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Lumos Networks Corp. *(LMOS)*

Q2 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Lumos Networks' Second Quarter 2012 Earnings Conference Call and Webcast. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Mr. Harold Covert, CFO. Mr. Covert, the floor is yours, sir.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

Thank you. Good afternoon. This is Hal Covert, Chief Financial Officer of Lumos Networks Corporation. Welcome to Lumos Networks' Q2 2012 earnings conference call. The topics for today's call include remarks by Tim Biltz, our CEO; and Joe McCourt, our new Chief Revenue Officer; and I will provide a review of our financial results for the second quarter of 2012 and selected financial guidance. We will take question at the end of our commentary. We ask that questions on this call be from current investors or analysts and that any media questions to be directed to Jim Nester, Lumos Networks' Director of Public Relations.

Before we continue, I'd like to point out that certain of the statements made on this conference call are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those described. Please refer to the special note from the company regarding forward-looking statements in our second quarter 2012 earnings press release issued earlier today. In an effort to provide useful information to investors, our comments today include non-GAAP financial measures. For details on these measures, including reconciliations to the most comparable GAAP measures, please refer to information posted on the company's Investor Relations website.

With that, I'll now turn the call over to Tim.

Timothy G. Biltz

President, Chief Executive Officer & Director, Lumos Networks Corp.

Thanks, Hal, and good afternoon and thank you for joining our call today. During the call today, I will cover a number of important strategic topics, which will hopefully give you a good understanding of how we are looking to build shareholder value here at Lumos Networks. However, before starting that discussion, I want to say that we are happy to report that our financial results for Q2 2012, revenue and EBITDA, were in line with our internal plan and financial guidance.

For the quarter, we generated $50.8 million in revenue and $21.1 million in EBITDA. Equally as important, we are on track with our targeted sequential data revenue growth trajectory. Our strategic data revenues are up 3% sequentially and 16% year-over-year. Shortly, Hal will cover our financial results for Q2 in detail, as well as our financial outlook for Q3 2012.

Now, I've been with the Lumos Networks for approximately 100 days and I am now in good position to clearly state who we are and where we're going from a product offering, marketplace and customer standpoint. Lumos Networks is a fiber-based service provider with leading-edge data, broadband, voice and IP services that we provide over a dense and ever-expanding regional fiber optic network in the Mid-Atlantic region.

When we think about our business from a strategic standpoint, we look at it from both a product and customer segment point of view. Today, we have three product segments: strategic data, which represents approximately 50% of our revenue; legacy voice, which represents approximately 32% of our revenue; and access, which represents the remaining 18%.

As I mentioned a moment ago, our strategic data revenue grew approximately 16% on a year-over-year basis. While the other two product segments declined due to regulatory reforms and technology evolution at approximately the same rate, thereby giving us a flat year-over-year revenue profile. Again, on a quarterly sequential basis, our strategic data revenue grew 3%.

Based on our internal plans, in the second of half of 2012, strategic data revenue growth will continue to grow sequentially and should begin to overtake the revenue declines associated with our other two legacy product segments. While this transition is underway, over the next several years, we will use the cash generated from our declining, but profitable, legacy product segments to fund our accelerating strategic data growth product segment.

As we progress through our strategic plan period over the next several years, we expect that our EBITDA margins will expand and our capital efficiency ratios will improve as strategic data revenue represents more and more of our overall revenue. Hal will provide more details on our capital efficiency plans a little later.

Moving on to customer segments. We have two primary customer segments: enterprise and carriers. Within our enterprise customer segment, we have four large and growing vertical markets: healthcare, education, government and business. Today, these vertical markets segments represent about 55% of our overall strategic data revenue.

Next, we have our carrier segment, which represents approximately 45% of our overall strategic data revenue. Customers within this segment include all the major wireless service providers in our addressed market as well as a meaningful number of broadband service providers. We believe that both of these customer segments will experience a significant demand for increased bandwidth to handle the ever increasing amount of data demand from their customers, driven by dramatic growth of data usage of mobile wireless devices accessing the new high-speed wireless data networks as the applications that run over them perforate in all aspects of our life: home, business, and government. In a few minutes, Joe will give you an overview of our strategy to take full advantage of this market opportunity in our current and expanding addressed markets for both our enterprise and carrier customers.

Before I summarize, I want to give you a few more details about our strategic data products and customer segments. We have four primary data product lines: Metro E, Carrier Class Ethernet transport, fiber to the cell, and RSMB. Metro E represents about 37% of our strategic data revenue, Carrier Class Ethernet transport 40%, fiber to the cell 5%, and RSMB 18%. In aggregate, these product lines are projected to grow at double-digit rates over the next several years and generate EBITDA margins in line with the well-run fiber-based business.

We believe that our RSMB product line will be one of the primary feeders for our new customers of our Metro E product line. From a customer segment standpoint, we believe that our current profile, with about 50% of our strategic data revenue coming from each segments, enterprise and carrier, puts us in great position to leverage our growth in our addressed markets and take full advantage of these synergistic customer segments.

Enterprise customers will continue to accelerate the use of mobile wireless devices to improve their business prospects and we'll work through our carrier customers to handle this ever-increasing data traffic. We are in the middle of this equation today in our marketplace and will continue to expand our footprint in terms of both our data product offering and our customer base.

In summary, I'd like to highlight three primary areas that the management team and I are focused on, which I outlined on my first quarter call just a few days into the job. First, we are continuing to aggressively pursue the strategic data revenue opportunity. Second, we are ensuring that we will enhance our installation capabilities to efficiently handle today's currently sold, but not installed, pipeline, as well as the anticipated increase in business in the future.

In this regard, I'm happy to report that our installation timeframes have improved and we are on track with our continuous improvement plans as we head into the second half of 2012. With the new team members that we've added over the last 90 days across our sales, installation, and engineering teams, we're in a solid position to achieve our goals.

Next, continuing to improve our capital efficiency ratios. Today we are highly focused on taking the full advantage of our dense fiber-based regional footprint, which has been built over the last several years by pursuing success-based customer opportunities that are on or near-net. What I am pleased to report is at the beginning of 2012 that 75% of our capital investments will be dedicated to success-based customer contracts for our strategic data products. This metric is up from under 50% last year. And we expect this to continue this very focused investment of capital for 2013 and beyond.

Going forward, one of our primary goals will be that we maximize our capital efficiency by leveraging the existing investment in our regional fiber network. Joe will discuss our success-based customer edge out strategy for both our customers and segments shortly. Finally, we're focused on managing the balance between revenue growth and capital investments with the goal of continuing to provide our shareholders with a dividend payout.

Now, I'd like to turn the call over to Joe. Joe has been on board for approximately 60 days and he clearly demonstrated that he has the vision, knowledge, experience and desire to achieve our revenue growth goals in the near and long-term.

Joseph E. McCourt Jr.

Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.

Thanks, Tim, and good afternoon. First off, I'm very excited to be here at Lumos Networks. It is at a time in the company's history where we are poised to break out on a dynamic and positive growth trajectory.

While I only joined the company a few weeks ago, we have been busy enhancing our strategic plan to address the expanding demand for our key data services. We have a great set of fiber assets and geographically desirable destinations that set the table for growth. As Tim mentioned, our charge is to be the premier provider of communications infrastructure services to both our enterprise and carrier customers. We have the ability and will execute the plan to drive solutions to our end users through the delivery of data products.

Let me now provide a little color on some of the initiatives that are currently underway. First, we realigned technical resources under sales that will enable us to be extremely responsive to developing customer facing solutions. We have a dedicated team of sales engineers whose primary responsibility is to support an assigned group of account managers by geography. These sales engineers are leveraging their diverse backgrounds and honing their skills as subject matter experts in support of our key verticals. They are also delivering a curriculum of advanced data solutions training across the sales teams.

Additionally, we're moving our focus to success-based opportunities where we leverage the synergies of our current customers and fiber assets to contiguous markets. This includes identifying and mapping thousands of potential new clients to our fiber route. We've acquired market intelligence that enables us to opportunistically grow through new customer acquisitions.

In the carrier segment, we are growing our reach to primary, secondary and tertiary regional operators that are looking for carrier diversity to the major appealing points, the paths and enterprise locations in our footprint. We also continue to be deeply engaged with the wireless carriers, our new fiber to cell opportunities. We are well positioned in the early stage of the additional sites being identified to continue to build out in a fiscally responsible manner.

This edge out strategy connects the dots of each tower and enterprise location and expands our footprint like a water stain that grows with more volume. We see the increasing demand for bandwidth through Ethernet equipped networks, Internet, voice-over-IP and cloud services. The common threat is the need for a robust, fiber-based footprint to serve this growing demand set.

So, in summary, we believe that our enhanced focus on building fiber-based infrastructure services and solutions is the way to achieve sequential quarter-over-quarter growth in the enterprise data. Our goal of building networks for customers will drive our expansion further into both current and future markets.

Thanks for your time this afternoon. Now, I will turn the call back over to Hal.

Harold L. Covert Jr.

Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

Thank you, Joe. I would like to cover three topics with you today: first, our unaudited financial results for Q2 2012; our capital investment program; and then financial guidance for Q3 2012.

Revenue for Q2 2012 was $50.8 million compared to $51.4 million for Q1 2012 and $52.1 million for Q2 2011. Q2 2012 strategic data revenue was $24.9 million versus $24.2 million in Q1 2012 and $21.4 million in the same quarter last year. This represents a sequential increase of 3% and a year-over-year increase of 16.5%.

These increases were driven by good performance across all of our strategic data products, in particular enterprise and carrier class data. Overall, strategic data revenue represented 49.1% of total revenue in Q2 2012 versus 47.1% in Q1 2011 and 41.1% in Q2 2011. With our Q2 2012 run rate, strategic data is $100 million annual business.

Q2 2012 legacy voice revenue was $16.2 million versus $16.8 million in Q1 2012 and $19 million in the same quarter last year. This represents a sequential decline of 3.3% and a year-over-year decline of 14.6%. These declines, which are in line with industry standards, are due to the continuing commoditization of legacy voice revenue, the increasing use of wireless devices, and our shift in focus to VoIP and data products. Overall, voice revenue represented 31.9% of our total revenue in Q2 2012, $32.6 million in Q1 2012, and 36.5% in Q2 2011.

Q2 2012 access revenue was $9.7 million versus $10.5 million in Q1 2012 and $11.7 million in the same quarter last year. This represents a sequential decline of 7.6% and a year-over-year decline of 17.3%. These declines are in line with implementation of the FCC access reform program and the updated forecast for access revenue that we provided during our Q1 2012 earnings conference call. Overall, access revenue represented 19% of our total revenue in Q2 2012, 20.3% in Q1 2012 and 22.4% in Q2 2011.

On another note regarding access revenue, in our recent SEC filings, we have discussed a number of customer billing disputes, primarily related to our RLEC business. These billing disputes are in the process of being addressed via the legal system and direct negotiations with the disputing parties. Please see our Q2 2012 10-Q for the most recent update regarding these disputes.

In relation to these disputes and for materials related to access reform, starting in Q1 2012, we began to incur higher sequential professional fees and adjustments in revenue reserves. During Q2 2012, we incurred approximately $0.7 million in this regard. And on a year-to-date basis, for 2012, we have incurred $1.5 million. These expenses and adjustments in revenue reserves are likely to continue or potentially increase throughout the remaining quarters of 2012 as we attempt to resolve these disputes. The expenses and adjustments in revenue reserves just discussed do not include any potential settlement charges not already accounted for that may be incurred as a result of legal actions taken by outside parties or settlement negotiations conducted by the disputing parties.

Adjusted EBITDA for Q2 2012 was $21.1 million compared to $22.3 million for Q1 2012 and $25 million for Q2 2011. The sequential decrease relates to lower revenue and higher operating expenses while the year-over-year decrease was caused by lower revenue, professional fees just discussed, and increased expenses as a result of our separation from NTELOS on October 31, 2012.

Operating expenses in Q2 increased when compared to Q1 as we geared up for the projected continuation in the growth rate of our strategic data revenue in the second half of 2012. To summarize, revenue and adjusted EBITDA for Q2 2012 was in line with our operating plan and financial guidance.

Turning to our capital investment program, capital expenditures for Q2 2012 were $11.6 million compared to $17.4 million in Q1 2012 and $33.8 million for the first half of 2011. The primary reason for the sequential decline is related to timing as opposed to an indication that capital expenditures will continue to sequentially decline.

In 2012, more than 75% of our planned capital expenditures are projected to be success-based and will be tied to near-term revenue opportunities for our strategic data products. Near-term is defined as approximately six months after a capital project is approved and the installation process has begun.

This same data point for 2011 related to less than half of our capital expenditures for that year. In particular, in 2010 and in 2011, we made significant investments to expand the footprint and capacity of our fiber-based network to accommodate revenue growth. As a result of these investments, we are now in a position to leverage our network and continue to accelerate the growth rate of our fiber-based products.

To expand upon this point, if you take the high-end of our guidance for capital expenditures of $60 million for 2012, we plan to spend approximately $14 million for maintenance, IT, and facilities in total. The remaining $46 million will be spent on success-based data revenue growth opportunities.

We analyze and select our success-based capital investments based on achieving our targeted capital efficiency ratios, which include payback, return on investment, and EBITDA margins, and our targeted revenue growth rate. We believe that our success-based capital investments will be equally split between enterprise and carrier customers during 2012.

By focusing on success-based capital projects that are tied to our data product revenue streams and leveraging the density of our fiber-based network with on-net or near-net opportunities, we will be in a position to improve upon our capital efficiency as well as EBITDA margins. The level of capital expenditures that we plan and incur has a direct correlation with our target revenue growth rate. Given this equation, we are in a position to manage the rate of our success-based capital investments that we make based on market conditions and targeted revenue growth.

Moving on, adjusted EBITDA free cash flow for Q2 2012 was $9.5 million compared to the $4.9 million for Q1 2012 and $7.5 million in Q2 2011. Our net credit line balance, after subtracting cash on hand, was $5.7 million as of June 30, 2012; $6.1 million as of March 31, 2012; and $4.5 million as of December 31, 2011. We have a credit line of $60 million with current availability of $52 million.

Now turning to financial guidance for Q3 2012, our financial guidance is as follows: revenue, $50 million to $51 million; adjusted EBITDA, $21 million to $22 million. This is essentially the same financial guidance for these data points that we provided for Q1 and Q2 2012 in our most recent conference calls.

As indicated during those calls, the primary reason for the flat profile is the projection that the continuing sequential growth in our data product revenue streams will offset the decline in our other product lines starting late in 2012 and our plan to add new sales and install personnel ahead of that event.

In the second half of 2012, we have the potential to meaningfully ramp-up enterprise, carrier class, and FTTC data sales. With this profile, the company should be in a position to achieve annual year-over-year revenue growth starting in 2013.

With our planned rate of activity for capital expenditures in the second half of 2012, we will likely be pushing towards the high-end of our annual guidance of $52 million to $60 million for 2012. As indicated in my discussions, we are managing our capital investment program based on marketplace opportunities with success-based projects that comply with our targeted capital efficiency ratios and desired revenue growth rate.

Our financial guidance for 2012 that was provided on February 27, 2012, for revenue of $200 million to $205 million and adjusted EBITDA of $85 million to $90 million remains unchanged. Please review our business outlook schedule, which is attached to our Q2 2012 financial results press release, which was issued earlier today for a more complete summary of our most recent financial outlook for 2012. We look forward to providing you with an update of our financial performance progress throughout 2012 during our quarterly earnings calls.

Now, we will open the call for questions. Operator, we'll take the first question.

QUESTION AND ANSWER SECTION

Operator: Yes, sir. [Operator Instructions] Our first question comes from Ric Prentiss of Raymond James.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Thanks. Good afternoon, guys.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Hi, Ric.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Hey. A couple questions. First, on the fiber to the cell portion of the business, which is you mentioned only about 5% of the product line today on the data side. You went from seven installed in – new installed in the first quarter, it looks like 23 in the second quarter. Are you sticking with the 300 in service by the end of the year? It looks like you are. And if so, how do you go from seven to 23 to then what, I think, is about 152 incremental for the year?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

We already have a lot of those sites under development. We are sticking with that guidance and we're confident that we will hit those targets.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

And you will see a ramp-up in fiber-to-cell revenue as we exit the year and head into 2013, Ric. So it's coming.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Yeah. Okay. And we've actually build into the portfolio an even a larger set of the – we projected 300 by the end of the year and we've added additional anchored tenancies that will start us off for 2013 in good shape. And you'll also start to see the benefit of additional second tenants coming on to those anchored towers and we're already receiving modifications in some cases before the anchor tenant – the first towers hits the air. So it will be a big part of our growth, Ric, and we'll give clarity. But I am confident that we'll hit the target, having received a little experience building towers.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Exactly. And when you think about the ramping up, what's been the biggest gating factor? Has it been getting into right away or the pole line? Has it been – let's see, I am just trying to think specifically.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

No, you're absolutely right. We – a lot of our fiber is aerial. A lot of that fiber requires make-ready. There is some frustrating rate of long lead times in that building – in that process. And we're scheduling those appropriately and we're working with our partners to make that process a little smoother. But by far that's the long pulling the channel.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

The other thing that we indicated earlier in the call, Ric, is that we have beefed up our installation teams and we have some very experienced people on board now that know how to manage projects. So we made a lot of progress from our earlier calls in Q1.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Absolutely. We're very proud we have added three very seasoned executives to come in and work with our already talented operating team. That business has been built to scale and will be built to scale.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Great. And the second question is with the guidance, obviously first half CapEx was low but now we're saying it's really going to ramp significantly, success-based being the large chunk of that. How do you balance the capital needs, the dividend and looking at the cash flow statement attached at the back of the press release?

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

Well, I think, as we said, we are going to be spending capital on success-based opportunities. We're going to manage that very tightly. We believe with the credit line that we have in place today and we haven't drawn into that very heavily and with the capital expenditures that we're planning in the back half of the year, we don't think we'll be into the line very heavily then. And our plan is to continue to pay the dividends, as Tim indicated earlier on. And at this point, we don't see any major issues for us based on the growth rates that we have planned and the capital that we have to spend. And I think getting the second carriers that Tim highlighted a few minutes ago as part of the pricing is going to be a big help to that.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Okay. Obviously the markets are really focused on that dividend.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

We know that. That's why Tim had that as key point in his message and I stressed it also.

Ric Prentiss
Analyst, Raymond James & Associates

Q

Great. I'll come back for more if there is time at the end. Thanks, guys.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Thanks, Ric.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

Thanks, Ric.

Operator: Next we have Barry Sine of Drexel Hamilton.

Barry M. Sine
Analyst, Drexel Hamilton LLC

Q

Good evening, gentlemen. A couple questions as well. Could you just give us a sense of what you're seeing in terms of competitive dynamics? At the beginning of the call, you broke out the business in a number of different ways. Maybe you can do that in terms of what you're seeing competitively and what your win rates are for some of these categories like fiber to the cell?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Yeah. This is Tim. We have been very focused on our product offering and what we are – where we want to make our wins happen. And it is on the enterprise side to Metro E in that $1,000 to $2,000 a month customer and up. I think we are extremely competitive and a leader in that space on a go-forward basis. You get below $1,000 a month for some of these services, that is not our target market. Although we still provide services, we win business, that is a much more competitive position.

On the fiber to cell, I think I mentioned at the second quarter call, we – our markets are generally just now coming into the growth curve for 4G. So a lot of the build for 4G is ahead of us. We have – as I said just a moment ago, we have about 400 anchor tenants under contract today for delivery. We expect to see and review several hundred more over the next 12 to 18 months based on our pipeline. I think our success rate is quite high. I don't know if it's 25% or 40%. But to Hal's point, we're very disciplined on what our return ratios will be and so we'll take those that makes sense.

Barry M. Sine
Analyst, Drexel Hamilton LLC

Q

Could you give a sense of what the win rate is on the Metro E product you just discussed?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Joe?

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.

A

I'd say we're probably north of 50% on these solutions that were kind of provided in the Metro networks, when we're doing Ethernet.

Barry M. Sine
Analyst, Drexel Hamilton LLC

Q

Okay. And you spend a lot of time obviously on the competitive part of the business, but on the RLEC part of the business that's still a pretty significant chunk of EBITDA, probably about half of EBITDA. What are you looking at there? Are there any growth initiatives, any win back initiatives, any video or broadband data initiatives that you're focusing on to kind to maintain or maybe even turnaround the residential side of the business?

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.
A

Yeah. So let me start up and then I'll turn it over to Tim. I think, first of all, the important thing to recognize is that our RLEC business delivers a strong margin for us and good cash flow. And we think now that we've gotten through the early stages of the access reform and some of the carrier network grooming that's behind us, the decline rate of business is going to moderate and, again, provide a lot of cash to us to fuel growth in our data size. So, the other stuff, I'll turn over to you, Tim.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.
A

Okay. Well, we certainly are focused on that side of the business. What we're – however, having said that, we want to see where we can get the biggest bank for our capital investment on for growth. But we're not ignoring the RLEC. If you go to our key indicators, our video service is up almost a third year-over-year. We're continuing to pass homes of the RSU grant that we announced a year and half ago. And so we expect to see video customers growing.

We also see our RLEC broadband customers continuing to grow. Although those growth rates are slowing, they are growth products for the company. And so we have people who are focused on managing and growing that business, but we're also, to Hal's point, very focused on making sure that the next dollar capital investment that gets invested goes to the highest return and right now that is clearly focused on our Metro and strategic data products.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.
A

Just to emphasize Tim's point, we talk about 16% year-over-year growth in the first half of the year compared to the first half of last year. And we expect that to continue on for the full year. And if we close the business that we believe that we have the opportunity to obtain, I think you'll actually see that growth rate increase in 2013 on a year-over-year basis. So that's our primary focus, just to tell, so don't ignore the business, drive as much cash and margin out of it as we can, while protecting the revenue strength of that. That's our overall game plan.

Barry M. Sine
Analyst, Drexel Hamilton LLC
Q

Okay.

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.
A

Another point I'd like to add to, Barry, is that our video churn year-to-date is 1.2%, so it's very, very low. We're finding that these customers are very, very sticky. And, as Tim alluded to, we have dedicated team of folks who is focused on generating revenue through these residential and the RSMB space itself.

Barry M. Sine
Analyst, Drexel Hamilton LLC
Q

Okay. And my last question is more of a strategy question. At the time last year when you guys were spun-off from NTELOS, one of the rationale discussed was that it would improve your ability to compete certain areas, give you strategic opportunities. So, for example, you might have a greater probability of winning fiber to the cell business if you wanted a competing wireless carrier and you were an independent wireline carrier. Could you talk about some of those opportunities, are you really seeing some of those strategic benefits from the spin at this point?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

We have very good fiber to the cell contracts with Verizon, U.S. Cellular. It's just not NTELOS. So I would say the three of those make up the majority of our current commitment. We have other carriers who have yet to produce or to announce and roll 4G and – including NTELOS. So we do think it's working.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

Just we received another bid for another north of 150 sites to look at from one of those carriers.

Barry M. Sine
Analyst, Drexel Hamilton LLC

Q

And you wouldn't have gotten that perhaps if you were still part of NTELOS are you saying?

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

I don't know specifically if it would or wouldn't, but I know we're well positioned today.

Barry M. Sine
Analyst, Drexel Hamilton LLC

Q

Okay. Those are my questions. Thank you.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Thanks, Barry.

Operator: [Operator Instructions] The next question we have comes from Donna Jaegers of D.A. Davidson.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.

Q

Hi, guys. Thanks for taking the questions. I'm just curious since Joe is on the call and maybe it's too early since you haven't been on board for too long. I was curious if you could give us some color on how much success you have unfilled in the sales slot? So I was looking on the website the other day. I think you're looking for four more salespeople. And then any sort of color on bookings in the second quarter that would give us more confidence that you'll continue to see that sort of growth in strategic data.

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.

A

Yes, thanks, Donna. Let me answer those questions, while I can, in order. So, first off, we do have openings on the sales team and have ramped up efforts to get higher caliber salespeople with that are more tenured in the business that are focused on solution selling. The points I made in my comments earlier about varying the sales engineering assistance due to these higher caliber salespeople will drive more data type network solutions than just selling circuits, if you will.

With respect to bookings, I'm seeing things trending in the right direction, but again I haven't been here long enough to give you quite a snapshot on where we are. I'd fell probably better after another quarter or two under my belt to give you a good trend. However, I am optimistic. The things that we're doing from a strategic basis are starting to gain really solid traction and we are moving in the right direction.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.
A

Donna, just to add one thing to what Joe was saying. One of the reason I really like Joe is that he's demonstrated in the period of time that he's been – he's got a number of programs and actions that he's implanting right now that's going to, I believe, dramatically increase the productivity of our current sales organization. So it's not all about just bringing on new people. It's really ramping up the skill set that we have in place today. So it's a dual path that we're travelling right now.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.
Q

Yeah. I've been hearing good things from my Zayo contacts about, Joe, so.

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.
A

Great.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.
Q

I look forward to thank.

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.
A

And actually out of those openings, we actually have secured one or two that we'll start, so, yeah.

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.
A

We've got some of the answer to your questions. Some of those are committed and not here yet.

Joseph E. McCourt Jr.
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.
A

Right.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.
Q

Okay. And then on the – in your carrier access reform, I am – just that kicks in July 1, so obviously you've just put those new tariffs in place. Can you sort of give is a read on what the net impacts going to be on that, on the RLEC?

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

What we've seen happened in July is it actually had a slight favorable impact to our overall revenue. And I think the good news for us, Donna, you'll recall that on our last earnings call, we actually bumped up the RLEC revenue projections. And we think right now with the profile that we're looking at, heading into the back half of the year, with the reimbursements that we're planning on, we're going to be relatively flat to slightly down. And some of the worry that we had at the beginning of the year are starting to back off a little bit as we see what's actually happening. So, that's not going to be a growing business for us certainly, but it may not decline at the rate that we have thought it would, so --

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Stabilized.

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

A

So far so good. Stable, yeah.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.

Q

Okay. And I was just – given the 10-Q for the language you had on carrier disputes, I don't know if you can give us any more color given that these are in the courts. But on the $3.9 million dispute where you got no reserves taken yet, any more color you can shed on that as far as the timing? Is there – that's not in the courts yet, right, that's just a dispute with the carriers?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

The one you just mentioned is in the court, so that's pursuing it's – the normal path. Here's what I would say about the disputes. When we started dealing with these, we had a number of them, six or seven or eight, somewhere in that range. We've actually cleaned up the majority of them and it's really down now to the two large ones. So, one of them is in the courts working its way through the courts now and the other one that we're trying to actually negotiate with the other party to get a resolution on it.

So, I'm not as worried about the disputes as much as I have been in the past. And the only reason that we really highlighted it on this call is that still some pretty big numbers and we did not want to surprise anybody in the event that a negative event happens for us. But it's getting cleaned up. It's better than it was. And I think there is less risk around it than we had before. And, again, keep in mind the language in the Q. That's what we – I mean that is the language we're standing by.

Donna A. Jaegers
Analyst, D. A. Davidson & Co.

Q

Right. And so you still – whenever somebody – a company says it's in the court, so that sort of means that there's this long, long timeframe. Any sort of timing that you can give us on when the court would deal with this?

Timothy G. Biltz
President, Chief Executive Officer & Director, Lumos Networks Corp.

A

Yeah. I think we [ph] wanted to be particular (40:20). That's in the court based on recent developments. It's not a short timeframe. So if we can settle something in the near-term, it will probably drag on for a bit of time.

Donna A. Jaegers Q
Analyst, D. A. Davidson & Co.

Okay. All right. Thanks a lot.

Timothy G. Biltz A
President, Chief Executive Officer & Director, Lumos Networks Corp.

Thank you.

Joseph E. McCourt Jr. A
Chief Revenue Officer & Executive Vice President, Lumos Networks Corp.

Thanks, Donna.

Operator: Well, it appears that we have no further questions at this time. We will go ahead and conclude our question-and-answer session. I would now like to turn the conference back over to Mr. Covert and management for any closing remarks. Sir?

Harold L. Covert Jr.
Chief Financial Officer, Treasurer & Executive VP, Lumos Networks Corp.

Thank you. As a reminder, a replay of this call and an archive of the audio webcast will be available. Please refer to our Investor Relations website for details. Thank you, again, for joining us this afternoon. This concludes our call.