to further improve our competitive position will be the launch of 3G technology in parts of our Midwest cluster. We also shut down our legacy TDMA network earlier this month. We're addressing technology upgrades in a measured way to balance profitability against the needs of our customers.

Now turning to Puerto Rico wireless operations, where we generated adjusted operating income growth of 20% for the quarter, as our key performance indicators -- the customer growth, ARPU, stability, and churn remained on track. We're seizing the initiatives and differentiating ourselves in the market in a few ways. First, as we've often discussed, we have an unparalleled set of network assets in Puerto Rico, with the 3G wireless network that covers over 85% of the island with EVDO rev A, the fiber backbone terrestrially and the significant undersea capacity. We believe no one else in Puerto Rico can match the quality and reach of our network, and this allows us to position ourselves as the low-cost provider with the best value proposition for the heavy users of telecommunications.

In fact, just recently we once again capitalized on these network assets by, in early June, launching a new set of unlimited plans, a little over a year and a half after we had initially launched our first unlimited plan. This new set of unlimited plans goes from a \$39.99 plan all the way up to an \$89.99 plan. At the low end, which we don't sell very much of, it's more there to establish a lower price point for us, is the rate plan that is only for individuals, no companions, and only local calling at \$39.99. \$49.99 is our traditional plan, which includes LD to the States and some messaging capabilities, and permits companions. At \$59.99 we include roaming to the United States. For \$79.99 it's unlimited voice and data, and for \$89.99 it includes the Blackberry service. These plans have been very well-received. They have positioned us again as the premiere provider at the high end of the market, and the initial indications are that the \$79.00 and the \$89.00 plans are selling very well, in fact, better than our expectations.

We're also migrating many of our existing customers to these new unlimited rate plans as we near the two-year anniversary of our inaugural unlimited offering. Another thing we're doing is, we're carefully matching cost to acquire with the expected ARPU benefits of these new plans, so we'll invest more in the phone subsidy for the higher ARPU plans, the \$79.00 and \$89.00 plans, than we will with the \$39.00 and \$49.00 plans. And we do expect ARPU benefit out of the new plans, and we believe that the migration to these new plans will also allow us to keep our churn in check.

We've also successfully launched a program that we have used in the United States and Puerto Rico, and we call this "New When You Want It." It's a handset program that allows customers to upgrade their phone when they want to, and the price depends on how long it's been since they last got a phone. Another new service in Puerto Rico that was launched just this current month is a home phone service. We reintroduced this as more a companion service to your wireless, and it gives our customers a quality alternative to their costly land line service.

When you put it all together, we're defending and reinforcing our position in the premium market as our competitors focus more on the lower end of the market in the wireless base, while we're also leveraging our strong collection of assets to attack the residential market with our Instant Internet product and grow in the business wireless base with our Blackberry service.

Now moving to Puerto Rico broadband, where we posted our best quarterly results of fiscal 2008, as we answer the call for strong bandwidth demand in Puerto Rico in a way that our competitors find difficult to match. As I shared with you last time, our fiber network and undersea capacity becomes exponentially more valuable as we move from the narrow band voice world to the broadband Internet world. This transition is happening very rapidly in Puerto Rico as we speak, for both the fixed and the wireless networks.

Our new 10 gigabits of undersea capacity was lit, thankfully, finally in July, and we're ready to meet the voracious demand of our customers wherever it may come from. And it's coming from many different areas -- one is our blossoming cable partnership where we backhaul their voice and data traffic and provide the soft switch services for the triple play offering. We're seeing it

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from the corporate segment - our Fortune 500 customers are rapidly increasing the size of their pipes. In fact, we just signed up Microsoft, who is opening a software distribution center in Puerto Rico. You no longer will buy software on disk, you'll just download it. Microsoft is capitalizing on that trend and they're using our services.

Our wireless customers are continuing to increase demand for backhaul services, both on a mobile and instant Internet basis, and our wireless competitors are continuing to come to us seeking more capacity as their customers also begin to use more data service.

Adding this 10 gigabytes of undersea capacity is a decisive step in widening our competitive advantage. Because of our scale, we can buy in the size which was a doubling of the capacity we previously had, and we're able to fill it quickly and profitably with traffic. Our principal competitors in Puerto Rico would find the same proposition costly and would have less visibility to customer demand. We could easily add another 10 gigabits when it makes sense. In fact, that's likely to occur well within the next 12 months.

We had a strong finish to fiscal 2008, showing good cash flow growth across all of our business segments for the first time in a few years. I want to thank our associates for their determination and focus in what is a rapidly consolidating and highly competitive industry where you have to be at your best each day, and I look forward to strong execution and continued momentum in fiscal 2009. With that, I'll turn it over to Tom for a more detailed review.

Tom Fitzpatrick - Centennial Communications Corp - CFO

Thanks, Michael, and good morning, everyone. As Michael noted, Centennial announced fourth quarter and full year financial results that were at the high end of our updated financial outlook as we fortified our competitive position in both the U.S. and Puerto Rico by continuing to invest in our network, retail distribution presence, and front line associates.

We also provided financial targets for our 2009 fiscal year, which I'll review with you in a moment.

Centennial reported quarterly consolidated revenue of \$258.7 million, and adjusted operating income of \$109 million representing growth of 9% and 11% respectively from the adjusted year-ago period. Our consolidated adjusted operating income margin was 42% for the fourth quarter.

For the 2008 fiscal year, we recorded consolidated revenue of over \$1 billion for the first time, and adjusted operating income of \$404.1 million, representing adjusted growth of 9% and 11% respectively from the year-ago period. Our consolidated adjusted operating income margin was 40% for fiscal 2008. As many of you may have noted in this morning's press release, I'd like to address two items as they relate to the presentation of our financial results and fiscal 2009 outlook.

First, we recorded a charge of \$2 million in the fourth quarter related to expenses incurred in connection with our evaluation of an efficient separation of our U.S. and Puerto Rico operations. We have concluded that this transaction is feasible, primarily based in the fact that our U.S. and Puerto Rico operations are fundamentally different businesses with very limited operational entanglement.

We are intrigued by the merits of a separation transaction and view the health of the credit market as an important variable governing how we proceed. These expenses have been excluded from our calculations of adjusted operating income.

Second, we discontinued our loan phones program in Puerto Rico with the end of our 2008 fiscal year. In the past, we both sold and loaned phones to our Puerto Rico wireless customers. When we sell a phone to a customer, the cost of the phone is charged to the cost of equipment sold. When we loaned a phone to a customer, because we retain title to the customer handset, the cost of the phone was recorded as an asset and charged to depreciation expense over the life of the phone. Due to a variety of

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competitive factors, our loaned phone program no longer makes sense as a differentiator for our customers and we discontinued this program effective June 1, 2008.

Our fiscal 2009 outlook was prepared in consideration of the program's discontinuation and relevant comparisons to historical financial results have been adjusted to enable comparability.

On an operating segment level, U.S. wireless recorded fourth quarter revenue of \$142.5 million and adjusted operating income of \$57.8 million, representing an adjusted operating income margin of 41%. Our success in the U.S. is sustained by our firm commitment to building a vibrant retail business that has been among the best growth stories in the industry for over two years.

Simply put, we've maximized cash flow by attracting high value customers at a reasonable cost to acquire, and by increasing our retail ARPU by selling innovative feature packages and capitalizing on a growing data opportunity, and finally, by building a brand that is rooted in serving our local communities.

We generated roaming revenue of \$13.6 million during the period, a 9% year over year decline, as we absorbed a 14% drop in our rate per minute for roaming traffic. The decrease in our roaming yield was partially offset by a 5% increase in roaming traffic, as we benefited from higher usage from our key roaming partners. We continue to believe that roaming revenue will fall over the long term and forecast a \$10 million to \$15 million decline in roaming revenue during fiscal 2009.

U.S. wireless retail ARPU and minutes of use again rose steadily during the fourth quarter, as retail ARPU grew 8% year over year to a record \$65.00, while minutes of use peaked at nearly 1100 minutes.

Moving now to our Puerto Rico operation -- during the fiscal fourth quarter, Puerto Rico wireless generated revenue of \$83.4 million, up 7% from the adjusted year-ago quarter; and posted adjusted operating income of \$31.2 million, a 20% year over year increase, yielding an adjusted operating income margin of 37%. Our year over year comparison for Puerto Rico wireless AOI benefited from significant expenditures in the fourth quarter of fiscal 2007 to migrate our customer base to our inaugural unlimited rate plan that did not recur in the fourth quarter of fiscal 2008.

As Michael discussed, we're reinforcing our premium brand by targeting customers who are intensive users of wireless service, while many of our competitors focus on the bottom end of the market. We've expanded the menu of choices for our traditional unlimited offering and continue to target business wireless with the addition of Blackberries to our handset portfolio and residential users of broadband data through our instant Internet product with great success.

Focusing next on Puerto Rico broadband, which produced revenue of \$35.9 million, a 14% increase from the adjusted year ago period, and reported adjusted operating income of \$20 million representing an adjusted operating income margin of 56%. Switched and dedicated revenue rose 12% during the quarter, supported by strong growth in total access lines and equivalent, partially offset by an ongoing decrease in average revenue per line. As we've highlighted in past quarters, our access line growth was again due in large part to our cable partnerships and these lines have a lower ARPU.

I'd also like to reinforce that our year over year AOI comparison for Puerto Rico broadband was again impacted by increased expense related to the deployment of network capacity. Our new undersea capacity came online in July and we expect our costs to more closely align with historical benchmarks for this business beginning with the second quarter of 2009.

Moving now to our financial and operating outlook for our 2009 fiscal year, we expect consolidated adjusted operating income between \$395 million and \$415 million for fiscal 2009 as compared to \$385.7 million in fiscal 2008 when adjusted for the discontinuation of our loaned phones program in Puerto Rico.

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We anticipate our consolidated capital expenditures will be approximately \$130 million for our current fiscal year, including roughly \$15 million to upgrade portions of our U.S. wireless network to 3G technology. This compares to \$118.7 million in fiscal 2008 when adjusted for the discontinuation of the loaned phones program.

It's worth emphasizing that there is no impact to our free cash flow by discontinuing the loaned phones program, as the reduction in our capital expenditures is offset by an equal adjustment to our consolidated adjusted operating income.

Now I'd like to review the impact cash taxes will have on our results going forward. For the 2008 fiscal year, we paid cash taxes of approximately \$12 million on a consolidated basis. In the U.S., our updated estimate continues to reflect negligible cash taxes for a couple of years while in Puerto Rico we expect cash taxes to move higher in future periods. As a result, we project cash taxes to be approximately \$15 million in fiscal 2009.

And finally, a brief update on our deleveraging progress and liquidity position. We closed the fourth quarter with net debt of just over \$1.9 billion and have reduced our net leverage over one full turn since our dividend recapitalization to 4.7 times. We expect roughly \$170 million of cash interest expense in fiscal 2009, a \$17 million savings from fiscal 2008, driven primarily by previous debt paydowns and a lower average interest rate on our outstanding debt.

As we continue to evaluate our financial position in these choppy markets, it's pretty clear that we have a solid balance sheet and favorable maturity profile with the majority of our debt not coming due for another five years. It's worth noting that at the midpoint of our AOI outlook we expect to generate approximately \$90 million of free cash flow in fiscal 2009, nearly a 35% increase from the free cash flow we produced in fiscal 2008.

We had \$255.2 million of total liquidity at the end of the fourth quarter, consisting of \$105.2 million cash and \$150 million available under the revolving credit facility. With that, I'll turn things back to Steve for the Q&A.

Steve Kunszabo - Centennial Communications Corp - Director, Investor Relations

Thanks, Tom. Operator, would you please provide instructions for logging in questions?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) We'll go to Brett Feldman of Lehman Brothers.

Brett Feldman - Lehman Bros. - Analyst

Thanks for taking the question, guys. I was hoping we could just talk about the strategic evaluation that you referenced a little bit in the press release, and then elaborated on during your comments. Maybe talk a little bit more about why you think it could be accretive to your shareholders to separate the U.S. from Puerto Rico? And I think you said it was somewhat dependent on credit market conditions, maybe you can just walk us through that a bit?

Tom Fitzpatrick - Centennial Communications Corp - CFO

The reason we think it's accretive to shareholders is because the two businesses are fundamentally different. I mean, if you look at Puerto Rico, it's a top 25 market. We have -- we have aspirations to be the market leader in that market. In the U.S., we're a niche operator, and so the businesses are really going in two different directions. And capital investments, etc., that are appropriate

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for one are not necessarily appropriate for the other. And so that's why we think the transaction would be accretive, because they could go in the appropriate direction.

And the credit markets, the current state of the credit markets as most people on the call know are very choppy, and so, and very uninviting, frankly, currently. And so, we're keeping close tabs on them and that's why that's an important variable in the account of our consideration.

Brett Feldman - *Lehman Bros. - Analyst*

All right, so I mean, how far are you into this process? Let's say next week the credit markets look fantastic, would you be ready to go ahead and immediately start doing something? Or are there other hurdles that you'd have to clear?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

I would just say we've done the staff work, Brett, and drawn the conclusion that I've made in my prepared remarks. And I would characterize our evaluation as thorough, that's as much as we'll say at this point.

Brett Feldman - *Lehman Bros. - Analyst*

Okay, that's fair enough. Maybe we can just talk a little bit about the guidance right now and what's baked into it. Obviously there's a little bit of the CapEx component for the 3G upgrade. Maybe we could start out by talking about approximately how much coverage you think you're going to get for about \$15 million?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

We'll have Phil Mayberry expand on it, but again, our general philosophy on going to the next generation of technology is to make sure it's fully entrenched with our roaming partners and that the cost curve has come down, the availability of the phones is good. Phil, give some general descriptions of what you think you're going to be able to deploy this year.

Phil Mayberry - *Centennial Communications Corp - President, U.S. Wireless*

Brett, we're going to cover the middle part of the Midwest cluster and probably about 65% of the pops in that area. It's where we have the most subscribers, where we have the most demand for it.

Brett Feldman - *Lehman Bros. - Analyst*

About how many pops do you have in your Midwest cluster?

Phil Mayberry - *Centennial Communications Corp - President, U.S. Wireless*

[Mike], do you remember?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

About 6 million.

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

6 million or 5.9 or 6.1 or something like that.

Brett Feldman - Lehman Bros. - Analyst

Okay. And then I know you've had some interesting chargebacks in the past with your U.S. [ave revenues]. How is that accounted for in the guidance you've given for next year?

Tom Fitzpatrick - Centennial Communications Corp - CFO

We've guided based on our current run rate, Brett. We continue to receive more in cash in Puerto Rico than we're recognizing as revenue, because we believe there's another [true up] coming in our-- and we make our best estimate of what that reserve should be. In the latest true up our reserve almost exactly accommodated the true up. So, but the next -- the guidance assumes kind of going rate.

Brett Feldman - Lehman Bros. - Analyst

Great, and then there's one last one. Did you say that the expected cash taxes here is \$15 million, one-five million?

Tom Fitzpatrick - Centennial Communications Corp - CFO

One-five, that's right.

Brett Feldman - Lehman Bros. - Analyst

Great, thank you very much.

Michael Small - Centennial Communications Corp - CEO

Thanks, Brett.

Operator

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

James Breen - Thomas Weisel - Analyst

Great, thanks guys. A couple questions, mainly focusing on Puerto Rico. One, can you talk about the competitive environment there? I know it didn't sound as though America Movil had a very good quarter there either. Has the economy there gotten worse, better, stayed the same? And then secondly, the broadband operations had a very good quarter, you had a significant jump in the lines and EBITDA margins up in the 56% range. So can you give some color on that, and then I think we're expecting some margin expansion next quarter also, as the undersea cable comes off and how that potentially affects the margins there? Thanks.

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Michael Small - Centennial Communications Corp - CEO

Okay. Jim, it's Michael. The- I have a few comments on the competitive situation in Puerto Rico. One, this new pricing move in wireless was an attempt to really establish Centennial at the top end of the market for people with intensive use of telecommunications services by having only unlimited plans and starting at \$39.99 but realistically, we're only selling at the \$49.99 and above. And that's been effective, and we did that because there's six players in a limited geography, and a tough economic environment. And differentiation and owning a segment of the market is important.

We think that the other competitors are unlikely to match what we're doing. They may selectively do things to counteract us, but they will not move to a complete set of unlimited plans geared towards the top, top end. So, I think that's going to be effective, then us navigating through what we've over many quarters now described as the competitive environment within the industry and the tough economy in Puerto Rico. I'd say all those factors have really stayed pretty much status quo.

What I don't think AMX mentioned when they said the Puerto Rico results, they attribute it to the economy. We would attribute it also to their competitive situation by our broadband assets being brought to bear in the marketplace, whether it's through our Instant Internet product or the new home phone we introduced or our [cable TV] partnerships. People who want a phone in their home now have many options that they didn't used to have, and that directly is attributing to the improved performance in our broadband segments that you asked about.

As we switch to the Internet world from the circuit-switched world, from the voice world to the broadband world, it puts some pressure on our broadband business for a while because the pricing is so much lower, it's so much more efficient. And we're offering better service at lower prices, and as our customers migrated to that we were offering some price concessions. We're now starting to see the elasticity work our way, where the volumes are starting to pick up sufficiently where we're starting to win from this migration rather than -- to the Internet world, rather than incurring the cost of the transition. So we think that was good for us in the quarter, and we think that's going to continue to be good in the future, that we have the highest amount of bandwidth and that we're the most IP-based of any network in Puerto Rico.

We will be shutting down the temporary facilities we own shortly. Carlos, why don't you talk a little bit about the benefits of the new undersea capacity and what we're going to be doing to get our network costs down?

Carlos Blanco - Centennial Communications Corp - President, Centennial de Puerto Rico

Yes. Sure, Michael. Yes. I think that we've reported in previous quarters that we have incurred additional operational expenses because of the delay in coming in to service of our GCN cable, that's the cable that goes from Puerto Rico to St. Croix, and then on to Miami. And tomorrow, we're going to be shutting down those temporary facilities so we're going to have sequential savings in the hundreds of thousands of dollars based on that. In addition to that now we can respond more quickly to demands in the market. As Michael was saying, we're seeing exponential growth in backhaul capacity demand in Puerto Rico from all fronts, not only corporate customers and cable companies, but also the University of Puerto Rico and our own EVDO customers and data customers. So now, our marginal additional costs to satisfy all those demands are going to be very low, so we'll see a very efficient operation from the customer perspective based on the GCN cable.

James Breen - Thomas Weisel - Analyst

Great, thank you very much.

Operator

We'll go to David Sharret of Lehman Brothers.

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David Sharret - *Lehman Bros. - Analyst*

Good morning, guys. And I ask the question for Tom, just following up about the separation, the analysis that you've done. Now that you've concluded your analysis, you've talked before about breakage costs involved in such a separation due to calling and tendering for all of your existing debt. If you were to separate the two, the two businesses, is that still your view that doing that would require refinancing all the existing debt?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

Yes, that's our view.

David Sharret - *Lehman Bros. - Analyst*

Okay. So, and what is your estimate now in terms of the breakage costs involved?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

As we speak, it's \$80 million.

David Sharret - *Lehman Bros. - Analyst*

Okay. And if I could just fall back on -- for something on the cash side, I missed -- how much cash did you say you ended the fiscal year with?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

105.

David Sharret - *Lehman Bros. - Analyst*

105. And we've talked before about how you use that cash and you've said basically, given the -- viewing the credit facility as an asset, you didn't want to use that cash for taking out higher cost debt. Let me just -- at \$105 million now and expecting to bill \$90 million in cash in this fiscal year, what is sort of the threshold of cash that you think you need to feel comfortable, maybe above that level? That would then give you some flexibility to go after some of your more expensive debt?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

Well, the -- we want to put ourselves in a position when the revolver expires in February of 2010 that we don't need a revolver. And so the accumulation of cash would put us in that position. So we don't want the expiration of the revolver to cause us to have to refinance the senior credit facility. So, let me just reiterate that that's our intention, we'll just accumulate.

David Sharret - *Lehman Bros. - Analyst*

Right, but there is no sort of threshold above which you'd say you're at a comfort level, you're not at risk of having to refinance that revolver, you can just let it expire because you have a certain level of cash there is in that -- we're not close to that number yet?

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Michael Small - Centennial Communications Corp - CEO

David, this is Michael. The answer to that question is a function of the condition of the capital markets, and as choppy as they are now we're going exactly as Tom just said. If they improve materially we'll reconsider, but for now in choppy capital markets, that's our view of the world. We have a deleveraging story that works well, base case, and produces nice returns for shareholders, and we're not going to jeopardize that. If market conditions permit us to do something to make it even better, we'll take advantage of it. But in the meantime, we're comfortable doing exactly as Tom said.

David Sharret - Lehman Bros. - Analyst

All right then, and I guess this last, I mean, you talked about the conditions of the capital markets being key to potential separation, and you talked about the breakage costs as well. Your goal in terms of where the credit markets have to get to, is it for the transaction to be NPV break even, or NPV break even including the expected benefits to the businesses of being separated and there's several additional benefits assumed there rather than just a straight, purely beneficial NPV on a debt refinancing?

Tom Fitzpatrick - Centennial Communications Corp - CFO

Yeah, David, what I would say is you've done a good job of enumerating the various variables that we're considering in our evaluation, and that's as much as we'll comment on it.

David Sharret - Lehman Bros. - Analyst

All right, thanks Tom. Thanks guys.

Operator

We'll go next to [Chris Taylor] of Evergreen Investments.

Chris Taylor - Evergreen Investments - Analyst

Thanks. This \$80 million breakage cost, could you elaborate on what's involved there? Are we talking a spinoff here? What includes that \$80 million?

Tom Fitzpatrick - Centennial Communications Corp - CFO

The \$80 million is that would be the cost to call the various tranches of our bonds.

Chris Taylor - Evergreen Investments - Analyst

Okay. And in addition to the call premiums, how much -- what other transaction costs are we talking about?

Tom Fitzpatrick - Centennial Communications Corp - CFO

It would be issuance costs.

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Chris Taylor - *Evergreen Investments - Analyst*

Are we talking about just a split of the shares, is that what you're talking about?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

A spinoff, a spinoff of shares, yes.

Chris Taylor - *Evergreen Investments - Analyst*

And does this imply that you've not been successful at selling your U.S. operations, is that how we should read it, or --

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

No, I think you should read it as we said it, which is we concluded that we have two fundamentally different businesses with limited operational entanglement, that we believe could create shareholder value by separating them.

Chris Taylor - *Evergreen Investments - Analyst*

And you don't think it's more straightforward to just sell it to one of the two logical buyers?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

We believe this undertaking is intriguing and would create shareholder value. That's - we said that pretty clearly.

Chris Taylor - *Evergreen Investments - Analyst*

Can you break down this \$80 million? How much of that is a tender premium on the debt, and how much of that is other expenses?

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

No, the \$80 million is the cost, is the tender premium on the various tranches of our bonds.

Chris Taylor - *Evergreen Investments - Analyst*

Okay, and can you give us a time frame, or is that too --

Tom Fitzpatrick - *Centennial Communications Corp - CFO*

We said that the condition of the capital markets is the single biggest variable we're considering.

Chris Taylor - *Evergreen Investments - Analyst*

But it doesn't sound like it's anything concrete or immediate?

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Michael Small - *Centennial Communications Corp - CEO*

The only thing we're making is we concluded that this transaction is feasible for us and it was intriguing enough to us as is apparent to have spent \$2 million to figure that out. Beyond that, there's no other announcement today.

Chris Taylor - *Evergreen Investments - Analyst*

Thanks.

Operator

We'll go next to Robert Bovo of Diamondback Capital.

Robert Bovo - *Diamondback Capital - Analyst*

Hey, good morning guys, thanks for taking my call. Steve, if you could just elaborate a little bit on -- this seems like kind of a small issue, but in regards to this Microsoft transaction that you announced. I just have two quick questions. One, why did Microsoft locate it in Puerto Rico, and two, do you expect it to be a meaningful contributor to your Puerto Rican broadband business over time? Thanks.

Steve Kunszabo - *Centennial Communications Corp - Director, Investor Relations*

Okay. Well, Carlos can -- Carlos, our President of Puerto Rico operations, give your thoughts on Microsoft.

Carlos Blanco - *Centennial Communications Corp - President, Centennial de Puerto Rico*

Yes, Microsoft has a very important software manufacturing, I guess, plant in Puerto Rico. And they've been expanding for the last several years. Puerto Rico is very attractive for a lot of manufacturing and service industries, we all know that. We have pharmaceutical companies and biotechnology companies there. So Microsoft is already very active there, and they have decided to distribute their products as Michael mentioned, electronically in the future. And Puerto Rico is going to be one of those world distribution places, so obviously for them the telecommunications part, to have the big pipes, the big broadband pipes with reliability and prime performance, is very important.

The business for us is very important. First, it's Microsoft, and second, it gets us into the 10 gigabyte kind of world where as we were saying before, to be able to have undersea capacity as well as on-island capacity in big, big pipes makes it completely different to our competition. So, it's a very important business for us and this is great news for Puerto Rico that Microsoft is putting one of the worldwide distribution centers there.

Robert Bovo - *Diamondback Capital - Analyst*

Thanks, I appreciate that.

Operator

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

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Ana Goshko - Banc of America Securities - Analyst

Hi, thank you very much for taking the question. I had a few questions on the U.S. operation. First, on U.S. roaming, you continue to underpromise and overdeliver on that front. And I know you've said in the past that visibility is sort of tough, but again it looks like your 2009 fiscal guidance looks conservative. You have -- if I'm doing the numbers right, it looks like you had an 11% decline in '08 and are guiding to anywhere from like 17% to 26%. So, wondering if you again are really sort of setting a conservative benchmark and hoping for better, or is there something in the dynamic with your roaming traffic that you actually feel you have more precision on that outlook right now?

Michael Small - Centennial Communications Corp - CEO

Ana, this is a case of having two main customers for our roaming business, and we know we're susceptible to their decisions that are hard to predict. So, we -- and we also know that both those two customers, AT&T and T-Mobile, will over time continue to build out their network, which will lessen the need for our roaming, for roaming services from us. At any given point, we can be right or wrong but we're pretty confident about, so long term trends is down.

Ana Goshko - Banc of America Securities - Analyst

Okay. Second question is, last quarter on this call we spoke a lot about the non-subsidized low credit quality customers and the U.S. operations and how their ARPUs are very good, and the churn was high as kind of in the camp of sort of like the Leap and [Metro], type trend of 4%, but that you were making money and felt good about those customers. So wondering what the latest trends have been with those, both on ARPU and churn given the deteriorating economy and how important are they to your gross adds?

Michael Small - Centennial Communications Corp - CEO

The -- this quarter we spent more time focusing on the overall quality of our customer base, because we think we created some misimpressions last time by talking about that customer segment. The impression that you articulated that we get high revenue and low cost to acquire on those customers, but some high return, is absolutely accurate. We think we sell no more of those customers than the industry trends at large, and we're very comfortable that they're profitable for us and will continue to be profitable for us, and we think on balance, if you look at our whole customer base with no prepaid to speak of in there and absolutely zero reseller business at this stage, we have one of the highest profitability customer bases in the business.

Ana Goshko - Banc of America Securities - Analyst

Okay. And then final questions on the U.S. business, so it's -- I just wanted to dig deeper on the better AOI margin that you had because we don't have full detail on all the cost buckets in the press release yet. So it looks like CPGA was down a little bit sequentially but the margin improved a lot more than that. So, wondering what the kind of buckets of improved costs were, and what the outlook is on continued improvement there.

Michael Small - Centennial Communications Corp - CEO

In which segment, I'm sorry?

Steve Kunszabo - Centennial Communications Corp - Director, Investor Relations

U.S.

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Michael Small - Centennial Communications Corp - CEO

U.S.?

Ana Goshko - Banc of America Securities - Analyst

In the U.S. AOI. And the margin, the margin was a lot better both sequentially and versus expectations.

Michael Small - Centennial Communications Corp - CEO

Well again, the overall driver of profitability in the U.S. has been our ability to improve revenue per customer, and we're leveraging virtually all cost components except for phones at the moment. Such is the ongoing trend, that people are wanting better phones in the industry.

Tom Fitzpatrick - Centennial Communications Corp - CFO

But sequentially, retail revenues are up 3% and retail -- and expenses were down 3%, so we had lower advertising costs, we had lower activations, and that's seasonality. We see that the fourth quarter is typically our strongest.

Ana Goshko - Banc of America Securities - Analyst

Okay. Okay great, thank you very much.

Tom Fitzpatrick - Centennial Communications Corp - CFO

Yes.

Operator

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

Ric Prentiss - Raymond James & Associates - Analyst

Hey, good morning guys.

Michael Small - Centennial Communications Corp - CEO

Hey, Ric.

Ric Prentiss - Raymond James & Associates - Analyst

Sorry for joining the call late, having those be in two places at once days again here. Wanted to ask a little bit further on the roaming business. I know you mentioned on the last call there, two big customers, long term trend is to decline over time. As your guys in the market keep an eye out for who's building what where, how long of a head start do you have in knowing that they're going to be overbuilding you and revenue might be at risk? One quarter, is it a three quarter, I mean kind of how much

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visibility do you have of them coming into market? Is there anything contractually where they have to say, "Let's turn stuff off and market X or Y?"

Michael Small - Centennial Communications Corp - CEO

Well, I'll give one general comment and I'll still give some color here, but we have great insight into -- often, not always, but often, into where they're building their network. But just because they built the network doesn't mean bad things for roaming revenue. Bad things for roaming revenue is when they build the network and they choose to turn off roaming in a particular area, and that's judgment call on their part is when their network is small enough to actually shut down roaming. Because if they build more cell sites initially, they usually build a customer base which in turn roams more in the area, and it's good. So it's a second decision, after the network is built, is when to shut down roaming. Phil, can you shed any more light on that?

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

We all share the same towers, so we kind of have a built in radar for what's being built. As our technicians go around doing maintenance and repairs, they notice who is and they report that in to us. So we kind of have an idea of where they're building, but Michael's second point that the geography is split into local areas that they can choose to roam on and not roam on and they give notice of when they want to turn off roaming in an area, and there is a period of time in terms of a quarter or less of when you know what's actually going to happen.

Ric Prentiss - Raymond James & Associates - Analyst

And has there been any acceleration of the visibility of the same tower rental stuff, or has it kind of just been a consistent build out there?

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

It's basically a consistent build. They do a dog bone to start with. The interior of the metros, and then along the highway, and then they expand out off of that. So, it's a common build. You go where the traffic is, and then when they reach a certain inflection point on the amount of traffic that they're giving us, that's when they make the request to turn off.

Ric Prentiss - Raymond James & Associates - Analyst

Makes sense. On the 3G spend, the \$15 million, possibly earlier questions might have touched on it a little bit. How many pops do you think you'll actually cover with that \$15 million?

Michael Small - Centennial Communications Corp - CEO

It'll be 3, to 3-plus.

Ric Prentiss - Raymond James & Associates - Analyst

Plus.

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Michael Small - Centennial Communications Corp - CEO

3 to 4.

Ric Prentiss - Raymond James & Associates - Analyst

3 to 4, okay. And is this, which version of 3G is it? In today's day and age, there's so many alphabet soup out there.

Michael Small - Centennial Communications Corp - CEO

It's -- I'm not sure that's been definitively decided yet. It'll be a minimum of the HSDPA, but we'll likely have a better generation when we finally decide.

Ric Prentiss - Raymond James & Associates - Analyst

So it could actually be one of the Us out there, HSUPA, instead of HSDPA?

Michael Small - Centennial Communications Corp - CEO

I think. We haven't made the final choice yet.

Ric Prentiss - Raymond James & Associates - Analyst

Okay. And then the final question, data ARPU in the U.S. continues to grow nicely. Any thoughts as far as inflection points there? Puerto Rico was a little slower growing, U.S. seems to have a lot of headroom versus where the national and other regional guys might be at. Just some thoughts on what the trends are for data revenue going forward?

Michael Small - Centennial Communications Corp - CEO

The trend is, we'll grow consistent with industry paths, except we're about two years back. So if you overlay our data ARPU growth on the industry trend, just go back about two years and we'll follow that path, is what we -- you know, and the inflection points are a wide variety of issues. Whether it's learning to sell a little more SMS effectively through innovative packaging and post-sales feature upgrade, to when you deploy Blackberry, to when you deploy instant Internet, but there is no shortage of opportunities. The industry is rapidly untethering the Internet, just as we did for voice, and video is not far behind. So, I don't know where all this stops, but it's got a long, long run before the wireless industry stops pulling data and video revenues its way.

Ric Prentiss - Raymond James & Associates - Analyst

I agree with you there, been a wireless bull for a lot of years. Final question I guess, I'm just thinking, on the \$80 million breakage cost, any kind of setup costs? Alltel when they spun off wire line from wireless, there were some extra negative synergies if you were, as far as creating corporate finance, headquarters, G&A type stuff. Any ballpark thoughts about what kind of dollar values might be involved, if and when a split were to occur?

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Michael Small - Centennial Communications Corp - CEO

No, I mean, Ric, as we said there's very limited operational entanglement, and where the two are tangled is a small corporate headquarters in New Jersey. And so, there will be some very small inefficiency. It's too small to even comment on at this point.

Ric Prentiss - Raymond James & Associates - Analyst

Good news, great. Good luck, guys.

Operator

We'll take our next question from Andrew Morey of Cowen Asset Management.

Andrew Morey - Cowen Asset Management - Analyst

Yes, hi, thanks for taking my question. The loan program discontinuation, I just want to make sure I understand it. It looks like that would have no impact on free cash flow, because I guess you're already spending that money and now it's just going to be expensed instead of amortized. Would that be a correct understanding?

Michael Small - Centennial Communications Corp - CEO

Yes, that's correct.

Andrew Morey - Cowen Asset Management - Analyst

And within your fiscal '09 guidance, would you expect any effects of that program changing from a loan program to outright selling those handsets, would you expect that to affect some of the net adds in Puerto Rico?

Michael Small - Centennial Communications Corp - CEO

No, we don't expect any operational effect.

Tom Fitzpatrick - Centennial Communications Corp - CFO

We effective -- our -- our loan phone program was basically, replace it when you want it, kind of -- it was broken, and we owned the phone so we just gave you another one. Our "New When You Want It" effectively is now the substitute for that, so. And the reason we do that is half our customer base who was buying their phones didn't really have a good program to upgrade or change out or replace their phone. So now we have one program, "New When You Want It," that covers everybody, and we think it's a better plan than having the bifurcated customer base that we used to. Some people got an easy replacement, others didn't, it was starting to cause confusion in the marketplace.

Andrew Morey - Cowen Asset Management - Analyst

And one follow-on question, on the data ARPU. Would you see the data ARPU growth driven by your expansion with 3G services, or do you think there's upside to that, kind of irrespective?

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Tom Fitzpatrick - Centennial Communications Corp - CFO

Well first, this will I think have to be our last question. But, the answer is both. As you get better 3G network out there and higher quality 3G, there's more you can do with the network, and our competitive position within Puerto Rico improves, but regardless, there is a lot, lots of new services. Like for example, we'll have one last story to conclude on. Carlos, tell them about the current promotion we're running where you get to sing a song.

Carlos Blanco - Centennial Communications Corp - President, Centennial de Puerto Rico

Yes. Last year we were very successful launching our plans with an artist in Puerto Rico with our version of American Idol. This year, we have a promotion where you can call, sing a song, and then executives from Sony Entertainment are going to screen the songs. We have already like 2,000 people that have called, and on the 15th of August we're going to select the 10 best songs and then our customers are going to be able to vote for the winner. We're doing this with Sony Entertainment, and it's been this great success in Puerto Rico. So that proves the quality of our network and the possibilities for entertainment on the cellular industry.

Andrew Morey - Cowen Asset Management - Analyst

Great. Thanks for the color.

Michael Small - Centennial Communications Corp - CEO

So the ideas for wireless data will be endless. I'll turn it back to Steve Kunszabo to close.

Steve Kunszabo - Centennial Communications Corp - Director, Investor Relations

Thanks. That concludes the Q&A portion of our call. Beginning later this morning you can access a replay of the call on Centennial's website. Thank you very much.

Operator

And that does conclude today's conference. We thank you for your participation. You may disconnect at this time.

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