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Before we turn to Q&A, I'd like to introduce John Blount, our Chief Operating Officer and Mike Rouleau, our SVP of Business Development Strategy who will also be joining us for the Q&A session. And with that, we'll now take your questions.

Question-and-Answer Session

Operator

(Operator instructions). **Operator**

Thank you very much. (Operator instructions). We'll go first to the site of Simon Flannery with Morgan Stanley. Your line is open.

Simon Flannery – Morgan Stanley

Great. Thank you very much. I wanted to just get a little more color on the ramp of the sales force and the product rollouts. I think you took your sales force up about 6% in Q4. Where do we see this ending up in this year, and how – you know, what sort of number – how quickly will that take.

And then, in terms of the product rollouts, what's the timing of that? I think, Mark, you mentioned strong momentum on sales hitting revenues in the second half of the year, and then really setting up a good 2014. But are we going to see some of the fruits of this as early as Q2, or is that going to be another kind of subdued quarter like Q1? Thanks.

Mark A. Peters

Let me touch on the sale headcount and I'll pass it over to Larissa on the products a little bit. You're right, we increased in – really the end of last year by about 6% largely in December, and then we expect increase, you know, close to maybe 10% more by the end of this year. And the timing, you know, well see how the timing comes in throughout the year, but you know, we'd like to get them sooner than later, so we can start getting them productive.

And it's quite a – it's interesting when you look at, as I'm adding these sales products, thinking about the timing of when they can get productive, so it does take a while. But, you know Simon, this team has been here for a while and we've done a lot of this before. In fact, we look back to the end of 2009, and in 2010, and we actually took a similar trajectory. We added a similar percentage of head count at the end of 2009 and then continued it into 2010. And 2010 this is guidance – but in 2010 our bookings grew by about 18%. You know, because of all the activities were going on there.

Now, of course, there's other factors that affect growth, you know, products and service delivery and competition and economy, and all that kind of stuff. But, you know, I'm not given guidance. But then we saw very strong reported revenue growth in the subsequent year, after those bookings went out.

So it takes a while, but we've done this before, and we're pretty confident as we go into the year.

Larissa L. Herda

With regard to the product rollout, you know, we generally don't like to put dates on things until we're right on top of them. Because we want to make sure things are done right and people in the organization aren't pressured unnaturally for deadlines that might turn out to be unrealistic. We always set pretty aggressive deadlines internally.

The fact that we're talking about it is all, you know, about our new capabilities, should indicate and we started talking about the Intelligent Network, I think it was a little over a year ago, and we started deploying those services shortly thereafter.

So, these are things that are ahead of us, but will take us some time. Nobody has ever done this before. Similar to things like Dynamic Capacity, no one had ever done it before. And so, you know, it was hard to determine exactly when we were going to be standing some of those things up at the time.

But we'll keep you posted on that. I would not expect to see the new products impact the first half of the year, which is why we're talking about starting to see things in the second half of the year. But obviously we currently have a lot of great products out there today, and I think some of the things that you're seeing in the first quarter are really the compilation of a number of things falling into the first quarter. But as you know, we don't manage this business on a quarter-by-quarter basis, we manage it for the long-term and there are fluctuations. And we like to let our investors know when we see a fluctuation it may seem off trend to them, and that's really what we were talking about in the first quarter.

Simon Flannery – Morgan Stanley

Thank you.

Operator

We'll go next to the site of Brett Feldman with Deutsche Bank, your line is open.

Brett Feldman – Deutsche Bank AG

Yeah, just a two questions, and one just a housekeeping one. I think you had a customer a onetime $2.2 million benefit in the quarter. I'm just wondering if you'd give us any color as to where that was recorder in terms of what revenue line item was impacted by that, so we can get our run rates right?

Mark A Peters

Yeah, so that hit the Enterprise Data [inaudible]

Brett Feldman – Deutsche Bank AG

Great. Okay, and then, you talked about some margin issues during your prepared remarks and there was a little commentary on that in the press release. I think we all understand that early in the year and the first quarter there's always some seasonality, but what I'm having a hard time putting apart is, how do we think about some of the other [inaudible] initiatives that you have going on early in the year? Is most of the margin issue going to be contained in the first quarter, or will this be spread a little bit out over maybe the second and third quarters? Just as a modeling exercise, how do we sort of know when you're coming through that?

Mark A Peters

So, we started adding in particular the sales resources in December. And we're going to continue adding, you know, both the direct sales and then the support resources to make them productive. We started that and we're going to continue that throughout the year too. So that's going to add to our – the S part in it, you know SG&A. So it's going to be recurring cost, that particular item.

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And then where we see the EBITDA margin coming back is as we start selling with those sales associates, as well as our embedded base growth there, start driving that margin up again. So, we take – so that's from the recurring cost standpoint. That's a recurring item.

Now the other item we mentioned in the first quarter is around $4 million of increase cost that's coming right in the first quarter because of payroll taxes primarily. And that one goes away throughout the year. So that gradually – that cost gradually goes away throughout the year as everybody hits, you know, whoever hits their taxes in those regards themselves.

So, some of the costs are going to continue, and then some will go away as the year progresses. So, that's why we say that as we get more sales [inaudible] You know, our sales are pretty good. I just want to say that. So, as we grow more sales, converts to more revenue, and build more density, that's where we continue as the year progresses to see some of the, you know, the return of the margins.

Larissa L. Herda

And we're moving faster on hiring the sales people than we have previously done. Actually it's kind of in line like you said with the '09, 2010 time frame. Because there's plenty of demand out there. We feel that if we start to bring the sales people on early in the year, by the time they're acclimated, you know, we will have a number of new product capabilities beyond the Intelligent Network capabilities, by the way, we're also enhancing our managed services capabilities as well. So, we'll have more for them to sell, and I think that, you know, timing is important and that's why we started this process at the end of last year.

Brett Feldman – Deutsche Bank AG

Thanks for that color. Actually I just wanted to ask one more question about a comment you made earlier. You said that one of the things you'll be doing this year is looking to expand your network with an existing into adjacent markets. Can you give us an update? What is your geographic coverage right now? I mean, do you have a certain number of markets you're in? Are you looking to add a specific number of markets? I just want to make sure I understand how to interpret that comment.

Larissa L. Herda

That was kind of more of – it's almost a business as usual type of thing. But we are doing – we always do market expansions in our markets. It depends on how you count them, we're in 75 markets around the country, I'd argue we're probably in a lot more than that because we have tentacles that go out, you know, all over the place. So, we have great opportunities to do that, and so we're going to continue to do that.

Mark A. Peters – CFO and EVP

Yes, Brett. We're in 75 markets, and if you look at the map, you know, it covers a great portion of the U.S. And so what we do is we – when we say a [inaudible] market, you know, we might move, or we have moved from Minneapolis into St. Paul, but we leverage all the infrastructure in Minneapolis.

Larissa L. Herda

Or Spokane to…

Mark A. Peters – CFO and EVP

Spokane, you know, Coeur d'Alene

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Larissa L. Herda

Coeur d'Alene, yes.

Mark A. Peters – CFO and EVP

So, those kind of things that we do to leverage our embedded infrastructure, but we haven't since 2001 actually gone in and built a brand new market.

Larissa L. Herda

And we're not expecting to do that. There's so many opportunities for us to leverage with our existing management teams and our existing markets, we can stay busy for many, many, many years. You know, we're in more buildings than any other non-incumbent carrier in the U.S. in terms of fiber, but we still have less than 20,000 buildings. So, there's a lot of opportunity for us to grow.

Mark A. Peters

And we can reach, you know, any of our customers – virtually any of our customers and location even if we're not in those markets. So we can provide that complete package to our Enterprise customers.

Brett Feldman – Deutsche Bank AG

Great. Thanks for taking the questions.

Larissa L. Herda

Sure.

Operator

We'll go next to the site of Colby Synesael from Cowen and Company. Your line is open.

Colby Synesael – Cowen and Company, LLC

Okay, thank you. Two questions. Number one; Just looking at your CapEx guidance 360 to 370. If I take the mid-point 365 and apply the 23.4% revenue since you noted to be similar to what you're you sent in 2012, that equates to about 1.56 billion in revenue, which [inaudible] growth in 2012 is just over 6%. I'm curious if that's that type of deceleration in growth rate that you're eluding to when you talk about the business.

And then the second question has to deal with the buybacks. I was a little confused. We're you suggesting that you could cancel the buyback program and potentially put that money towards the convert, or you may increase the amount of money that you're giving back to shareholders and therefore increase the buyback. And they tie in to that would be your NOL. I think your NOL's have obviously been helping you from a tax perspective, but those will most likely run out in the next few years. Could you just remind us how much NOL you have, and when you expect those to potentially run out? Thanks.

Mark A. Peters

Sure. So, let me get the first one. And I think when you think about our capital intensity, the operative word is "similar". So we have a range of CapEx, and you look at a range of capital intensity, and I think – we're not going to give guidance, and we purposely don't do that.

So a bigger range probably when you're looking at what the revenue growth rate could be. So, we're not giving any guidance on what that might be. So that's...

Larissa L. Herda – Chairman, CEO and President

I do think that, you know, it's no secret if you look at our, you know, our revenue over the course of last year, there were some deceleration occurring on a year-over-year basis. And so, that's one of the reason – and you know, I think one of the promising elements is that we actually sold more last year, you know, bookings than the previous year. We did it with fewer resources, fewer sales resources. So for us, it's really a numbers game. You know, if we add the sales resources then we will sell more. And we've obviously gotten more productive and more efficient in how we've been selling. And we're selling to more complex services, they're very sticking, so we've been able to maintain really attractive churn rates as well.

So, I think, you know, when you look at all of those things, you know, we're simply doing what we've done in the past, and it's a numbers game in terms of how many sales people you have, and the productivity. So, you know, we think we can start to reverse that trend, but obviously it takes a little time for the sales people to come onboard and be ready to sell.

Mark A. Peters

So then talking about the [inaudible] buyback program and the convert. I didn't mean to imply that we weren't going to return to shareholders. When we look at the convert and how we might address that. In April the first time that we could call the convert, I know that the terms doesn't mean we'll do it in April, but that's an opportunity.

We look at doing it in really the most shareholder-friendly method as we look at it holistically and that's why it kind of compliments our stock buyback program. So, we'll be looking at that kind of holistically in how we want to approach it.

Like I mentioned in our call, you know, we're being opportunistic in how we're approaching it, and now in the context of this [inaudible] we're just going to look at it more holistically, that whole program. But again, to do it in a shareholder friendly way, we believe in stock buyback programs and returning....

Larissa L. Herda

And we're not decreasing our commitments on that either, so I think that's important to know. We're just – our methods may be – would be different.

Mark A. Peters

Yes. Because – obviously we can see from the financials we haven't executed a lot buybacks recently.

As far as the NOL, the number is just under $900 million of the Federal [inaudible] $100 of the NOL, so clearly, were you thinking that we've been using it, but that's the number.

Colby Snyesael – Cowen and Company, LLC

Okay.

Operator

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And we'll go next to the site of Barry McCarver from Stevens. Your line is open.

Barry McCarver - Stevens

Hey, good morning, guys. I guess first off on the – we talked about the sales channel quite a bit, but we didn't really flush out sort of your expectations this year on the indirect side. It certainly sounds like that's remaining a very important channel and maybe something you're going to focus a little bit more on in addition to your direct sales?

Larissa Herda

So, yes, you're right. You know, we've had – we have, I think, one of the more disciplined and direct programs out there in the industry. And what was important when we put the program together was that it was an incremental revenue opportunity for us and not essentially stealing from our direct sales force, which is also a very powerful revenue driver for us and what we've seen, and some of our personal experience, what it's like to be in an organization where you have a lot of sales conflicts. So we put together, I think, a very thoughtful program and Indirect Channel really likes it. They've been very successful and I think because we do have innovative products and I think because we deliver what we say we're going to deliver on and that doesn't always happen with a lot of their other providers, they keep coming to us as a partner because as I've had some CEOs from those organizations tell me, we know that when we give you the business we don't have to worry about it anymore and that's a big deal.

So we're capitalizing on our success and our growing reputation in that area and we will be adding – we have been and we're continuing to add management resources and sales resources to that because, obviously, you have people who manage the channels and so we expect – the nice thing about those is once you get in and you train them, you know, they're kind of like sales on steroids so it's a little bit of a quicker impact to revenue.

If you look at our various different sales growth initiatives, it's – for those of you who followed us for a long time, it should be fairly reminiscent of things we've done in the past. There's never a silver bullet in this business. You have to move a lot of different dials and we know the dials – we've been doing this for a very long time, we know the dials to move.

Last year, honestly, we were hoping to get some more help from the economy so we didn't think initially at the beginning of the year we were going to need more sales resources, but we're share taker and we're pretty good at it and so we decided that we're just going to go and take more share and not wait around for the macroeconomic to help us lift our boat. So that's what we're doing and so it's pretty straightforward. It's not rocket science. We've done it before. And the good news is we've got more products today than we had several years ago when we did it the last time and we think that's pretty exciting. We also have a lot more buildings, a lot more network, you know, a lot more – generally a lot more – and a better vision. I think, you know, as I've been meeting with customers, they love our vision of what – where we're taking the business. It's very exciting to them to think about being able to connect to us and basically, eventually as we refine the connections that we have to each of the data centers and applications in those data centers from just straight transport to, you know, to our consolidation platform, they'll be able to grab those applications when they need them over dedicated services and that's pretty cool because they can do it instantaneously and they don't have to put a service order in and wait 45 days for it. And this is really a very different way of looking at this business than they've ever seen before.

Now, it's going to take us time to get to that point but we're, you know, we've been moving along this continuum for years. You're just kind of learning more about it as we get closer. And so, you know, as we realize that we actually can do these things because, you know, the vision, you know, five years ago seemed like yeah, we'll see. Now it's like, wait and see, or you'll see.

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So we're doing these things and so it's pretty exciting for customers. I think the combination of those things, it excites us, it excites our customers and I think it puts us in a unique competitive position because we're not just talking about going in and I'll sell you an ethernet connection cheaper than the guy next door because when do that, someone's just going to come along and be 10% below you and take it away from you the following year. And we don't – we believe in, you know, in creating more value than that. That's a commodity world that is difficult to sustain growth in and we've been pretty good at being able to look at the future. I mean, we did it with ethernet, it took five years before the market actually noticed it, but we were growing our data revenue for years very effectively, selling a service nobody else was selling back in those days and we had to educate the market, it wasn't unusual for us to get in front of a group of 80 customers and ask them, has anybody else besides us coming in and talking to them about ethernet and nobody would raise their hands.

So that's where we are with our consolidation platform and our Intelligent Network and you know, we think it's a pretty cool position to be in and I think our customers do too.

Barry McCarver - Stevens

And just one quick question for Mark real quick. As I'm looking at my model and thinking about where we're going to start off on margins or likely to start off on margins in the first quarter carrying that additional sales headcount through the year, is it realistic to think that on a year-over-year basis for 2013, you know, total margins are going to be flat to slightly down with 2012 or am I really kind of missing the ramp in the second half of the year?

Mark Peters

Yeah. I guess I'm not going to get – I'm not going to follow on the guidance on the specific margins, other than to say that, you know, we're going to start off the first quarter light for all the reasons we've said, therefore as we're adding the sales and resources as well as that seasonal tax item. And then as – we'll be adding resources throughout the year and then as the year goes on and with our revenue growth and the pace of that is going to impact to a certain degree where the margins go.

So again, that's – we've done it before and we've made these investments and for all the reasons we've been talking about, it's the right thing to do. But then as we drive more sales and drive more revenue growth, you know, we expect – you know, we're going to get those margins back to where we are and expanding.

Barry McCarver - Stevens

All right, fair enough. And then just this last question if I can. Still a really good position as far as your balance sheet. When I think about your growth initiatives to look at new markets and I think the third one was to look at new technologies, you know would that include the possibility of maybe looking at acquisitions to bring into some new fiber or new products and services?

Larissa Herda

Well, we're always – we always look at potential acquisitions. We remain opportunistic in that regard. As you can tell from our history, we're not really acquisition hungry. For us, it's a – it's a choice between making the investment in our business and our innovation and keeping our people focused on that or making an acquisition of something we have to fix and probably pay a lot of money for. So we have opted to go in the direction of organic growth and innovation because, quite frankly, we have a lot of assets out there that we, you know, are leveraging. You know, with that said, we do buy fiber literally almost every week because there's fiber out there. We do buy versus builds as far as our decision making is concerned, if it's more economic for us to buy some fiber from a provider that's selling it than that's what we'll do. We're fairly agnostic in that regard and if not, we'll build it ourselves.

But they're generally adjacent to our existing markets so that we can leverage our leadership in those markets and our – and that has proven to be very effective for us.

Barry McCarver - Stevens

Great. That's good info. Thanks for taking my questions.

Larissa Herda

Sure thing.

Operator

We'll go next to the site of Frank Louthan with Raymond James. Your line is open.

Frank G. Louthan - Raymond James & Associates, Inc.

Great. Thank you. Can you talk about selling into existing buildings and how that fits into the plan next year? And then, I apologize if I missed this, but if you could let us know what happened with sort of the building audit that resulted in some buildings you found that it seemed like you could pick up? And then, what's sort of the longest timeframe as you've made these sort of investments in the sales force before and they play out over time, you know, what's sort of the longest timeframe you think it takes from this kind of investment before we start to see that in the numbers? Is it more of a 24 – it is a 12 to, you know, out in 24 months, or you know, possibly 12 to 18? Can you give us a timeframe? Thanks.

Larissa Herda

Yes, so you know, we always sell in our existing buildings and you know, about a year and half or two years ago we revitalized the organization to do that and they've been doing a good job and we, you know, have seen nice flows, steady progression more on net sales. And in fact, you know, that sometimes impacts some of our costs because on the sales side, commissions are higher, by the way, when they sell all net. So that's a good thing because ultimately that results in better margins for the business in the long run.

So that continues. You know, we've been adding a lot of buildings. We have, you know, that's an ongoing – we're very good at it. I think we're one of the best in terms of adding buildings to the network, so you'll continue to see that. Mark will talk a little bit about the building counts, but in terms of sales people, you know, generally when you bring a salesperson on board, we have sales people that are selling within 90 to 120 days, so – and then you have other sales people that take closer to a year to get up to quota and some take longer than that. So it really depends on who they are. I would say that our indirect channel will sell faster just because they've already got the customer relationships. They're already, you know, well trained, you know, it doesn't take long to train them. And it really differs by segment if you're – if we're hiring, for instance, a national enterprise sales person, it takes a while because they're generally opening up new big customer accounts and those accounts may take a long time to open up but they're always the gift that keeps giving and that's what most of the existing sales people in the national accounts group are busy doing, they're busy expanding their relationships that they already have and so that's why we really need to have more of them because we need more of them opening up more new accounts.

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So it really varies, Frank. We'll see some, I think in a positive impact from it in the second half of the year and then we should see some good momentum, especially going into 2014.

Mark Peters

Yeah, and the building addition adjustments for this, the increase of 532 buildings on our network, we're continually going through with our system and improving our system's efficiencies and automation and going through that process, we identified these buildings that were connected and we hadn't captured in our system. So that's what happened, we pulled them in this quarter and reported them out and called them out so you could see them.

Larissa Herda

And it's just one of those thing, Frank, for instance, I'll give you an example. If you build fiber to a business park where you have four buildings connected but you have one point of presence in that business park, you know, sometimes people will count it as one building and in reality, it's four. So you know, as you go through in time, you realize, oh, well, we're in four buildings, we have distribution in four buildings, we just have one POP serving all those buildings. So we've worked really had at part of the automation process and the database, this great program that we have in place now to make sure that, you know, those numbers are counted correctly. So that was really a cleaning-up process that's been going on for a few years now.

Frank G. Louthan - Raymond James & Associates, Inc.

Okay, so on the sales and existing buildings, can you give us an idea what was sort of the incremental number of customers, you know, per – on that building this year versus last year? How's that average track?

Larissa Herda

We don't take a look at it that way on a holistic basis on each and we've never provided that information publically. We're more interested in revenue per building and what we do is we – we compensate our local general managers, there's an element of their compensation that's based on increasing penetration in their buildings in their market and so – and you know, every year they, you know, that's a metric that they're interested in watching. So that's more how we do it. And every year we're seeing an increase in that penetration of those buildings. Did you want to add anything to that, John?

John Blount – Chief Operating Officer

We do track and measure our returns in each of our buildings, in each of our markets, in each of our regions and that cascades up, like Larissa said, into their goals. So it's something we manage, really, on a weekly basis.

Larissa Herda

Yes, it's more about returns than it is about individual customers.

Frank G. Louthan - Raymond James & Associates, Inc.

Okay. Thank you.

Larissa Herda

Sure.

Operator

We'll go next to the site of Michael Rollins with Citi Investment. Your line is open.

Michael Rollins - Citigroup Inc

Thanks, just following up on the sales comments that you've made, you know, recognize that by adding people you increase the ability to sell in terms of dollars and bookings and so forth. Can you talk a little bit more about the productivity on a per-person basis? Are we just seeing that the sales force that you have is reaching – ignore the major additions you had during the fourth quarter, but just in general, that they might be hitting their full capacity or is there a meaningful opportunity with the new products by focusing on the existing buildings to ramp that productivity that they have today meaningfully higher? Thanks.

Larissa Herda

So without giving you specifics since we generally don't provide those specifics, so I made a comment earlier that if you look at what our sales were last year, they were greater than the previous year. Good news. And we did it with fewer sales people which would argue that our productivity is greater. But the reality it is that a lot of your productivity comes from your top sales force and so we do measure how much of our, you know, where the – how far down the stack our sales people actually are producing and they're producing more – more of them are producing more, which is good news. You want to get them all producing something, right, but you want to get more people producing more. You know, this year for our Summit of Leaders event, we have more winners going this year than we did the previous year, which tells us that you've got more people who are – and it's a fairly high hurdle to get there. You have more people who are producing more, so that's good. So you want to get the rest of them to produce too, that's always the art rather than the science of getting a sales force to be productive.

I think your comment is right on target in terms of new products. I don't think our sales force is at full capacity at all. I think our sales – our current sales force could continue to product more but as far as we're concerned, they just can't do it fast enough for us right now because we should be growing faster and we can be growing faster with more sales people and that's why we're putting more in there. So it's just a matter of, you know, it's just a matter of fact.

I think the new products will obviously always energize, you know, especially in our more mature markets, they always get energized with new products. But we put out products all throughout the year but some of these more exciting glitzy products are obviously something more for the sales people to talk about and give them really a different position with their customers so that they're really in a more strategic discussion with their customers than just in there throwing in bids for capacity. And that, that really bodes well for the future, I think, as well. And that's another reason why, by the way, you know, these new products is another reason why we have to make sure that the people we're bringing into the company have some additional different skills as well and have some more IT-centric skills. We've been finding as we hire those types of people they've been very effective so we're capitalizing on that knowledge and continuing to do that.

So I hope that answers your question, Michael.

Michael Rollins - Citigroup Inc

That does. Thanks very much.

Operator

And we'll take our next question from Timothy Horan from Oppenheimer. You line is open, go ahead.

Timothy K. Horan - Oppenheimer & Co. Inc.

Thanks, guys. Mark, did you say how much you're going to be adding to the headcount? Maybe I missed that.

Mark Peters

We put that from year end, we're going to probably approach for the direct sales force probably increase it by close to 10%.

Larissa Herda

An additional 10% over the 6% that we increased it last year.

Timothy K. Horan - Oppenheimer & Co. Inc.

It doesn't seem like, you know, a real lot, so you might add like 100, 150 people to the total company?

Larissa Herda

That may not seem like a lot to you, but that's a lot to us. You're right, it's not like – it's not like any one city is going to get a ton. I mean, when you have 75 markets, you know, not all of them are going to be getting people. Obviously, we've got National Enterprise, we've got Federal, we've got Indirect Resources going on. We also have some, you know, support resources going in as well, right, to support all these people so it's not quite 150, you'd have to up that a little bit. But you know, different markets will be getting resources, so it's not like they will be tough to absorb, but it's hard to find good qualified people so we've got, you know, we've got a full-court press in doing that.

John Blount – Chief Operating Officer

The other thing I'd add to that is that we hire very specifically. We hire into specific opportunities so as you look across, you know, we go and we map where's the opportunity in our markets, you know, what verticals are expanding. And so it's a very – it's a pinpoint attack that we go where we get a specific skill to map to a specific opportunity. Our philosophy has never been just to have hundreds and hundreds of more sales people to see how many of them can stick, you know, we're really kind of going after – when we hire, we hire for a specific module and a specific opportunity.

Larissa Herda

So it's a very thoughtful approach.

Timothy K. Horan - Oppenheimer & Co. Inc.

Well, I guess what I was saying, and just a quick follow up, but Mark, you haven't – I guess in the last five or six years, EBITDA has grown faster than revenue fairly consistently. I mean, could you envision that you would spend enough so that he EBITDA would grow less than revenue this year? Is that the kind of magnitude we're talking about?

Mark Peters

Yeah, you know, it's all a function of, you know, what ultimately happens at the top of the line. So if we have these sales, sales resources, then it will be product managers, the other will be technology people as well. So as we bring the resources in and they'll be – the margins will then be a function of the timing of, you know, and the degree of the growth rate.

Timothy K. Horan - Oppenheimer & Co. Inc.

Got you. But I mean, your sales have been fairly steady the last couple of years. I think they slightly decelerated but you're in the 7% range here now for a while. I mean, are you worried that this, you know, drops materially down to a 3%, it just seems hard for that to happen.

Larissa Herda

So on sales, don't mix the word sales with revenue, right.

Timothy K. Horan - Oppenheimer & Co. Inc.

Sorry, yeah.

Larissa Herda

So you know, revenue has been – you know, sales last year was lower for the full year on a percentage basis. Sales growth was lower, which is why we saw deceleration over the course of the year, which is why we are, you know, we're adding more people. So I think that's just an important point to remember.

Timothy K. Horan - Oppenheimer & Co. Inc.

Yep. And Larissa, just on consolation, what's the underlying technology that is enabling this product to happen?

Larissa Herda

Well, you know, I'm the wrong person to ask on specifics of technology, but we do have Mike here, but I'll start off by saying that we're leveraging all of our current capabilities and we're developing our own internal capability, you know, from an IT development standpoint. And our ability to have – put a platform out there that's, you know, we talked about this before in the past, the integrated platform, the one network platform where, you know, like Dynamic capacity, I mean, what company do you know can have – give a customer a 10-meg circuit or a 20-meg circuit from Denver to San Francisco and allow that customer to increase the capacity within 12 seconds by three times? Well, the reason why we can do those is we've put this very extensive infrastructure, it's a function of our data, very clean data that we have and it's a function of really integrated all the acquisitions that we've made into this one platform concept. And so what the team is going is that's the leverage point, right. And so you develop fairly complex processes, extremely complex in fact, the ability to be able to do the consolation platform.

Mike Rouleau – SVP of Business Development Strategy

I was just going to follow on to Larissa's point. You know, having consistent network elements with an integrated back office and our secret sauce, frankly, you know, with the ability to reach into each one of those network elements and allow us to control and deliver the types of capabilities like Dynamic Capacity that Larissa mentioned.

So it's really reaching into those network elements to deliver that predictable network experience for the customer, where they want to connect.

Larissa Herda

So we just – generally, when we do things, you know, we like to use as many things off the shelf as we can, but then we do our own development for differentiation and strategic advantage so there's a lot of proprietary work involved and we generally don't give out the names of the technology we're using because why should we tell our competitors what we're doing.

Timothy K. Horan - Oppenheimer & Co. Inc.

Sure. Thanks a lot.

Operator

We can go next to the site of Donna Jaegers with D.A. Davidson. Your line is open.

Donna Jaegers - D.A. Davidson & Co.

Hi. Inspiring call so far. One quick question on the E-Access wholesale product. Has that been launched in the market now? Can you talk a little bit about what sort of reception you've gotten and any sort of update on the FCC looking at special access?

Larissa Herda

Sure. So E-Access launched in the second half of last year in the fourth quarter and just to remind everybody, that's the one-to-many products that allows customers to connect to us for ethernet services in one location and then we take them across the United States. What's been happening is primarily entrance facilities have been put in place with quite a few carriers and now they're starting to, you know, as they sell new services, they're starting to add the end links to those so we should expect to see some momentum as the year progresses and that takes time, obviously because just putting the entrances – this is new for a lot of carriers, so you know, you've got to work on all the technical intricacies of getting the facilities in place. But we're very pleased, and by the way, that is one of the reasons why we're adding more sales people, which I can't remember the last time we added sales numbers in the wholesale group. It's been many years. But we see a lot of demand for that. I was actually at a conference recently and I happened to be walking next to the president of a large global telecom company and he, you know, they're a customer of ours and in a kind of a small way and he personally was not aware of these capabilities that we had and he was pretty excited about it and couldn't understand why they weren't using us more and we've been in contact since that conference and I think the teams have renewed interest on their side because he definitely could see, you know, what this meant for his business. So you know, we've been seeing a lot of excitement coming from the international carriers, but these things happen over time, you know, as you know, Donna, there are no hockey sticks in this businesses. We have to be patient but eventually the results show up.

Then the...

Donna Jaegers - D.A. Davidson & Co

On the FCC special access, is that a gating factor, how fast the wholesale carriers can use you guys?

Larissa Herda

It has no impact on that. You know, what we just did, you know, on special access, has more to do with dealing with something we've talked about before that we unaffectionately call the heroine drip,

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that the incumbent carriers require both their end user customers and carriers to make ever-increasing commitments to old technology over the years while the world is moving to new technology and it keeps companies from being able to buy services from other competitive carriers. So there's a lot of words for that, but that's just an on-going process that we have going on and we just made a filing this past week with a coalition of other carriers and they were comments to the FCC's further notice to propose rulemaking as part of the ongoing review of special access. So you know, I think the team did a great job putting in their explanations and provide some really compelling things. Obviously, nothing moves really quickly in the regulatory environment but we're asking for some relief, really, really asking for it quickly from that because obviously, we all want to be able to move to new technology. We also want to be able to sell to whoever wants to buy from us without them feeling that they constantly have to submit to the heroine drip for services that they really don't want or need.

So that's all that's about, but it has no – you know, other than the future ability to be able to buy services at reasonable rates and at reasonable service levels, we continue with our strategy because, remember, the vast majority of what we sell is on our fiber network, 100% on our fiber network, but unfortunately, for every carrier in the United States, including the incumbents, none of us have complete ambiguity and we have to buy services from other carriers to be able to complete services for our customers who want us to do everything for them, not just what we can do on that.

Donna Jaegers - D.A. Davidson & Co

Okay, thanks, Larissa.

Larissa Herda

It looks like we have – I know we've run over and I apologize for that so we're going to take one more call here. I mean, one more question.

Operator

And we'll go to that question from the site of – the line of Thomas Seitz from Jefferies. Your line is open.

Thomas O. Seitz - Jefferies & Company, Inc.

Yes, thanks for getting me in. When you look at constellation, as you roll it out, do you think it's going to be used primarily to open doors to new accounts as a point of differentiation or are you going to use it – are you going to start by targeting current customers? I understand probably both over the long term, but with the launch, do you think one presents more opportunity than the other?

Larissa Herda

So you know, I'm not sure how to answer that. Current customers have a tendency to buy things quicker because they already know who you are. But I think that we're opening up a brand new opportunity here for customers. You know, there's a number of – there's one really big application provider, for instance, who's been working on dedicated services to enterprise businesses and trying to expand their relationships and one of the frustrations that they've had is this Telco, got to put it in order and wait 45 days, got to wait for this, got to wait for that. And so, and so when we look at our business, we're already connected into all these locations, so for us to create machine to machine interfaces or API interfaces with these organizations so that you know, we can present our – you know, our service can be presented as part of their portal to customers and they can just click and go, yeah, I want that service and if it's in one of our buildings, you know, they can have it maybe in a day, maybe if it's already connected to that customer in the building they could have it immediately, right. But the nice thing for the customer is we're already connected into the application provider and if we have this machine to machine connection, they can actually grab the application on a dedicated service instantaneously. So that is a whole new world. This is a whole new world for customers and a whole new world for data centers and a whole new world for application providers. So I think it's different, it looks a little different from each of their perspectives.

But now, for us, what we like about it is there's no people in the process, right. I mean, you don't have any people in the order process so this is a very interesting scale opportunity for us to be able to turn services up in a very rapid way, utilizing this infrastructure that we already have and so it's a fairly innovative – it's an extremely innovative way to connect to customers. Did either of you want to say anything?

Unidentified Company Representative

No, I think you hit it; speed, flexibility, choice, ease of use. That's going to be appealing to existing as well as new.

Larissa Herda

So while Dynamic Capacity opens more doors and closes more deals, this was a bit more than that because this one – this one changes the fact of how telecommunication providers interact with their enterprise customers and interact within the data center, you know, environment. Data centers don't stand as an island and today, you've seen some providers throw dark fiber in there or a fixed capacity in there, and yeah, big deal, it becomes a commodity after a while. And – but what we're doing is saying, well, customer, you're already in our building, we're already in your space, we're already in this data center, that data center, that data center, and oh, by the way, we can – that data center – we're connected to all these applications that you can connect to. This is easy for you. You don't have to worry about the whole Telco model and you can connect up to that. And the future of this is quite exciting when we think about it. And again, it will take time, but it's fairly – it's a very radical way of thinking. I can't imagine other carriers being able to do without maybe having to build a whole network on top of what they've got. And fortunately, we built this very integrated network, which allows us to do it with our existing investment and I think that's one of the keys is continuing to leverage our existing investment These are primarily, today, they will be on net services, right, you know, someday we'll connect to off-net services as well. But nice high-margin business without a lot of people in the middle of the process. We like that model.

Thomas O. Seitz - Jefferies & Company, Inc.

I guess my follow up would be, you know, if it is in the data centers where you're already connected, if it's in to current customers, that is, you know potentially the initial sales avenue, can you help us size it? I mean, is this – do you think this is a big enough opportunity that you could see the margin impact you sort of alluded to a couple minutes ago, you know, even in 2013?

Larissa Herda

No. You won't see the margin impact on this in 2013. Things don't move quite that quickly in this business. The key here and the power of this is linking the application and the network together, right, and that's something different than what others have ever done. So I think this is a vision that we wanted to make sure you all knew where we were going. You're going to start to see elements of that vision start to take shape over time just like the Intelligent Network. You know, we started off with the Intelligent Network, we figured that was enough to get everybody to absorb last year, and I think everybody's got it and I think, you know, we're doing it, people understand it. I think our investors are starting to understand and I think, over time, you'll start to see how that will impact our results over time. The constellation platform is really just the next level of that in our thought process and you know, and I anticipate there will be more that we'll share with you someday, but for now, I

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think this is enough. And I think we have – I think it's the right vision. I think it's the – I think it's what customers tell us they want. A lot of this came from customer roundtables that we've had where customers would just say, oh my gosh, this is – it's just so hard to deal in the Telco world, and it really is. I mean, Telco companies have never been well known for providing excellent service, right. We do a pretty good job, but we really wanted to change and really – what really inspired us was, you know, our own iPhones and our own iPads and how easy it was for us to just click and connect to over the internet and we thought, well, if we have all this fiber and we're already connected to all these locations, why can't we do that for customers of dedicated services because they're not going to buy a lot of those applications over the internet, it's just not secure enough.

So we can do it differently because we have a different set of assets and we deployed them differently that others have and we've integrated them differently than other have and I think that's put us in a very unique position to innovate differently than others can.

Thomas O. Seitz - Jefferies & Company, Inc.

All right, great. Thank you very much for the color.

Larissa Herda

All right, thanks a lot. And sorry for going over, but hopefully that was helpful to everybody. Thank you all for supporting tw telecom.

Executives

Carole Curtin

Larissa L. Herda - Chairman, CEO and President

Mark A. Peters - CFO and EVP

John Blount – Chief Operating Officer

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Mike Rouleau – SVP of Business Development Strategy

Analysts

Simon Flannery - Morgan Stanley

Brett Feldman – Deutsche Bank AG

Colby Snyesael – Cowen and Company, LLC

Barry McCarver - Stevens

Frank G. Louthan - Raymond James & Associates, Inc.

Michael Rollins - Citigroup Inc

Timothy K. Horan - Oppenheimer & Co. Inc.

Donna Jaegers - D.A. Davidson & Co.

Thomas O. Seitz - Jefferies & Company, Inc.

tw telecom (TWTC) Q4 2012 Earnings Call February 12, 2013 11:00 AM ET

Operator

Good morning, and welcome to tw telecom's fourth quarter 2012 conference call. Today's call is being recorded. With us from the company is Chairman, Chief Executive Officer, and President, Ms. Larissa Herda and Executive Vice President and Chief Financial Officer, Mr. Mark Peters. At this time, I'll turn the call over to Carole Curtin, Vice President of Investor Relations. Please go ahead.

Carole Curtin

Welcome everyone to tw telecom's conference call. We're pleased to have you join us today.

To review our results for the quarter, please see our website at www.twtelecom.com where you can find our press release, supplemental quarterly information, and SEC filings.

Before we start, I'd like to draw your attention to our Safe Harbor statement included in our supplemental materials, which you can find on our website. Information on our quarterly earnings materials in our discussion today contain statements about expected future events and financial results that are forward-looking and are subject to risks and uncertainties. A discussion of factors that may cause our results to differ materially from our expectations is contained in our filings with the SEC under risk factors and elsewhere available on our website.

I would also like to point out that our earnings materials and discussion contain certain non-GAAP financial measures. You can find reconciliations between the non-GAAP and GAAP financial measures in the materials on our website.

Now I'm pleased to introduce tw telecom's Chairman, CEO, and President, Larissa Herda.

Larissa Herda

Thanks, Carole. Hi, everyone and thank you for joining us today.

2012 was another good year. We strategically advanced our new product and network capabilities. At the same time, we once again achieved strong comprehensive financial results. So let me start by recapping a few of our operational and strategic accomplishments.

We delivered industry leading innovation with the rapid deployment of our new intelligent network capabilities. And while we've been setting the foundation in place for some time, our team's ability to design, test, operationalize, train, launch, and commence selling the first two phases of these new capabilities in 2012 was a substantial accomplishment. And even better, we're already starting to see the results.

Through our ongoing innovation, we're becoming a disruptive force in the industry. And we're changing the game. That's because we're challenging enterprise's operating paradigm by re-defining how customers think about their enterprise eco-system substantially changing choice and flexibility for customers and dramatically improving the interaction between our customer's networks and applications to make them more successful.

Our business is focused on ongoing execution while constantly positioning ourselves for the future. For example, our commitment to Ethernet has been unprecedented. And was one of our early disruptive efforts of changing both our business and the industry and we led that charge. For more than a decade, our innovation has consistently resulted in us being recognized as a top three provider in Ethernet nationally. We continued that differentiation with recent innovations, such as our E-Access or one to many services that enables Ethernet access across our entire network from a single connection point as well as our intelligent network capabilities to provide dynamic capacity for Ethernet services.

Much like the success of our Ethernet services, we expect our new intelligent network to increase the trajectory of strategic services over time. And since the launch of these new intelligent network capabilities, they're doing just what we had expected, which is opening more doors and closing more deals for the sales of our strategic services.

We delivered some very innovative capabilities in 2012, which did not go unnoticed in the industry. In November, we were recognized with several awards including the prestigious 2012 North America Carrier Ethernet award for best business Ethernet application by the metro Ethernet forum for our unique and innovative dynamic capacity capabilities.

Summing up the year, we executed well strategically, operationally, and financially. 2012 was another milestone in our growth story, which demonstrates our ability to innovate and differentiate our capabilities, produce strong financial results, and drive shareholder value, all of which were possible due to our ongoing strategic choices.

As we look to 2013, we expect to provide customers with unprecedented visibility and control over their networks, which we believe will accelerate the momentum in our business through several growth initiatives including enabling new disruptive technologies for increased innovation and differentiation, growing our sales force for greater distribution capabilities to increase our sales trajectory, and automating new network functionality for more dynamic customer interaction and connectivity options. Our initiatives are all focused on increasing the momentum in our business including the sale of our strategic services and our part of our long-term vision of moving our business from a leading managed network provider to a leading provider of instantaneous network enablement solutions for enterprise and IT environments through our future installation platform, which we're introducing the vision of today.

Our constellation platform will break all the rules of the traditional Telco operating model. By leveraging everything we've built from our massive fiber infrastructure and one network platform to our intelligent network, we will be taking enterprise networking and cloud enablement to another

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level by providing our customers the ability to instantaneously click and connect dedicated network services to hundreds of data centers and thousands of applications in an incremental use what you need for as long as you need it and pay as you go strategy.

These future platform capabilities will enable enterprise's needs for implementing corporate wide networks while offering them unprecedented choice. We believe our industry has never seen breakthrough capabilities like this before.

There's a titanic shift in the data center and cloud world that has been occurring, which is disrupting the market. With our intelligent network and our future constellation platform, we believe we're right in the middle of some very large and growing demand and well positioned to capitalize on these opportunities by changing the game. So I'll talk more about that in a moment.

But first, Mark is going to review our results and new growth initiatives.

Mark A. Peters - CFO and EVP

Thanks, Larissa, and hello everyone.

Today, I'm going to provide some financial highlights for both the year and the fourth quarter. And then spend some time on our 2013 growth initiatives including our expectations for capital and margins.

Let me start with our financial highlights for the full year. As you know from our press release, revenue grew for the eighth consecutive year. And for 2012, revenue grew 7.6% driven by our data and internet growth engine, which grew 15.4% for the year. The 7.6% top line growth drove an 8.6% growth in M-EBITDA and a 36.8% margin. Plus $77 million in net income, which was a 33% increase from last year. This growth in M-EBITDA plus lower CapEx as a percentage of revenue compared to the prior year resulted in $130 million in levered free cash flow, a 42% increase over last year.

So in a nutshell, for 2012, we had strong top line growth, sufficient capital deployment, and very high growth in our net income and cash flow, but the balance sheet that allows us to continue our growth initiatives.

Stepping back to the fourth quarter results, we delivered 7.5% year-over-year revenue growth and 2.4% sequentially, which was our 33rd consecutive quarter top line growth with data and internet now representing 52% of our total revenue.

For the quarter, data and internet revenue grew 15.2% year-over-year and 4.6% sequentially including a $2.2 million favorable customer settlement.

Modified EBITDA grew 8% year-over-year as we delivered a strong 36.6% modified EBITDA margin and net income of $17.3 million.

We also delivered a 4.6% levered free cash flow margin for the quarter.

We produced strong comprehensive results in 2012 as we continued to manage the business with our balanced approach, balance approach toward revenue growth, margins, and cash flow.

As you can see from our results, we emphasized margin cash flow a bit more last year, which drove our 42% increase in levered free cash flow. And giving all the market uncertainty in 2012, we think that was the right focus.

Although our approach in 2012 resulted in increased sales, it did so at a growth rate less than the rate at which our total revenue grew. So in light of the strong demand we're seeing and the strength of our current and new offerings, we believe it's the right time to increase investing for more growth.

With the objective of increasing our sales growth rate, we're implementing several initiatives, which I'll highlight. But before I do, keep in mind that it will take some time to see the top line results. That is why you'll be hearing us say we expect them to start contributing to higher growth later in 2013.

These growth initiatives include the following. First, expanding our sales reach through an increase in our sales and support resources to increase the future trajectory of our bookings. Second, investing in new technologies to deliver new and innovative capabilities to primarily drive our strategic data and internet services. Third, further automating network functionality to enable more dynamic customer connections to drive more growth. And fourth, continued expansion of our network reach in existing and adjacent markets to reach more customers. This is a coordinated growth plan to prepare us for the transition occurring in the industry. And we believe these initiatives will help position us to win more share.

Now let me expand on our sales initiatives. Our 2012 sales reflected increased productivity from both our direct sales team and momentum in our indirect channel, which contributed to our growing revenue base.

The recurring revenue and nature of our business contributes to the consistency of our results. Each year for the past eight years, we have grown our top line and with that, our base of recurring revenue. That also means we must grow our absolute new sales even more than this growing base in order to maintain or expand our total growth rate. This dynamic leads us to our growth initiatives to invest in more today, to increase our sales reach, and ongoing sales production.

We spoke to you last quarter about expanding our direct sales force. And we added 6% more sales associates in the fourth quarter, which occurred largely in December. As part of our 2013 growth initiatives, we expect to further expand our sales associates by nearly another 10% by the end of this year. This is in contrast to 2012 with average sales associate headcount was down from the prior year. We will also be simultaneously adding support resources to help quickly ramp productivity to compliment this increase in our sales team.

For us, adding sales resources is not just increasing the size of our team. It's also adding depth and changing the complexion of our resources to align with our strategic vision.

Here's a recap of the key sales investments. Including first, increase in our local sales channel particularly in markets where we see the greatest opportunity. Second, expanding our very successful indirect sales channel, which we found is opening up new opportunities for us so we previously could not penetrate. Third, growing our wholesale team because of the new product portfolio we have including E-Access or one to many for finding a great deal of interest from international carriers. Fourth, increase in our national enterprise sales team to further leverage our intelligent network and other new capabilities for very large customers. And last, expanding our federal sales team, which is a small but mighty group that has been gaining more traction in the past year.

For all these sales areas that I just described, we're focused on bringing in talent with new skills including deeper IT centric knowledge. These new resources map to the innovation in our product roadmap and our broader strategic vision that Larissa is going to be expanding on in a moment. And their target is to areas where we expect to gain the quickest traction.

From a revenue production perspective, it will take a while for these new resources to be productive and in time for our sales to translate into reported revenue for expectation of sales and revenue growth increasing later in 2013, which we believe will set us up nicely for 2014. The sales investment naturally has a current impact to margins and will for a while until we build up the returning revenue growth rate at which point we expect the new revenue will absorb the cost of expanded sales resources and allow margins to expand again. We anticipate this will begin to occur later in the year as the revenue growth ramps back up. So don't get too excited when you see margins go down in the near term. We know our model works and we've done this before. As you know from our model, the driver of our margins and cash flow is building density and scale. We're trying to do that faster to take advantage of the demand we see in the market for current and future capabilities.

Larissa will talk about the remaining initiatives that reference including rolling out new network and product capabilities, further automating customer interactions, and continuing to expand our existing market reach. These initiatives will largely be absorbed in our CapEx with some lesser impacts to margin.

Now to CapEx, for the year, we invested $343 million in each 2012 and 2011. Or 23.4% of revenue in 2012 and a GP increase of improvements from 25.1% in 2011 with success based initiatives reflecting the majority of these investments.

In 2013, we expect capital intensity to remain similar to 2012. And expect approximately $360 to $370 million in CapEx with the majority related to new success based sales opportunities.

Before I close, I want to highlight that when you look at the long-term trend lines of our business, they are incredibly consistent. However like most businesses, our results fluctuate from quarter to quarter. As we mentioned in the earnings release, due to the convergence of several items, we expect a fairly low first quarter revenue growth rate, some one time and seasonal items, as well as the timing of [inaudible] installations including the impact of the low third quarter sales that we discussed last quarter.

We also expect that margins will be dampened in the near term for both the investment and growth initiatives I discussed as well as an estimated $4 million seasonal impact primarily related to the re-setting of payroll taxes. That said, we're in a great position to continue to expand our market share and grow our business as we progress throughout the year.

Also a quick comment on our stock buyback program. Over the past year, our practice has been to opportunistically manage our purchases to capitalize on the forecasted 2012 economic trends, fiscal cliff, and debt ceiling events that were expected to impact the stock market. This approach has resulted in us executing on about $22 million of our $300 million stock repurchase program from its inception to the end of the year.

With the first call date of our convertible debt coming up in April, we'll be taking a fresh look at our program. Now to be clear, I'm not saying that we'll call the convert in April. But the time is right to review our approach in order to thoughtfully and efficiently return value to our shareholders in this manner.

In closing, 2012 again demonstrated the success and incredible consistency of our model and strategy as we delivered strong comprehensive results. We are taking thoughtful and delivered measures in 2013 to continue to fuel our future revenue growth and to once again deliver strong balance in comprehensive results to grow shareholder value.

With that, I'll hand the call back to Larissa.

Larissa Herda

Thanks, Mark.

Today, I'd like to talk about our 2013 priorities. I'll start by spending some time sharing our broader strategic vision for the future, which as I mentioned earlier, we're calling our constellation platform. Then compasses our foundational intelligent network, but it goes well beyond that. This broader vision creates a powerful new operating paradigm for enterprises and how they interact with their network, third party data centers, and cloud services.

Our vision for our constellation platform includes increasing the velocity of how customers buy our dedicated network services driven by the ability to more quickly access and consume network and IT services. To achieve that increased philosophy requires changing enterprise's traditional network constraints for security, flexibility, choice, speed, and ease of use. We believe that automation and rapid connectivity are the future versus the circuit-by-circuit dedicated connectivity of the past as enterprises need to shop, buy, consume, and manage services differently as well as interact with their network providers in a new way.

As I share our vision with you, put this picture in your mind. Imagine a business being able to turn on mission critical applications that require dedicated network connectivity the same way they grab applications via the internet. But with our new capabilities, they'll be able to do it instantaneously in a more secure predictable way. Think about that. Now this is a disruptive force. And we're enabling an enterprise data center and applications marketplace throughout our network and services platform to create this new future. And we're collaborating with leading providers in this space. We believe we can address customer's needs in a way that's completely different from anything currently in the marketplace. And different than the traditional Telco service model.

Here's what we're hearing from customers about their issues in acquiring dedicated network services to meet their needs. The first issue is security. Today due to the growing use of cloud applications, many businesses are faced with using the internet, which has no visibility, no guarantee of performance, and it's inherently unsecure at a time when cyber security has never been more at the forefront of enterprise's considerations.

The next issue is flexibility. Customers want service when they want it, how they want it, and only as long as they need it. That means by the slice, by the hour, or by the compute cycle. Think about it. Each customer has a plethora of applications, each with their own bandwidth needs and they want flexibility.

The next issue is choice. Customers also want connectivity to thousands of applications that exist today as well as those being developed for tomorrow. And they want to connect to best of breed applications in a secure, rapid, and efficient way.

The other issue, issues include speed and ease of use. Much like when consumers pick up their Smartphone and press a button to download an application in seconds, that's what enterprises want. But they don't want to do this over the internet. They want to connect in a dedicated secure way for their critical business needs.

So now let me tell you how we plan to change the markets with our future constellation platform. Our constellation platform vision is to create the ability for customers to have instantaneous dedicated connections to buildings, data centers, and cloud services on our network through our secure and reliable services platform and network assets via simple click and connect type of use, which they can have for hours, days, or weeks depending on their needs. This vision includes giving customers connectivity to any building or data center on our network without having to submit a traditional Telco service order, which is very time consuming and without having to wait weeks for services as they do today with most providers. For example, if customers needed disaster recovery solution in one of the hundreds of data centers that we're connected with, they'll be able to connect themselves immediately with our new platform. Think about the customer's options combined with the power and control that gives them and how we are changing the game.

With our vision, we're building a community of interest driven by enterprises and a large community of data center and applications providers that they need to interact with to manage their connectivity needs. And we believe our future constellation platform will change the operating paradigm of all of these players. And in turn, drive their businesses forward.

In fact, just a couple of weeks ago, I met with one of the largest data center operators in the United States and was talking to them about their vision. And actually before I even walked in the door, they were already impressed with our current intelligent network capabilities including enhanced management and dynamic capacity. And then when I talked to them about this broader vision of click and connect for instantaneous network connections and services, their immediate response was, and I quote, this is a game changer. They thought our vision completely changes the paradigm for not only their data center opportunities, but also for their application provider's customers. And then the conversation got really fun as they immediately started discussing the new products that they could potentially offer their customers using our new capabilities.

To scale our vision, we will be leveraging a large and growing opportunity. It includes leveraging the 18,000 buildings directly connected today to our fiber network, leveraging the key data center connections including the more than 400 third party data center locations that we serve today, and leveraging our relationships with some of the world's largest applications providers.

Basically, we're leveraging all of our existing assets and all of the investment we've already made. We've built this big beautiful and powerful fiber network connecting up all of these capabilities that we thought to ourselves, why do we have to connect to these customers the same old way everyone else does. Why not change it? Why not do it differently and make it easy for customers? Why not be a disruptive force? And that is what we're doing here because the customers are telling us that this is what they want.

So imagine you're a customer today needed to select a network provider. The first thing you need to do is purchase six dedicated capacity. And you're looking at multiple vendors, including tw Telecom. Now assume they all provide basic bandwidth connectivity as that's table sticks. Now on top of that, consider all the value adds that tw Telecom provides. We can deliver network visibility to monitor performance across your entire network end-to-end through our enhanced management. We deliver control of your bandwidth allowing you to adjust your bandwidth for changing needs through our dynamic capacity. We will deliver dynamic control and prioritization of key applications to address your changing priorities through our future application's aware capabilities. And we will deliver the flexibility to click and connect instantaneously to dedicated services through a portal to a data center or application provider to streamline the buying process through our future constellation platform. We think the choice is clear. And that's why we believe this vision will be a disruptive force in the industry that will continue to grow our strategic services revenue.

So let me turn to a few customer examples of how our intelligent network exemplifies the future opportunities we see ahead of us. Our first customer example is a financial services company in Charlotte that established new services including our dynamic capacity capabilities between two data centers to support data storage and a proprietary finance application. The customer started with 50 Meg of fix service, but quickly discovered their application needed a peak bandwidth of 150 Meg. As a result, the customer doubled their fixed bandwidth to 100 Meg and then relied on dynamic capacity to cover their maximum bandwidth needs, which is a great example of how the customer benefitted from our innovation while we sold more strategic services.

However, the story gets even better as this customer also uses our enhanced management visibility for two scenarios. First, as a tool to aid the migration of one of their in-house applications to a

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remote data center, the real time segment specific network data provided by enhanced management helped the customer to determine how to improve the application's performance for their employees.

Second, our enhanced management supported a two site equipment deployment allowing the customer to correctly allocate the number of end users between the two locations at the initial deployment saving the customer time and money.

Our second customer example is a media company in Indianapolis. This customer purchased dynamic capacity capabilities between their primary and secondary data centers. The customer loved how quickly the increased bandwidth helped them resolve troubleshooting performance issues with their applications. The customer told us that dynamic capacity saved them hours of troubleshooting since they could immediately see it was not a bandwidth or network issue, which is a terrific customer experience.

The third customer is an insurance company in Florida. This customer moved their data center from their premises to a third party data center. And they were unsure of how much bandwidth they would need to manage data backup. The customer quickly enjoyed being able to increase their bandwidth for its' periodic increased bandwidth needs for storage replication and large file transfers that they needed while moving their applications from the corporate office to the data centers.

All of these examples described how customers benefitted from our innovation while we sold more strategic services. So hopefully, those examples help you see why our vision of the intelligent network is gaining traction and is contributing to our success.

While I've described our vision for our future constellation platform, the fact is we're working today to make this a reality. We're in deep development mode for these capabilities, which is why we decided to accelerate our growth initiatives because we're seeing that the demand is there. We're architecting, building, and testing these capabilities. And we've already forged alliances with some of the most powerful data center and applications providers in the country.

Before I close, let me summarize our opportunity. As many of you know, there are huge companies and various smaller organizations that are making enormous investments in the cloud. The projected growth in that space is staggering and is disruptive to the computing space.

Simply put, everything I've been speaking to you about today is to further insert ourselves into that revenue opportunity by delivering the arteries or lifelines that allow enterprises to reach the cloud providers and the cloud providers to reach the enterprises. And we're doing it in a new way that we believe others cannot. We're very excited about the future and that's why we're investing in this vision.

Before we turn to Q&A, I'd like to introduce John Blount, our Chief Operating Officer and Mike Rouleau, our SVP of Business Development Strategy who will also be joining us for the Q&A session. And with that, we'll now take your questions.

Question-and-Answer Session

Operator

(Operator instructions). **Operator**

Thank you very much. (Operator instructions). We'll go first to the site of Simon Flannery with Morgan Stanley. Your line is open.

Simon Flannery - Morgan Stanley

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Great. Thank you very much. I wanted to just get a little more color on the ramp of the sales force and the product rollouts. I think you took your sales force up about 6% in Q4. Where do we see this ending up in this year, and how – you know, what sort of number – how quickly will that take.

And then, in terms of the product rollouts, what's the timing of that? I think, Mark, you mentioned strong momentum on sales hitting revenues in the second half of the year, and then really setting up a good 2014. But are we going to see some of the fruits of this as early as Q2, or is that going to be another kind of subdued quarter like Q1? Thanks.

Mark A. Peters - CFO and EVP

Let me touch on the sale headcount and I'll pass it over to Larissa on the products a little bit. You're right, we increased in – really the end of last year by about 6% largely in December, and then we expect increase, you know, close to maybe 10% more by the end of this year. And the timing, you know, well see how the timing comes in throughout the year, but you know, we'd like to get them sooner than later, so we can start getting them productive.

And it's quite a – it's interesting when you look at, as I'm adding these sales products, thinking about the timing of when they can get productive, so it does take a while. But, you know Simon, this team has been here for a while and we've done a lot of this before. In fact, we look back to the end of 2009, and in 2010, and we actually took a similar trajectory. We added a similar percentage of head count at the end of 2009 and then continued it into 2010. And 2010 this is guidance – but in 2010 our bookings grew by about 18%. You know, because of all the activities were going on there.

Now, of course, there's other factors that affect growth, you know, products and service delivery and competition and economy, and all that kind of stuff. But, you know, I'm not given guidance. But then we saw very strong reported revenue growth in the subsequent year, after those bookings went out.

So it takes a while, but we've done this before, and we're pretty confident as we go into the year.

Larissa L. Herda - Chairman, CEO and President

With regard to the product rollout, you know, we generally don't like to put dates on things until we're right on top of them. Because we want to make sure things are done right and people in the organization aren't pressured unnaturally for deadlines that might turn out to be unrealistic. We always set pretty aggressive deadlines internally.

The fact that we're talking about it is all, you know, about our new capabilities, should indicate and we started talking about the Intelligent Network, I think it was a little over a year ago, and we started deploying those services shortly thereafter.

So, these are things that are ahead of us, but will take us some time. Nobody has ever done this before. Similar to things like Dynamic Capacity, no one had ever done it before. And so, you know, it was hard to determine exactly when we were going to be standing some of those things up at the time.

But we'll keep you posted on that. I would not expect to see the new products impact the first half of the year, which is why we're talking about starting to see things in the second half of the year. But obviously we currently have a lot of great products out there today, and I think some of the things that you're seeing in the first quarter are really the compilation of a number of things falling into the first quarter. But as you know, we don't manage this business on a quarter-by-quarter basis, we manage it for the long-term and there are fluctuations. And we like to let our investors know when we see a fluctuation it may seem off trend to them, and that's really what we were talking about in the first quarter.