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PAETEC Holding Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Frank Louthan from Raymond James. Please proceed.

Frank Louthan – Raymond James

Great. Thank you. Have you seen any customers coming to you trying from and changing to your service is part of their cost-cutting measure? Is that driving any business and does your service for equipment [piece] work currently, and give us an update on where you are with billing system changes with McLeod and any leftover systems that with US LEC have those been converted and at what point will you all be on some unified systems across all three platforms?

Arunas A. Chesonis

Sure Frank. It's Arunas how are you? I think you hit it exactly right. The customers out there that we have, the prospective customers that we are bidding on, are all so open minded, they have a much greater need to show cost savings immediately than they ever had before get those two things for you. For people that are not your customers, sometimes their current providers will write-down businesses just like we have been on our side, and you may not get as much business as you would hope for. But so many of the customers are on the legacy, large carriers, AT&T, Verizon, and Qwest, to a large extent they are not focused on sort of the medium enterprise sector as we are. So, we are able to really show them some savings, to be very flexible with them, and when there is a capital expenditure required that equipment-financing program is really taking off for us. I think you have to be careful, there are some types of customers that you want to make sure you do not just give them a blank check on the financing. Some people in the retail sector and the mortgage sector you have to be very careful and vigilant on your credit worthiness. But by and large, our funnels are growing significantly as we go through this down cycle. On the back office systems, again on the big-ticket items, we are on schedule for the billing conversion, the US LEC their Kenan system, our Kenan system, over to the PAETEC legacy system on route change that's on schedule for the first quarter. We think it will take us another 9 to 12 months after that to convert to MacLeod billing system onto a unified billing system for the entire organization. But as you know there is lot of other little systems that you use to manage a company of our size. Just as an example, we did not have a single view for Network Management throughout the entire organization for all legacy companies. We were getting bids from outside sources and from other providers, to unify that across the country. They were projecting a 24-month project with at least a \$1 million price tag. And we were able to just complete that this fourth quarter, internally, save significant dollars, and we currently now do have a single view

of network management throughout the U.S.. So, but again there is a, this system is like that they are much smaller, if you think about something as simple as the toll-free service, the SCP features that we inherited with McLeod, which were phenomenal, on the enhance side we have a great team in Salt Lake City, about a dozen people that write the code for that. We've provided services to folks like American Idol and National Star on some of their needs. And during the fourth quarter, we just completed the transitions so now we have all the enhanced 800 features for all our customers throughout the U.S. in legacy, US LEC and PAETEC territories. So, again a lot of little systems Frank that we are just knocking off, and it's something that we are going to really look forward to dig deeper with you on the Analyst day sometime in May.

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