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PRESENTATION

Operator

Please stand by. Your meeting is ready to begin.

Good morning, ladies and gentlemen. Welcome to the Bell Aliant Regional Communications Third Quarter Conference Call.

I would now like to turn the—I would now like to introduce your speaker for today, Ms. Zeda Redden, Vice President Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice President Investor Relations, Bell Aliant

Thank you, Operator, and good morning, everyone, and welcome to Bell Aliant's third quarter 2009 results call. Last evening, we issued our news release and Q3 financial statements, MD&A, and supplementary information package, which is posted on SEDAR and also on our website. Also posted on our website is a slide presentation that we'll be taking you through on this call.

Today's agenda is listed on slide two of the presentation. And as always, we caution you that today's comments may contain forward-looking information related to the finances and operations of the company. And our discussion is tempered by the cautionary statements on slide three of the presentation and those listed in the MD&A and news release.

We have scheduled the call for up to an hour, including the presentation and then a question-and-answer period. And with that, I'll turn the call over to Bell Aliant's President and CEO, Karen Sheriff.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Thank you, Zeda, and a very good morning to everyone. As far as our agenda for today, I will speak briefly to the highlights in the quarter and then provide an overview of our revenue performance. I'll then hand it over to Glen LeBlanc, our Chief Financial Officer, who will take you through the rest of our financial metrics and provide an update on pensions. Heather Tulk, Senior Vice President of Customer Solutions and Eleanor Marshall, VP and Treasurer, are also with us today for the Q&A session.

Now in terms of highlights for the quarter, as part of our strategy to grow broadband, we were very excited to launch FibreOp Internet and TV services over our fibre-to-the-home technology in Fredericton in September. We currently pass 11,000 homes with fibre-to-the-home and are on target to achieve our plan of passing 70,000 in Fredericton and Saint John by the middle of 2010.

Customer response has been very enthusiastic, and this technology removes bandwidth as a limitation in providing Internet and TV services, and we are very excited to be able to offer this in our territory. So far, we are meeting or exceeding all of our planned targets, including build costs, pace of deployment, and sales. It is obviously very early days, but we are optimistic that these trends will continue.

In October, we announced our plans to consolidate our Contact Centre operations in Atlantic Canada to five centres from our current 16 locations by closing Contact Centre operations with fewer than 50 employees and offering all affected unionized employees, which is about 200 people, relocation to one of the remaining centres. Our existing model has far more centres than any of our peers and is not sustainable from a customer service, employee management, or cost perspective. Although we believe that some of our employees will choose to accept the relocation offers, realistically, we expect that many will not. And those employees will receive severance packages.

In the quarter, we estimated and recorded a liability of $13 million for estimated severance and relocation costs, which will be paid as the changes are made by early 2010. Our expectation is that this consolidation will simplify and improve customer service, boost sales, enhance employee training, and reduce our operating costs by approximately $10 million annually for a 12- to an 18-month payback.

It is important to note that while we are changing the Contact Centre model to a more centralized operation and some of our employees will be relocating, we will still have other employees and presence in all of these areas.

Also in the quarter, we announced that we had reached an agreement to sell our Innovatia subsidiary, and the sale was completed effective November 1 with the receipt of $1.5 million in proceeds. As a result of this divestiture and the sale of xwave New England earlier this year, we have approximately $40 million of revenues that are now classified as discontinued operations on our financial statements.

This quarter, we have updated our revenue and capital intensity guidance to adjust for these reclassifications. Our 2009 capital intensity guidance range has been revised to 13.7 to 14.7 per cent, up from 13.5 to 14.5 per cent, as the revenues we have removed have very little associated capital spending, thereby increasing the reported intensity for our remaining business. Importantly, the updates to guidance are a result of the accounting reclassifications arising from these divestitures, and not a change to our overall business outlook.

Now turning to our financial results, slide six of our presentation shows the highlights for the quarter. I am very satisfied with our financial performance this quarter, as we continue to achieve EBITDA growth thanks to a commitment to cost containment throughout the organization, which offset the effects of revenue decline. A slower economy with a slowdown in housing starts, lower consumer spending, increased non-pay disconnects, and the effects of increased competitive activity drove increased NAS decline and put pressure on product sales across all lines of business.

Significant reductions in operating expenses, particularly labour-related costs as a result of our restructuring initiatives, have offset the margin effects of lower revenues and a differently-weighted revenue profile.

Our capital spending was down $23 million from the same quarter in 2008 as a result of our streamlined capital program and also because the third quarter of 2008 was unusually high, with projects from earlier in that year pushed into Q3 because of weather and delivery delays. Our capital intensity in the quarter was 14.6 per cent with the reclassification of some revenues with low associated capital spending to discontinued operations, pushing this ratio higher than we anticipated in our original guidance. Although we've adjusted our capital intensity guidance, we have not changed our planned capital spending budget for the year.

We had very strong distributable cash growth of 15.9 per cent in the quarter, as the lower capital spending profile for this year as compared to last comes into play in the back part of 2009. Overall, despite the challenges faced this year, we are on track to meet all of our financial objectives for 2009, and we'll be well within guidance ranges.

Now, let me talk a bit more about revenue specifics. Slide seven shows that in addition to the declines in local and long distance, other revenues also decreased with weaker product sales, rentals, and lower outsourcing revenues. As I mentioned, the slowdown in the economy has affected product sales across our various segments, and we expect this trend to continue into the fourth quarter.

On the upside, our Internet revenues experienced good growth, offsetting some of the declines elsewhere. We'll speak to this a little bit more in detail shortly.

Turning to slide eight, local revenue declined 4.2 per cent in the quarter compared to the same period a year ago, with total NAS down 4.9 per cent. The third quarter of 2008 had benefitted from a one-time $2.5 million contribution adjustment. And excluding that, our local revenue decline was 3.4 per cent in the third quarter compared to the same quarter last year, similar to the quarterly year-over-year decline we experienced in the second quarter. The effects of a slower economy, with lower housing starts in particular, also dampened our year-over-year NAS performance.

The competitive footprint growth continued in the quarter with 64 per cent of homes in our territory now having a cable telephony service offering, or about 230,000 more homes compared with this time last year. This continued expansion of competitive footprint, combined with competitors becoming more established in one- to two-year-old footprints and aggressive competitor promotional and pricing offers, increased competitive losses in the quarter to a new peak for us. Although disappointing, this is not unexpected, as our incumbent telecom peers have experienced somewhat higher NAS decline rates than those which we have experienced to date where they have had a much higher competitive overlap.

As shown on slide nine, our NAS declines in the third quarter were 11,000 higher than the second quarter of this year, with 13,000 more residential NAS losses, offset by better performance in business NAS declines of 2,000. The compounding effect of summer seasonal connect in the second quarter, with disconnects occurring in the third quarter, was the largest contributor to the increase in residential third quarter declines over second quarter.

Finally, competitive activity intensified in the quarter, with competitors offering aggressive promotional discounts, including free long distance and HDTV and PVR bundle discounts. We are and will continue to fight aggressively for the customer in all of our markets while trying to maintain price discipline to ensure profitable market share.

On the business NAS side, win-backs in the third quarter partially offset the continued migration out of a major government contract that we lost in 2008 and the effects of economic weakness and competitive activity. We previously indicated that we will lose about 15,000 business lines this year related to the lost government contract. And in the third quarter, a further 7,000 of those losses occurred, bringing the cumulative total to 13,000. As we said earlier this year, we are projecting an overall increase in NAS losses for 2009 as compared to last year. Our losses to this point in time have been and continue to be low compared to our incumbent peers. However, with our footprint continuing to expand and competitive intensifying, we expect this higher range of losses to continue for the next several quarters.

Slide 10 shows another good quarter for Internet revenue growth at 11.3 per cent. Our high-speed Internet customers grew 7.1 per cent for a year ago, and our residential high-speed average revenue per customer grew 5.6 per cent from the same quarter in 2008. The positive trend of ARPC that we have seen out of the last eight quarters continued in Q3 as a result of customers migrating to more value-added services and some pricing actions.

Bell Alliant TV growth also contributed to the revenue growth this quarter, with subscribers now reaching 30,000. TV ARPC is also experiencing strong growth, as promotional periods come to an end and more subscribers upgrade to HD and PVR. We are also seeing increases in movie rentals and pay-per-view with our IPTV service.

While our Internet subscriber—Internet revenue growth was good this quarter, we expect this to soften a bit in the upcoming quarters. The addition of new customers is increasingly challenging due to market maturation in many centres, the acceleration of dial declines, as more rural markets are opened up to high-speed service, and economic circumstances affecting consumer spending. However, existing subscribers are looking for new product and upgraded services, driving ARPC increases, which will offset some of these negative pressures.

With the intensely competitive marketplace, our Internet and TV service bundles are a driver of growth and a lever for customer retention that we will continue to exploit. Up-selling to existing customers with new features and products and serving our customers well to retain what we have will continue to be priorities for us.

Moving to slide 11 on information technology, overall revenues in the quarter declined somewhat compared with the same quarter last year, with lower IT equipment sales partially offset by increases in IT services from new contracts. Again, we are cautious about the product sales outlook for the fourth quarter, as indications are that economic slowdowns are limiting some larger account spending in this area. However, as you know, lower equipment sales have a negligible effect on EBITDA.

Overall, we continued to make good progress on our initiatives this quarter. Our continued broadband expansion with our FibreOp network, our cost containing accomplishments in both operating and cap ex, and improvements in customer service levels all enabled us to deliver solid EBITDA and distributable cash performance in the face of soft economic conditions and a fiercely competitive marketplace. I anticipate continued progress going forward.

And with that, I'm going to turn it over to Glen to talk a little bit more about our financial results.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Thanks, Karen, and good morning, everyone. Where Karen has taken you through our revenue results, I'll talk to our EBITDA, capex, and distributable cash performance. I'll also comment on the recent government announcement regarding pension reforms and the funding rules.

As shown on slide 13, our EBITDA continued the positive growth trend that we have seen in the previous two quarters of this year. EBITDA in the quarter was up 3 million, or 1.1 per cent, over the same quarter of last year. And notably, our EBITDA margin has also continued to increase, reaching almost 48 per cent this quarter. This is a testament to our cost containment initiatives, with labour costs down 14 million for the same quarter last year and other G&A costs down another 10 million. Cost containment continues to be a priority us with pressures on revenues and margins with the slower economy and increasing competition.

Turning to our capital spending on slide 14, our capex in the quarter was down 23 million from a year ago, as the third quarter of 2008 was high, due to project delays from earlier in the year and our overall lower capital program this year.

We completed the HSPA build for Bell Mobility in the second quarter of this year with approximately $25 million of spending on this initiative in 2009. Even taking this into account, our year-to-date capex is down $16 million from the same period in 2008. The streamlined capital program we have adopted has given us a capital intensity ratio of 14.4 per cent so far this year. And although some consider this low when compared to our Canadian peers, as we've noted before, we have a relatively high portion of IT revenues, which has very little capital expenditure. When capital intensity is adjusted for IT revenues, our year-to-date ratio is approximately 16 per cent, so not far off that of our peers. We are continuing to invest a substantial portion in our network, while achieving growth in distributable cash.

And as I've shown on slide 16, our distributable cash in the quarter increased 15.9 per cent from the same quarter in 2008 and 3.8 per cent year-to-date, driven by both lower cap ex and stronger EBITDA. We are well on track to achieve our guidance range of $750 to $790 million. Particularly, we expect our fourth quarter capital spend to be lower than the final quarter of 2008. Our year-to-date payout ratio is 84 per cent, and we have used the remaining distributable cash to fund our pension deficit requirements and restructuring costs. Our debt-to-EBITDA ratio remains at 1.9 times, in keeping with our target of approximately 2 times.

In terms of pensions, let me comment briefly on our actuarial funding valuations for our DB pension plans. As we mentioned last quarter, the required funding for 2009 will be in the $70 to $80 million range. This level of funding includes the amortization of solvency deficit funding payments over 10 years, rather than their traditional five-year period for certain pension deficits arising in 2006 and 2008, as allowed by exemptions the Federal government put in place for deficits arising in those years.

As you are aware, the Federal government recently announced a number of pension reforms, which did not include extending the 10-year amortization period for all solvency deficits going forward, as some might have expected. While on the surface this may be disappointing and give the impression that our deficit funding requirements could double going into 2010, we do not expect that to be the case.

Firstly, the 10-year funding rule currently applies only to solvency deficits created in 2008 and 2006. A portion of our current deficit payments are related to going concern funding, which is and will continue to be on a 15-year funding schedule. Also, a portion of our payments that rose in other years are still on the five-year amortization schedule. More importantly, it appears that we will be given greater flexibility to choose whether we fund solvency payments with either cash or properly-structured letters of credit. As always, there are numerous factors that ultimately determine our funding requirements.

These proposals for pension reform are far-reaching and are currently just that, proposals. We need to see what the new legislation—legislative rules will look like and take the time to assess their impact on our specific plans. I expect we will include funding estimates for 2010 in our guidance in early February. However, the much larger influence on pension funding will continue to be changing interest rates and the equity market returns.

And lastly, let me conclude with slide 17 that shows our updated guidance for 2009. As Karen stated, these changes are a direct result of accounting reclassification associated with the divestures moving to discontinued ops, and not changes to our business outlook. And we are well on target to deliver results within these ranges for 2009.

And with that, I'm going to open the call for questions. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift the handset before making your selection. To register, please press star, one on your telephone keypad. To cancel your question, please press the pound sign. Please press star, one at this time. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Greg McDonald from National Bank Financial. Please go ahead.

Greg McDonald, National Bank Financial

Thanks. Good morning, guys.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

How are you, Greg?

Greg McDonald, National Bank Financial

Good, thank you. Let me ask a question on cost, and then I have a quick follow-up for Glen on the debt side of things.

Cost effort's very strong, obviously, from the results. I wonder if you might update us on the main areas of focus, i.e. where you're getting your biggest bang for the buck.

And then I'm hoping that you can not necessarily give us guidance, but give us some sense of sustainability going into 2010. I can appreciate the consolidation of the service centres and the savings you'll get there. Is there opportunity for more, particularly with consumer access lines declining and the margin pressure that you naturally get with that?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Great. Good question. In year, we are obviously still getting the benefits of the management reduction that we did earlier in the year, which was quite large. We're also beginning to get some benefits on the procurement side. I think I'd mentioned before that we have better consolidated our operations with Bell Canada so that we can get their cost processes underway. Some of that benefit is starting to come through. But I think, Greg, in general, just to a really, really good focus on G&A and grinding out the reductions in just about every single category we have, whether it's travel, or real estate, or anything else on the list.

I also think a really good focus on the side that tends to slip away for many companies, and that's the hiring side of labour. It's one thing to take people out, and it's another thing to just make sure that you haven't taken a bunch of people out and hired a bunch of people in who replace them. Every single person who gets hired in this company gets approved by me, and that tends to reduce the requests, and we have really held down our hiring throughout the year, which has driven some benefit to the bottom line, as have opex and capex, all of the work that Chuck Hartlen has done defining productivity, evening out our replacement programs, stopping some of the lower payout builds that we've done in the past. And he's just doing a tremendous job of driving productivity there.

So going forward, I can't really give you, as you said, 2010 guidance now. I'll do a lot more of that for you in February. We do expect to get some annual benefit from the Contact Centre changes, in addition to the service improvements that we really do believe that we will achieve. And I'm going to just reiterate what I said in the past. I do believe that there are more opportunities. We're always looking for productivity. There are more opportunities going forward. But 2009 was an exceptionally large year, and you shouldn't expect the magnitude to be as great as the kind of opportunities that we found in 2009. But there is more opportunity open to us, for sure.

Greg McDonald, National Bank Financial

If I just push my luck a little bit on that, Karen, is it safe to say that the company's overall goal is to not let margins slip in 2010?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yeah, I can't go there, Greg.

Greg McDonald, National Bank Financial

Okay. And the second—thanks for that. And the second question for Glen. The bond market remains very strong. So an open question for you, Glen. Why not issue debt today to try and prepay, or at least get the cash today, lock in the rates today for the big nut that you have in 2011? You know debt costs are obviously—are arguably more important to your company than they are some of the others, so could you remind us of what the dating factors are beyond yields in today's markets or whether you've made that decision or not?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good morning, Greg. As we look out to 2011, you're right. We have 750 million coming due in September of 2011. And we carry that on a 4.72 coupon. So one of the first decisions we need to look at is if we early redeem, what would be the penalties, which would be quite substantive at $60—at $70 million. So in looking out at early financing, you know, we make our predictions of what we think the two-year out interest rates will look like. And you'd have to expect a fairly substantial increase in rates over the two-year period to make it economic to do an early offering now. It's something we look at every month, and we'll continue to look at it. And as you get closer to 2011, of course that penalty shrinks over the time horizon. So we'll constantly be evaluating and looking at it. But right now, we don't need the cash. And to think about going out and taking on new debt that you know will be certainly above the 4.72 that we're carrying it at, it's not something we're actively pursuing right now.

Greg McDonald, National Bank Financial

Okay, thanks for that.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

You're welcome, Greg.

Operator

Thank you. The next question is from Jonathan Allen from RBC Capital Markets. Please go ahead.

Jonathan Allen, RBC Capital Markets

Thanks very much. Good morning. Glen, a couple of questions, follow-up ones from your pension comments earlier.

First, I guess, what's happening with the discount rate? I know there had been some discussions earlier this year, and I think you had mentioned that you were expecting some sort of an announcement by the end of the year as far as whether the industry would change the actual solvency discount rate. And I'm just wondering if there's been any headway there that you can update us on.

And also a clarification question. The $70 to $80 million of solvency funding, I believe that's in addition to $60-something million of service costs, which I think implies a ramp up in Q4, if I'm correct.

And then if I can just sort of tack on a third question in there, if you're writing them down, just, you mentioned some of the sensitivity to interest rates for solvency, as well as equity returns for your 2010 funding outlook. Year-to-date, credit and equity returns have been pretty good. Most, I think, credit and equity returns have been over 20 per cent this year. Government yields are moving a little bit higher, which may help your solvency rates. Any thoughts on directionality of your actual pension solvency funding in 2010, whether things could actually get better or worse in your opinion from where we are right now? Thanks.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good morning, Jonathan. I had to write down there. You have quite a list of questions there. I'll try to…

Jonathan Allen, RBC Capital Markets

All on one topic, though, so I think that's fair, isn't it?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

I'll try—yeah, of course it is. The first question was on the discount, and where—the pressures that we see. And obviously, where do we see the discount going from last year is down. We would've seen the funding discount of around 4.4 per cent, and this year, we've seen that go down about 50 basis points. So that is putting pressure on the liability.

When I quoted $70 to $80 million in funding requirements, that is on deficit funding only for the calendar year of 2009 and not on current service. So you're right, there's another $60 to $70 million of current service funding.

We've had a strong 2009 in equity returns, north of 13 per cent in total asset returns in the fund. So it's gone very well this year. But the sensitivity to funding is driven by so many different factors, whether it be the declining discount rate that I alluded to, offset by quality returns that we're having. But you know I can't comment forward-looking on where do we see returns going. We're confident that the range we gave this year of $70 to $80 million is accurate. Discount rates—again, I can't speculate on where we expect those things to be going in 2010.

Jonathan Allen, RBC Capital Markets

This might be an unfair question for you, Glen, but in your Annual Report, you provided sensitivity, I believe, to a change in the accounting discount rate to the total pension obligations. Is that a similar sensitivity to a change in the funding solvency rate?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

The sensitivity on funding would be about—for every 25 basis points movement that you would have in rates, it's about $15 million in funding sensitivity. So that's probably helpful for you, Jonathan.

Jonathan Allen, RBC Capital Markets

That's great.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

You're welcome.

Operator

Thank you. The next question is from Nima Billou from Bloom Investment Council. Please go ahead.

Nima Billou, Bloom Investment Council

Good morning. An excellent job on cost cutting. You came out and did what you said you would do, so just wanted to congratulate you on executing on that.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Thank you.

Nima Billou, Bloom Investment Council

When we look at line losses on the local side, you'd mentioned that some of it may have been driven by a government contract. Is it more the loss of a government contract already starting to hit line losses, or is that in Q4? Or is it a consequence of accelerating cable and Voice Over IP competition?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

On the business side, now this is a government contract, remember, that we lost a year ago. So that's just the normal follow-through of those lines coming out. We've got another 7,000 of those lines coming out in the quarter. We also have some continued softness, particularly in the small business market in some of small territories because of the economy. But there is an increase in competitive activity in business that's really just picked up this year, and that will continue—that's continuing to grow, and that will continue to grow.

Nima Billou, Bloom Investment Council

Okay. And I know it's sort of the larger—law of large numbers and long distance has done very well, but the Internet side growth seems to be slowing. Is that still coming in on track in terms of 4 or 5 per cent revenue growth range and you expect it to pick up? Or again, is that competition, or the more established competition, that you see on the cable side. Because Internet was supposed to offset some of the legacy losses in voice.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Well, it is, but the base is really small compared to the base of local and long distance revenues that are declining. So Internet growth has actually been quite high, higher than most of our peers, because we have more growth opportunity. We have had less penetration than many of them have had. But we are starting to see—we have been seeing the same slowdown in growth, largely maturation-driven. As penetration grows in more mature footprint, the growth slows down. And then also because of the economy, a little bit less growth on that front. So I think our Internet growth has actually been quite high. It can't offset the larger numbers in local and long distance.

We do expect the Internet growth to continue to slow a bit. And again, it's largely maturation-driven.

Nima Billou, Bloom Investment Council

And how many TV customers do you have now?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Thirty thousand. We had our biggest quarter ever.

Nima Billou, Bloom Investment Council

Thirty thousand. And is it employed mainly again in a bundling strategy with respect to competitive strategic response on the cable side?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yes.

Nima Billou, Bloom Investment Council

Final question. With respect to the capex spend, you had mentioned you were high grading and you're putting priority. At this 115 level, is it still enough spend to execute on the fibre rollout and everything that you need to get done?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Absolutely. Yeah, fibre is getting done. The guys, though, are—I think I made a quick mention that we're at or ahead of every single one of our objectives. So they're doing a really good job on the capex side of fibre. But we're finding what we thought we would find a year ago. It's actually not all that terribly hard to live within this wallet. And by putting a bit of a constraint on it, it's forced the team to find productivity, find better ways of operating. The network is running just fine. And we're getting our fibre build-out, despite significantly lower capex. So kudos to the team for being able to deliver that.

Nima Billou, Bloom Investment Council

Okay, thanks very much.

Operator

Thank you. The next question is from Jeff Fan from Scotia Capital. Please go ahead.

Jeff Fan, Scotia Capital

Thanks very much and good morning. On the cost side, again very good performance on the cost reductions. Just wondering if you can clarify a few things for me. One is on the $3 million related to the management comp. It looks like a reduction in the long-term comps. Wondering if that is purely just one time and what that's related to.

Secondly, on the bad debts, I'm wondering if you can disclose what the change there was and how much, if you can quantify, of the $6.9 million it was related to bad debts.

And then lastly, the Bell Canada outsourcing costs. Going into 2010, just wondering if we should continue to look for a reduction there through the entire year. I understand it might be up for renewal. Maybe you can just review that for us.

And then I've got a bigger picture question, which is related to your overall footprint. In the past, you talked about one-third split between fibre, non-competitive, and then you've got resale satellite. Now that you're doing FibreOp, wondering if there's a change in how you think about that split, whether you would maybe shift more to fibre away from satellite resale or any changes in your thinking there.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Jeff, I'm going to do the last question first, and then I'm going to turn it over to Glen to answer the other three.

No change right now in footprint and our fibre plan at all. We're still evaluating FibreOp, and that trial goes through the middle of 2010. So no changes really to report to you on that.

Glen, any idea what the 3 million is on long-term comp?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Yeah, that happened in Q2, and that was our long-term compensation, what we have to do is adjust it mark-to-market so that mark-to-market adjustment put through in Q2 for $3 million.

You also asked a question on Bell outsourcing, is that up for renewal. The Bell outsourcing contract goes through to 2010, and we enjoy a 3 per cent productivity on that each year. We continue to get that productivity and are working with Bell all the time to find opportunities to reduce that Bell outsourcing and find opportunities for both of us to operate in a more efficient manner. So that will continue through 2010; no material change on that.

And Jeff, I think your other question related to what was the increase in bad debt. And honestly, I'll have to look that up and get back to you on that one.

Jeff Fan, Scotia Capital

Actually, it was—I think it was a decrease in the bad debt expense.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

A decrease.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yeah, I think we are just doing a much better job of managing receivables. This is a focus that Glen and Eleanor started with the team a year, year-and-a-half ago. And I have to tell you, despite the economy—and we do have an increase, as I said, in non-pay disconnects—receivables are coming in, bad debts is coming down, which means we're not pushing from one to the other. DSOs are coming down. Really, really strong working capital management.

Jeff Fan, Scotia Capital

Great. And if I could just—a quick follow-up on the fibre…

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Jeff, to be fair, one of the things that occurred, some changes—some improvements within our Bell branded territory that were bad debt peaked a year ago on the residential side, and now that is coming in. So it's really both.

Jeff Fan, Scotia Capital

Okay, great. And just a quick follow-up on the fibre answer, the FibreOp looks like it covers about 70,000 homes. So if I take your answer correctly, you're going to just review how that's going to mid 2010 before you look for, you know, expansion of the FibreOp within your fibre footprint and maybe changing that one-third. So I guess we should just kind of wait and see over the next six months or so?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yeah. We'll certainly be able to give you a really good view in February as to what 2010 looks like.

Jeff Fan, Scotia Capital

Okay, thanks.

Operator

Thank you. The next question is from Vince Valentini from TD Newcrest. Please go ahead.

Vince Valentini, TD Newcrest

Yeah, thanks very much. Is there any updated thoughts on whether you'd look to cut the distribution in 2011 or wait until 2013? And if you don't have any thoughts on that now, do you think that's something you'll be able to discuss in more detail with your guidance in February?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I'll let Glen do that.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good morning, Vince. How are you? No further thoughts than we've said before. We continue to evaluate our distributions and what is the right decision for us. In 2011, we will—or it's our intention to convert back to a corporation and then look at what is the appropriate what would then be a dividend payout ratio for us in 2011, upon conversion back to a corporation. So right now, we'll provide you with more outlook for that in February of 2010 when we provide our guidance. But whether it be 2010 or 2013, I know you're alluding to our tax losses, but the decision really needs to be what is the right long-term payout ratio for this company.

Vince Valentini, TD Newcrest

Okay. And a separate question, with this new HSPA network, being able to do 21 meg data sticks. That seems to me to be just as fast or faster than your DSL service. Did you see this as a big threat going forward, and can you give us any thoughts on how much of your urban territory will be covered by these networks?

And then secondarily, is there enough of an offset from the backhaul contract you have with Bell? If they get a lot of volume flowing through their network from these sticks, would you be able to get enough wholesale revenue to offset some retail loss of DSL customers?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

The first one, I think that the industry is largely providing the sticks in a way ad with pricing that will probably create a little bit of substitution. But I really believe for the majority of customers, this is going to be an incremental accses. And we're going to work with Bell Canada on bundling so that that's easier for customers to do. So will there be a little bit of substitution? Yes. But I think that it will be very complementary to what we already offer. It's most appealing for business people as they roam around, but it doesn't replace the really high volumes, the really high bandwidth connections that we're going to be able to offer more and more into the home.

In terms of the contract with Bell, we did get revenue for the network. It is not volume-based in terms of usage, but there is material revenue that has already started to come in that helps to offset some of that substitution impact.

Vince Valentini, TD Newcrest

Okay, thanks.

Operator

Thank you. The next question is from Glen Campbell from Merrill Lynch. Please go ahead.

Glen Campbell, Merrill Lynch

Yes, thanks very much. My questions are on broadband, as well. You had a good quarter. I was wondering if you could talk a little bit about what—you know roughly what the split is, whether you're getting your net adds now mostly from rural areas where you're expanding the footprint or whether you're still seeing growth in the urban areas.

I was wondering, too, if you've seen any activity by EastLink towards deploying DOC SIS 3.0.

And then finally, I was wondering if you would talk about rate hikes planned in the Internet segment. Thanks.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Heather, do you know the rural/urban split?

Heather Tulk, Senior Vice President Customer Solutions, Bell Aliant

It hasn't changed dramatically, Glen. It's a little—in the last two years, we've been doing, as you know, a little bit less expansion than historically, so that brought the level in the rural areas down a bit. But it's pretty ubiquitous across the footprint, and we're still seeing growth in all areas. Of course, new expansion areas always historically have higher growth as you capture pent-up demand, but really no material change, shift has happened there.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

In terms of EastLink, we haven't seen any movement yet, but we're certainly preparing for it because it's inevitable, and it would be amazing if they didn't launch in the relatively near future. But we have not seen it yet. In terms of rate hikes, they continue, and it's one of the big drivers of our increase, as well as really good continued movement of customers up the value chain in products.

Glen Campbell, Merrill Lynch

Did you have rate hikes planned for early 2010?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I can't give you guidance on that one, but you should assume that we've got a really long history of doing it. We have no reason to believe that they will be less impactful in the future.

Glen Campbell, Merrill Lynch

Fair enough. Thanks very much.

Operator

Thank you. The next question is from Dvai Ghose from Genuity Capital Markets. Please go ahead.

Dvai Ghose, Genuity Capital Markets

Thanks very much. Good morning. First question goes on cable telephony overlap. It reached 64 per cent at the end of the quarter. Could you update your assumption as to where it's going to reach in the next year and perhaps where it will max out?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I think our assumptions really haven't changed to the 70 to 80 per cent range; 75 per cent is probably a good estimate at this point, Dvai. We're still assuming seven to eight points, if not nine, a year. And what they say they're going to do, the competitors, generally doesn't exactly fully completely happen, so better to ask them. But you should assume we've probably got a good two years left of steep growth.

Dvai Ghose, Genuity Capital Markets

Great. The second question, in terms of the line losses, you've attributed the economy and competition. I assume that wireless substitution is still very minimal. Would that be a fair assessment?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yes.

Dvai Ghose, Genuity Capital Markets

Okay. Third question is on your headcount reductions, you talked about the management headcounts, which you announced earlier in the year, but I think you offered early retirement to 118 employees before the Contact Centre consolidation. How many of them actually took?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

All of them.

Dvai Ghose, Genuity Capital Markets

Oh, okay. So that was done. And last but not least, on the fibre-to-the-home versus fibre-to-the-node, can you give us an idea of what sort of ARPU differential you're seeing? What sort of premium are you seeing on fibre-to-the-home for both broadband, as well as TV?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

It's too early.

Dvai Ghose, Genuity Capital Markets

Okay. Sorry, then if I can just stick one last one in, which is the TV subs, you mentioned 30,000 last quarter. I don't think you released a number after Q2. Could you just tell us what the net adds were, please?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

About five.

Dvai Ghose, Genuity Capital Markets

Five thousand?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yup.

Dvai Ghose, Genuity Capital Markets

Thanks.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Somewhere between four and five, Dvai.

Dvai Ghose, Genuity Capital Markets

Thanks very much, then.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Yup.

Operator

Thank you. The next question is from Michael Simpson from Sentry Select. Please go ahead.

Michael Simpson, Sentry Select

Hi there. Could you just give me your economic outlook in some of your bigger—larger towns and cities, what you're seeing right now?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Well, we're how many quarters into this and we've been talking for a while about the impact of the decline. As early as fourth quarter last year, we started to feel softness in product sales, we started to see softness in small business markets. I can tell you that we're still feeling softness pretty much everywhere. Atlantic housing starts are down 20 per cent year-over-year. We're still feeling some softness in Ontario, still in the natural resources sector. The only thing that we see that could be easing a bit, the big slide in small business appears to be moderating. It is not yet improving, but the decline seems to be slowing. So at this point, I don't see any material improvement economically across the whole patch.

Michael Simpson, Sentry Select

Okay, thank you very much for the colour.

Operator

Thank you. There are no further questions registered at this time. I'd like to turn the meeting back over to Ms. Redden.

Zeda Redden, Vice President Investor Relations, Bell Aliant

Thank you, everyone, for joining us today. And if you have any further questions, my contact information is at the bottom of the release. And I'm sure I'll be talking to some of you over the next couple of days.

Operator

Thank you, Ms. Redden. The conference has now ended. Please disconnect your lines at this time and thank you for your participation.
