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# Lumos Networks Corp. *(LMOS)*

Q4 2011 Earnings Call

## CORPORATE PARTICIPANTS

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## OTHER PARTICIPANTS

**David G. Coleman**

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**Ric Prentiss**

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**Donna A. Jaegers**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Lumos Networks Corp. Fourth Quarter 2011 Conference Call. All participants will be in 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 Wes Wampler, Director of Investor Relations for Lumos Networks. Please go ahead, sir.

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**Wesley B. Wampler**

*Director-Investor Relations, Lumos Networks Corp.*

Thank you. Good morning and welcome to Lumos Networks' fourth quarter 2011 earnings conference call. As a reminder, Lumos Networks was separated from NTELOS Holdings Corp. through a spin-off effective after the close of business on October 31, 2011. The topics for today's call include a review of the financial and operational results for the fourth quarter and year 2011 and selected financial guidance for the first quarter and year of 2012.

Here today, we have Lumos Networks' Chief Executive Officer, Jim Hyde; the company's President, Mike Moneymaker; and Harold Covert, Chief Financial Officer. We'll begin with comments from Jim, Mike, and Hal, and then, we'll take any questions you may have. We ask that questions on this call be from current investors or analysts and that any media questions be later directed to Lumos Networks' directors of public affairs.

Before we continue, I would 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 notes from the company regarding forward-looking statements in Lumos Networks' fourth quarter 2011 earnings release distributed earlier this morning. Also 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 related information posted on the company's Investor Relations website.

With that, I'll now turn the call over to Jim Hyde, CEO of Lumos Networks.

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## James A. Hyde

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

Thanks, Wes. Good morning, everyone and welcome to the first Lumos Networks' earnings call as an independent stand-alone company. We're all very energized after completing our spin-off from NTELOS Holdings on October, 31 and our business is well positioned for future growth as an independent entity.

Lumos Networks is now the sole focus of our management team; which will benefit our customers, employees and shareholders alike. We've supplemented our already very strong leadership team with new talent. We have a solid strategy and an operational plan in place to deliver on that strategy. While regulatory changes is coupled with some level of carrier network grooming and the spin-off itself have created business and accounting issues for the company to deal with; we're prepared well for these changes and are confident we're a business with strong tailwinds coming from our capital planning and investment strategy over the last few years.

On today's call, we plan to review fourth quarter and annual financial results, review Lumos Networks' 2012 operating plan, provide 2012 guidance, which will include an update on the impacts from access reform in carrier network grooming to RLEC access revenues and finally, we'll conclude with a question-and-answer session.

Before I hand the call off to Mike and Hal, I'd like to take a moment to tell you all how we think you should be thinking about our business going forward. To be clear, Lumos Networks is focused on growing our business and creating shareholder value. We've been preparing for the inevitable regulatory access reforms in carrier network grooming actions over the course of the last several years; and while 2012 will be a year of accelerated impact on our RLEC access revenues. We are well positioned to grow through these changes in the second-half of this year and for years to come.

Our RLEC business continues to be a very high margin business; generating strong cash flow which will fund our fiber-based enterprise and wholesale businesses going forward. We've invested heavily in our fiber network products and services over the last several years; organically and through acquisition with the integration work now behind us. Our access to new markets, customers, and revenue streams – has the entire Lumos organization focused on the capturing these new growth opportunities and translating them into real value for our shareholders.

Thank you all, again for joining us this morning. I'll now turn the call over to Mike.

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## Michael B. Moneymaker

*President & Director, Lumos Networks Corp.*

Thank you, Jim and good morning. While investments in our infrastructure and organic expansion will continue; Lumos Networks has crossed an evolutionary point where our strategic focus has shifted from integration and expansion activities in 2011 to driving higher data sales and improving markets penetration in existing service areas in 2012.

We are focused on data growth opportunities in 2012. Data demand is exploding. And with our 5,800 route-mile of fiber network, we are uniquely positioned to capitalize on this growth opportunity. This year, our strategic

initiatives focused on revenue growth from our flagship strategic data offerings to enterprises and wireless and other wholesale carriers, which are projected to grow 15% to 20% annually over the next several years.

The reasons are; first, data and bandwidth demand is rapidly expanding for business and carriers. Wireless carriers are now poised to expand and upgrade their networks for 4G capabilities in our region. We provide fiber connections to 148 cell sites as of the end of 2011; an increase of 77 sites from the year before and we have orders to provide fiber connectivity to over 150 cell sites that we will be building to in 2012.

Most of the new cell site builds will be operational in the second half of 2012 and early 2013 and will position us for continued double-digit wholesale revenue growth as we reap the annualized revenue contributions from these new sites in 2013. And with over 2,000 cell sites in close proximity to our network, this growth rate can continue for the next several years. Second; we have completed separation from NTELOS and the integration of the FiberNet and Alleghany fiber acquisitions.

We've enabled Metro Ethernet or IP voice services in 30 markets over the last 12 months and have five new markets in which we're turning up new fiber rings in the first half of 2012. We've invested nearly \$300 million in these acquisitions, their integration and enhancements and expansion of our state-of-the-art fiber optic network from 2,200 fiber route-miles primarily in Virginia to 5,800 route-miles serving seven states.

Our strategy in 2012 is to capitalize on the data sales opportunities to businesses as we focus our resources previously engaged with these acquisitions, integration, and the business separation; on the growth opportunities in front of us. We fully expect this focus and our enhanced data capabilities will drive double-digit growth in sales to enterprises in 2012 and beyond; the enterprise and wholesale data products. And third; consistent with our sales focus, we have expanded our sales force over the last 30 days and by year-end, expect a 30% year-over-year expansion of the account execs selling our flagship data products to enterprises and wireless carriers.

Our competitive segment is projected to grow to 80% of total revenues in 2012 and over the next five years, competitive revenues will likely account for 90% of our total revenues. Data revenues from businesses and carriers are expected to grow 15% to 20% in 2012 and will be the primary catalyst for our growth in competitive revenue.

Our low margin competitive voice revenues will decline consistent with industry trends for wireline voice products. However, we expect less of a decline in competitive voice revenues; given our retention initiatives to reduce customer churn. We expect a modest mid-single digit growth in residential and small business data and IP services. And as I said earlier, data revenues from businesses to carriers and the enterprises will be the growth engine that drives total growth in competitive revenues in 2012 and the years ahead.

We expect lower access revenues for our RLEC in 2012 from other telecommunication carriers – for originating and terminating interstate and intrastate long-distance calls primarily related to carrier network grooming and continuing regulatory changes. These changes have been underway over the last few years; but began to rapidly accelerate in the fourth quarter of 2011 as carriers in advance of access reform aggressively pursued changes to reduce their own access charges and transport cost.

These activities coupled with the FCC's recent order comprehensively reforming its Universal Service Fund and intercarrier compensation systems are projected to drive a \$10 million to \$12 million decline in RLEC revenues in 2012. In total, this level of decline was expected over time. But the timing has accelerated such that we believe the majority of the impact from carrier network grooming and access reform will occur in 2012.

The capital structure we put in place upon our separation from NTELOS contemplated that these RLEC revenue declines would occur over time. So while accelerated into 2012, our financial condition remains unchanged.

Enterprises and carriers are demanding connectivity and data solutions. We are the competitive service provider with the infrastructure in place to capitalize on this exciting growth opportunity and our expanded service area.

Hal Covert, our CFO will review our 2011 financial results and provide additional financial guidance for 2012.

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## Harold L. Covert

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

Thanks, Mike. I would like to cover two topics with you today. First, our unaudited financial results for Q4 and full year of 2011 which includes a pre-tax non-cash asset impairment charge related to our RLEC business; and then financial guidance for the full year of 2012 and Q1, 2012. Before I start the review of our financial results, please note that 2010 comparisons are provided on a pro forma basis unless otherwise noted to include the results of our FiberNet acquisition that was completed on December 1, 2010.

Revenue for Q4, 2011 was \$51.1 million; compared to \$51.6 million for Q3, 2011 and \$53 million for Q4, 2010. During the quarter, we continued to experience the impact of our carrier network grooming that resulted in a decrease in RLEC revenue of approximately \$1 million for the quarter.

Adjusted EBITDA for Q4, 2011 was \$23 million; compared to \$24.6 million in Q3, 2011 and \$24.2 million in Q4, 2010. The RLEC revenue decline just discussed and approximately \$1 million of dis-synergy expenses related to the separation of the company in Q4, 2011 account for the decrease in adjusted EBITDA. Our separation from NTELOS occurred on October 31, 2011.

Revenue for the full year of 2011 was \$207.4 million and adjusted EBITDA, \$96.9 million or 46.7% of revenue, compared to revenue of \$213.1 million for 2010 and adjusted EBITDA of \$96.3 million or 45.2% of revenue. The decline in revenue was due to a decrease in competitive voice and RLEC revenue somewhat offset by growth in enterprise data and wholesale revenue. The increase in adjusted EBITDA was mostly related to synergies obtained from the FiberNet acquisition.

Competitive revenue for 2011 was \$154.7 million or 74.6% of total revenue; with remaining \$52.7 million or 25.4% coming from our RLEC business. In 2010, the revenue split on a percentage basis was approximately the same as 2011.

Capital expenditures for 2011 were \$61.5 million compared to \$45.7 million in 2010. Capital expenditures were higher in 2011 due to the enhancement of our core network, integration activities related to the FiberNet acquisition and approximately \$2.3 million of capital expenditures incurred as part of the separation of the company. As reported, cash flow from operations for 2011 was \$70 million and \$59 million in 2010. The increase in cash flow was primarily due to as reported higher EBITDA in 2011; somewhat offset by interest expense.

Next, I would like to discuss the pre-tax non-cash asset impairment charge related to our RLEC business. The carrier network grooming that we experienced in our RLEC business in the fourth quarter of 2011, which is projected to continue going forward and the FCC order announced on October 27, 2011 mandating intercarrier compensation access reform are expected to have a negative impact on the future cash flow generated from this business.

The combination of these factors was the primary focus of our required asset impairment tests conducted during the fourth quarter. These tests and related analyses concluded that selected intangible assets were impaired and that the carrying value of other assets needed to be decreased. As such in Q4, 2011 we recorded a pre-tax non-cash intangible asset impairment charge of \$65.4 million related to goodwill and franchise rights and reduced the

carrying value of other assets by \$20.9 million for a total charge of \$86.3 million. This non-cash charge net of associated taxes reduced our net income by \$65.7 million.

Now, turning to financial guidance. We believe that with the significant investments we have made to enhance and expand the forefront of our fiber optic network over the last two years, Lumos Networks is in a position to accelerate the revenue growth rate of our enterprise data and wholesale product lines. With that lead and I'll now discuss financial guidance.

Starting with the full-year of 2012, our financial guidance is as follows; revenue was projected to be in the range of \$200 million to \$205 million. We anticipate that our competitive product lines will represent approximately 80% of this revenue, with the remaining 20% coming from our RLEC business. At the high-end of the revenue range, our competitive revenue is projected to be approximately \$164 million, which represents an increase of 6.1% year-over-year growth. This projected growth will be driven by the competitive position of our enterprise data and wholesale product lines, somewhat offset by the continuing decline in our competitive voice product line.

RLEC revenue for 2012 is projected to be approximately \$41 million or a decline of 22.2% when compared to 2011 RLEC revenue. This year-over-year revenue drop-off is related to carrier network grooming and the intercarrier compensation access reform act discussed earlier. Starting in 2013 and beyond, we expect that the projected reduction in year-over-year RLEC revenue will moderate.

Given this expectation and the projected continuing year-over-year revenue growth of our competitive business; we believe that starting with 2013, we will begin to achieve aggregate annual year-over-year revenue growth. Adjusted EBITDA is estimated to be in the range of \$85 million to \$90 million or 42.5% to 43.9% of revenue. The decrease in adjusted EBITDA is projected for 2012 when compared to 2011 is related to the reduction in RLEC revenue projected for the year and a projected increase in expenses of approximately \$4 million due to dis-synergies associated with the separation of Lumos Network; partially offset by the planned increase in competitive revenue discussed earlier.

Turning to capital expenditures; as we entered 2012, we're in a position to begin reaping the benefits from the enhancement and expansion of our fiber-optic network that took place in 2010 and 2011. 2012 capital expenditures are projected to range from the \$52 million to \$60 million. For 2012, the majority of our capital expenditures are planned for projects that have near-term revenue opportunities. Near term is defined as within six months after a capital project is approved and the installation process begins. This same data point for 2011 related to less than half of our capital expenditures for the year.

At the high-end of our 2012 range for adjusted EBITDA and capital expenditures, adjusted EBITDA free cash flow is projected to be approximately \$30 million. Based on our current outlook for 2012, Lumos Networks will be in a position to fund all cash flow requirements from cash generated from operations.

Now, I'd like to provide financial guidance for Q1, 2012. Revenue is estimated to be between \$50 million and \$51 million. Adjusted EBITDA is estimated to be between \$21 million and \$22 million. As indicated, we expect revenue to be relatively flat in Q1, 2012 when compared to Q4, 2011 and then sequentially increase starting in the second-half of the year.

For the first half of 2012, we expect that operating expenses will ramp up somewhat faster than revenue. The primary reason for this profile is our plan to add new sales and install personnel in the first-half of 2012; with expected revenue related to these additions starting in the second-half of the year. This sequencing is in line with our normal sales and install cycles. Therefore, adjusted EBITDA is projected to decline in Q1, 2012, when compared to Q4, 2011 and then sequentially increase starting in the second-half of the year.

In closing, I would like to say that we believe we have a solid management team with the experience and depth to execute in a manner required to achieve our quantitative goals in 2012. We look forward providing you with an update of our financial performance progress throughout 2012 during our quarterly earnings calls.

Now, I'll turn the call back over to Mike.

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## Michael B. Moneymaker

*President & Director, Lumos Networks Corp.*

Thanks, Hal. The level of our legacy RLEC voice revenue is being reset in 2012; a reset through access revenue that is long than expected. And while the timing is accelerated, access reform was anticipated in the capital structure we put in place upon the separation.

We are focused on the data and bandwidth demand from enterprises and carriers; and in our expanded seven state market areas with our 5,800 route-miles of fiber network. We are uniquely positioned to capitalize on this growth opportunity. Our projected double-digit growth in data revenues will be the catalog for long-term revenue growth that we fully expect will drive annual year-over-year growth in revenues in 2013. And we'll drive revenues that generate cash flows from operations to fund our cash requirements for capital outlay and debt service.

We will now take your questions and would ask the operator to please give those instructions.

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## QUESTION AND ANSWER SECTION

**Operator:** Absolutely. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Dave Coleman of RBC. Please go ahead.

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### David G. Coleman

*Analyst, RBC Capital Markets Equity Research*

Q

Thanks a lot. Just – a question about your 2012 full year revenue and EBITDA guidance. It looks like most of the step down is in the RLEC space; I think you said about \$10 million to \$12 million. Can you breakout how much of that is from access reform versus network grooming.

Then secondly my understanding of the access reform just sort of several parts; the first intrastate being brought down to interstate levels and that should kick in I believe beginning or end of second quarter and then over time longer term effect is interstate access rates stepping down towards sort of a zero over a longer period of time. So I'm just wondering – how much of the change in the access reforms that you're factoring into guidance is associated with the intrastate piece versus interstate? And then looking out several years, how would you expect that access revenue to trend? Thanks.

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### Harold L. Covert

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

A

Yeah so, just to start off and then Mike or Jim can add in. You know, first of all, we believe that our competitive business as we indicated was going to grow 6% year-to-year and we have a double-digit – growth in both enterprise data and our wholesale business. If you turn to our RLEC business, that represents the primary decline on a year-over-year basis.



And just to frame it for you a little bit, in 2011, we had roughly about \$30 million of access revenue out of the \$52 million plus that we had in total RLEC revenue. In 2012, we believe the access revenue is going to drop down to about \$20 million, or roughly about half the overall revenue. And then going forward over the next four or five years that access revenue is likely to continue dropping and we have that built into our overall plans. But as we indicated earlier, we believe with the momentum that we have as we get into the back half of 2012 and then head into 2013, that our competitive growth rate will overcome any declines that we have in our RLEC business. In terms of breaking it down between intrastate and interstate, Mike, I don't have a feel for that, do you?

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**Michael B. Moneymaker**

*President & Director, Lumos Networks Corp.*

A

Yeah, I don't have those numbers here in front of me. We will provide some supplemental disclosures in the 10-K, a normal – consistent with what we did in the third quarter.

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**David G. Coleman**

*Analyst, RBC Capital Markets Equity Research*

Q

Okay. Well, I guess, the breakdown between the access reform and network grooming and then, is the step down is it more – it sounds like it should be more pronounced in the first half of the year rather than the second?

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**Harold L. Covert**

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

A

Yeah. I mean, in terms of network grooming that really represented essentially the majority, if not all of the impact that we're anticipating heading into 2012. Then in 2012, we will begin to experience some of the result of the reform act and then, we believe as we go into the years beyond 2012, that will represent the majority of the decline. But the initial impact and the biggest part of the impact we believe will be related to the carrier network grooming that fundamentally started taking place in Q4 of 2011.

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**David G. Coleman**

*Analyst, RBC Capital Markets Equity Research*

Q

Got you. Okay, thanks. And then, just one additional question; if you could review your enterprise head count targets. I missed where those numbers stand now, and where you hope to get those by year end? Thanks.

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**Michael B. Moneymaker**

*President & Director, Lumos Networks Corp.*

A

Yeah, Dave, again, as I said earlier, we expect about 30% growth in that sales force. For competitive reasons, we're not giving specific numbers. But again, it's a very meaningful lift and it's consistent with how we've expanded our presence in a number of new markets. And again, we're – right out of the gate, we've added a number of people here in the last 30 days and we'll continue to do so going forward.

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**David G. Coleman**

*Analyst, RBC Capital Markets Equity Research*

Q

Great, thanks a lot.

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**Operator:** Our next question comes from Ric Prentiss of Raymond James. Please go ahead.

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**Ric Prentiss**

*Analyst, Raymond James & Associates*

Q



Thanks. Good morning, guys.

**Harold L. Covert**

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

Good morning, Ric.

A

**Ric Prentiss**

*Analyst, Raymond James & Associates*

Just wanted to continue on the lines there a little bit. We had been expecting the access reform hit to be about \$5 million in 2012 as far as a step-down. So as we look at the 2011 to 2012 drop in access from \$30 million to \$20 million. Are you telling us that grooming is the majority of that \$10 million drop?

Q

**Harold L. Covert**

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

Yeah, I think if you look at the grooming again that started taking place in Q4, 2011 and we'll feel the impact of it as head though 2012, does represent the majority of the overall decrease. Now, we will have an impact from the access reform act in 2012, but again, the majority of it was related to carrier groomings. And as we head into 2013 and beyond, we believe the majority of the impact will be based on the reform act.

A

**Ric Prentiss**

*Analyst, Raymond James & Associates*

Right. And then kind of as that \$30 million gets down to \$20 million in 2012 and then \$20 million steps down, does it ultimately go to zero over five to nine years because we also have I think built-in assumptions of about, for access reform, about \$5 million step down each year incrementally, does that still seem like fair step down?

Q

**Harold L. Covert**

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

Yeah, I think, directionally that's correct. We don't certainly don't believe it will go to zero and there are some opportunities for some recovery. But I think you could take the \$20 million and go over the next five years and assume that that's going to be half or less once you get out to the end of that five year period.

A

**Ric Prentiss**

*Analyst, Raymond James & Associates*

Okay and then, as far as thinking to 2013, not asking for guidance but thinking of 2013 on this access charge, it could drop more than that because recovery would probably take a while. I mean, seems like the Connect America, there is a lot of murkiness in some of the legislation and regulation it seems?

Q

**Harold L. Covert**

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

Yeah, I think that's right. Again, the way we tried to think about 2013 is to look at our competitive business and we're seeing double-digit growth as we mentioned earlier on both enterprise data and wholesale. And our small business and residential competitive product line is adding growth too. So we believe that the momentum we have in those product lines will overcome what we think is going to be a continuing drop in RLEC revenue and we've built that into our 2013 plan.

A

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

Q

Sure. Okay, and then you mentioned that at the high end of revenue guidance; CLEC would be \$164 million and the RLEC would be \$41 million. Do you have thoughts on what's the EBITDA split between those two would be as well; because you'd expect that the grooming and the access reform are pretty high margin?

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

A

They are high margin, and fortunately for us, the two product lines that are growing most rapidly for us are also fairly high margin. So that's one of the reasons why if you look at our EBITDA as a percent of overall revenue, it is dropping somewhat in 2012 based on our guidance as opposed to the actual numbers for 2011. But I think we've been able to cover a large part of that again, as a result of the margin structure that we have for our two primary product lines, enterprise data and wholesale.

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

Q

Okay. And then my final question is, just kind of from the economy standpoint and the sales cycle standpoint of having bought Allegheny and FiberNet, how good is your visibility do you think in 2012 first, but then also thinking towards 2013?

**Michael B. Moneymaker***President & Director, Lumos Networks Corp.*

A

Okay. Ric, in terms of – first of all, I think in terms of the demand – frankly, I think, as I indicated by the fiber connectivity that we have under contract; demand is very strong. I would say those numbers in and of themselves address the fact that demand is strong and I think will continue very strong over the next several years in that arena.

I think we're also seeing across all our key verticals as well as other enterprises, seeking bandwidth and increased bandwidth. Their data is exploding and it's driving demand across a number of our key verticals. I think that's why we're pretty excited about the enterprise growth opportunity. I think from that standpoint, I think we're starting to see some strength out there. I think in terms of businesses demanding our key verticals, be it governmental, hospital, colleges, universities, regional banking; all really driving more throughput onto our network.

So I think pretty good visibility, I mean if you really think about it, Ric, those again, I'd go back to fiber cell sites, fairly long lead time and again, you will not see the annualized benefit of that until 2013. But there is no question; 4G is extremely early stage in these markets and again, it's not only about providing fiber connectivity initially, but then as they also drive their demand and the 4G throughput; I think you'll see that continue to go grow as well.

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

A

Ric just to add -

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

Q

That's not calling for an economic recovery; you're just seeing the demand for data even in the current economic environment?

**Michael B. Moneymaker***President & Director, Lumos Networks Corp.*

A

Absolutely. Demand in the current environment is strong and I think people are looking for efficiency and throughput and speeds and I think we're uniquely positioned in our region to provide that service.

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

A

Ric, just to add on to that. That's probably why we structured our guidance the way we did. What's going to happen in 2012 is that our enterprise data and wholesale product launch are going to become the majority or more than half of our overall competitive business. And if you look at the first half of the year, we'll kind of go through kind of a flat profile and then, we'll ramp up in the second-half of the year; again driven by enterprise data and wholesale data. And for the most part, that business is pretty much in hand and particularly the fiber to the cell aspect of that. So we see the back half of the year really pushing us into 2013 and with the momentum and ramp-up that we need in both of those product lines.

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

Q

Great. Thanks, guys.

**James A. Hyde***Chief Executive Officer & Director, Lumos Networks Corp.*

A

Yeah. And hey, Ric and Dave as a follow-on to, this is Jim here, as a follow-on to the – I just want to put a little more clarity on the access reform kind of versus network grooming. What we saw with some of the carrier grooming activities was actions taken sort of – I guess we can sort of say in front of any access reform. So some of these grooming activities were actions taken by these carriers based on some of the uncertainty around access reform. So by default, it essentially accelerated what would have come later in terms of access reform in some of those instances.

So I just want to make sure we're not kind of double-counting here, access reform and the impact on this access grooming. So the lion's share of 2012 access drop is a result of the grooming activities by some of our carrier customers. But that would have come in the form of access reform nonetheless and we know that now. I think it's really important that you understand that and we're happy to take some of those more detailed questions offline to help you with that, so that we aren't double-counting that.

So, while we always had this access reform in our model; we had some of the declines coming in the outer years that are now being accelerated in 2012; frankly, it's going to be kind of good to get it behind us. We take a little bit of pain over the short-term, but as Hal and Mike both have described a moment ago, our growth products, our enterprise data, our wholesale carrier revenue opportunities will help us – will grow through these declines in the second half of 2012 and what you need to be thinking about is, as we exit 2012 and enter to 2013 on an annualized basis, our revenue run rate will be at a rate that's higher than 2010 and 2011.

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

Q

Great. Thanks, Jim.

**James A. Hyde***Chief Executive Officer & Director, Lumos Networks Corp.*

A

Sure thing. Thank you.

**Operator:** [Operator Instructions] Our next question comes from Donna Jaegers of D.A. Davidson. Please go ahead.

**Donna A. Jaegers**

*Analyst, D. A. Davidson & Co.*

Q

Hi, guys. Thanks for taking my questions. Can you talk a little – given that Frontier acquired the rest of West Virginia from Verizon and as – they are talking about reinvigorating their competitive focus in the space; can you talk about what you're seeing competitively in your CLEC operations? Are you seeing tougher competition now?

**Harold L. Covert**

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

A

Sure, definitely are seeing – and have throughout 2011, competition particularly on the lower end in terms of the small-to-mid sized businesses. So I think that has been prevalent throughout 2011. And again, I think even with that, we've seen modest single-digit growth in our small and mid-sized business growth. So but yes, we've seen that growth; we've seen that activity, we've seen it probably more – certainly hitting it's in the voice arena. In terms of our some of our voice revenues that we saw declined in 2011. I do want to make a point we had pursuant to the TFC orders in terms of the closing of the acquisition and notification, we had to get customers.

And early 2011, we gave notification and then in late 2012 we did so a second time as well pursuant to that order. We did see a pickup in the months immediately after those notifications. But since that time we've seen, every time we saw improvement in churn and I think that's why we're encouraged and with our churn initiatives and the reason we believe that churn will improve in 2012.

**Donna A. Jaegers**

*Analyst, D. A. Davidson & Co.*

Q

Great and then just two quick follow-ups. On your FiberNet acquisition, this was the division of One Comm and EarthLink last week announced that the operations at One Comm that they acquired were playing some access charge "games", but that they would take a step down in access charges on that CLEC operation. Are you seeing any vulnerability like that in FiberNet?

**Harold L. Covert**

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

A

No, not at all.

**Donna A. Jaegers**

*Analyst, D. A. Davidson & Co.*

Q

Okay, great. And then on the Fiber to the Tower contracts, can you give us a rough mix of what's in region and what's out of region for you guys?

**Michael B. Moneymaker**

*President & Director, Lumos Networks Corp.*

A

I guess, all is in region. I mean, it's all within close proximity to our existing fiber network. We remain very disciplined in our return analysis and thus, when we're pursuing these fiber-to-the-cell site opportunities; we focus on those sites that are in close proximity to what we ensure that we have the proper return. So we remain very disciplined on that front.

**James A. Hyde**

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

So, I'll just add to that, so...

A

**Donna A. Jaegers**

*Analyst, D. A. Davidson & Co.*

Just to clarify the question. I'm sorry, in your incumbent region versus outside – in your more competitive region was sort of the question. So we can gain sort of what defense versus what's offence?

Q

**Harold L. Covert**

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

So all of it is within our footprint. We're obviously taking bids both – within our incumbent region and our competitive region. Right now, most of the activity from the carriers has been within our competitive region; particularly in West Virginia. And as Mike said, we've been very disciplined in terms of what will sort of bid on and what we will farm out. And in some cases, we've had an opportunity to partner up with carriers that have fiber – they have pieces of fiber a little closer to some of the sites that are within a bid. So I think we've got a very good approach to how we're working our carrier partnership and how we're partnering with other operators to maximize returns on our investments.

A

**Donna A. Jaegers**

*Analyst, D. A. Davidson & Co.*

Great. Thanks, guys.

Q

**Harold L. Covert**

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

Sure.

A

**Operator:** This concludes our question-and-answer session. I would like to turn the conference back over to Wes Wampler for any closing remarks.

**Wesley B. Wampler**

*Director-Investor Relations, Lumos Networks Corp.*

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 those details. Also feel free to contact us any time with questions. Media should contact Jim Nester, Lumos Networks' Director of Public Affairs at 304-552-6282. Investors may contact me at 540-949-3447. Thank you, again for joining us this morning and this concludes our call.

**Operator:** The conference is now concluded and we thank you for attending today's presentation. You may now disconnect your lines.

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