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Paetec Holding Corp. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Frank Louthan – Raymond James.

Frank Louthan – Raymond James

Can you give us an update on some of the voice and volume based business and what are your plans for that business longer term? Are you looking to diversity away from that and how have you changed the comp structure in the quarter? Can you give us an update on that and when you expect to start to see the impact from that as you try to incent revenue and try and decrease the churn that we saw earlier in the year?

Arunas Chesonis

I think on the voice side, again it's one of those products that although it does fluctuate depending upon any individual customers situation, it is also good revenue stream, and its something that can generate free cash flow for us in the long term. I do think the technology will be changing over time, but we are not shying away from driving more monthly recurring charges or variable usage charges with our customers. It's really about servicing them and what's the best solution for their organization.

I do think you're going to see as you mentioned, our compensation structure support a greater focus on not just bottom line EBITDA performance and return on any capital investment, but we're focusing more on the actual gross margin contribution per customer as we move forward. That's probably the most significant change we're making.

What's allowing us to do that is some of the enhancements in the IT infrastructure that allows us to look at actual gross margin per account on a much easier and real time basis. So that's beginning early in 2009 and we think that's really going to help us drive additional free cash flow looking out the next few years.

Frank Louthan – Raymond James

Is that system going to be in place across all the Paetec like the McLeod territories?

Arunas Chesonis

Absolutely. It's in place now. It's being utilized for people on a voluntary basis. We've done for a three to six month period, and what we're doing is cutting off the ability not to be required to use it on January 1. So right now it's actually being used by a significant part of the organization throughout the

U.S. and it will be the standard way that we manage our new prospective customers and our existing customers' profitability going forward throughout the country.

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