THE STATE OF NEW HAMPSHIRE

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July 6, 2007

Debra A. Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, NH 03301

Re: DT 07-011 Verizon New England/FairPoint Communications

Dear Ms. Howland:

Enclosed for filing with the Commission please find an original and seven copies of the Office of Consumer Advocate's (OCA's) Motion for ReHearing of Order 24,767 Regarding FairPoint Communications, Inc.

Pursuant to the Puc rules copies of the Motions have been served on all parties in this docket electronically.

Sincerely,

Meredith A. Hatfield
Consumer Advocate

cc: service list

NHPUC JUL06'07 PM 4:13

**BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**DT 07-011**

**VERIZON NEW ENGLAND, INC., BELL ATLANTIC COMMUNICATIONS, INC., NYNEX LONG DISTANCE CO., VERIZON SELECT SERVICES, INC., AND FAIRPOINT COMMUNICATIONS, INC.**

**Transfer of Assets to FairPoint Communications, Inc.**

**OFFICE OF CONSUMER ADVOCATE'S MOTION FOR REHEARING OF ORDER NO. 24, 767 REGARDING FAIRPOINT COMMUNICATIONS, INC.**

The Office of Consumer Advocate (the "OCA") respectfully requests that, pursuant to RSA 541:3, the N.H. Public Utilities Commission (the "Commission") grant rehearing of its Order No.24,767 (June 22, 2007) ("Order") regarding the OCA's motions to compel FairPoint to respond to certain data requests. In support, the OCA states the following facts and law.

## I. Introduction

1. In its Order, the Commission declined to compel FairPoint to respond to a number of data requests sought by the OCA's second motion to compel (OCA GI 1-15, 1-38, 1-43 and 1-44) and a number of data requests sought by the OCA's third motion to compel (OCA GI 1-14, 1-17, 1-23 and 1-26). As the Commission initially observed in its Order, these data requests concern "materials prepared by FairPoint or its outside advisors that relate to…the agreement FairPoint ultimately reached with Verizon."[1]

2. In its decision not to compel FairPoint to respond to the OCA's data requests, the Commission misconstrued the information sought by the OCA as "information about the negotiations" and not related to the "the actual agreement of the

[1] Order No. 24,767 (June 22, 2007) ("Order"), at 2.

joint petitioners."[2] However, contrary to the Commission's mischaracterization, the OCA does not seek information about the negotiations between FairPoint and Verizon NH. Instead, the OCA seeks only information that is related to the terms of the agreement now pending before the Commission.

3. Because this information is relevant or reasonably calculated to lead to the discovery of admissible evidence, the Order was in error and should be reconsidered.[3]

## II. Applicable Standard

4. To grant a motion for rehearing pursuant to RSA 541:3, the moving party must demonstrate that the order is unlawful or unreasonable. "Good cause for rehearing may be shown by new evidence that was unavailable at the time or that evidence was overlooked or misconstrued."[4]

5. Discovery requests should be denied only when the Commission "can perceive of no circumstance in which the requested data will be relevant."[5]

6. Moreover, the purpose of discovery is "to narrow the issues of the litigation … and prevent unfair surprise by making evidence available in time for both parties to evaluate it and adequately prepare for trial."[6]

7. A party is entitled to "be fully informed and have access to all evidence favorable to his side of the issue."[7]

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[2] *Id*., at 5.
[3] Re Investigation into Whether Certain Calls Are Local, 86 NH PUC 167 (2001).
[4] Re City of Nashua, 90 NH PUC 130, 132 (2005), *citing* Dumais v. State, 118 N.H. 309, 312 (1978).
[5] Re Petition for Authority to Modify Schiller Station Order on Pre-Hearing Motions, 89 NH PUC 226, 229 (2004) (emphasis added).
[6] Kearsarge Computer, Inc. v. Acme Staple Co., 116 N.H. 705, 707 (1976) (citations omitted).
[7] Scontsas v. Citizens Insurance Co., 109 N.H. 386, 388 (1969).

## III. Argument

### A. The Commission misconstrued the OCA's data requests and motions to compel FairPoint's responses to these data requests.

8. The Commission misconstrued the OCA's data requests and motions to compel as seeking the production of "information about the negotiations" that preceded the agreement of the Joint Petitioners.[8] This is not the case. Instead, the OCA sought, and continues to seek, to compel only the production of information related to the terms of the pending agreement, which information is contained within documents which existed before January 14, 2007, the date that the FairPoint Board of Directors approved the agreement pending before the Commission. This information is not "information about negotiations." Rather, this information is directly related to "the actual agreement of the joint petitioners"[9] or, as FairPoint puts it, "the deal as struck."[10]

9. Simply stated, the terms of the proposed agreement between FairPoint and Verizon could not have come into existence on the same day that FairPoint's Board of Directors approved it. Based upon information and belief, before that date, they not only existed but were assessed and analyzed on behalf of FairPoint by its financial advisors.[11] To the extent that data and analysis underlying any of the terms of the agreement existed before the date of the FairPoint Board's approval and were the subject of any document or any portion of any document prepared by FairPoint or its financial advisors, the OCA

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[8] Order, at 5 (emphasis added). At the time of OCA's motion to compel, the documents were generally but not specifically known to exist. *See* Order, at 3. Following the filing of the OCA's motions, FairPoint identified in filings with the SEC the specific documents that its investment advisors produced to analyze the pending transaction between FairPoint and Verizon. See section III.B., *infra*.

[9] *Id*., at 5.

[10] Objection by FairPoint Communications, Inc. to Second Motion to Compel by the Office of Consumer Advocate (Group I Data Requests) ("Objection"), dated May 25, 2007, at 3, paragraph 5.

[11] *See*, *e.g*., Attachments A and B, excerpts from FairPoint's amendments to the S-4, filed with the Securities and Exchange Commission (SEC) on June 11, 2007 ("June 11th S-4A") and July 2, 2007 ("July 2nd S-4A") (referencing and including materials prepared by FairPoint's investment advisors between March 2006 and January 2007).

sought and seeks to compel such documents. These documents are relevant to the Commission's determination of public good or are likely to lead to the discovery of admissible evidence for this purpose.

10. For example, the Commission's determination of public good would be informed by an assessment of a FairPoint financial advisor that one or more of the terms of the pending agreement will likely result in the need for a rate increase. Analyses of free cash flow as conducted by the investment advisors would show the extent to which rate increases may be necessary as a result of the proposed transaction. Further examples bearing on the Commission's determination of the public good would be: identification and analyses of risks related to the transaction; analysis of synergies the company asserts will result from the merger; due diligence analyses and findings; financing structures; and analysis of labor issues such as employment, pensions and OPEB.

11. The timing of the FairPoint Board's approval of the agreement should not be dispositive on whether or not the Commission should compel FairPoint to produce such documents that existed before the date of that approval but relate to the terms of the agreement pending before the Commission.

12. Unlike the documents sought in Public Service Co. of New Hampshire[12] and City of Nashua,[13] the documents sought by the OCA are related to the "results of [the] negotiations" between Verizon and FairPoint – the terms of the agreement pending before the Commission – not the content of the negotiations themselves.[14] This is an important distinction.

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[12] Re Public Service Co. of New Hampshire, 89 NH PUC 226 (2004).
[13] Re City of Nashua, 2006 WL 2374315, NH PUC, August 7, 2006 (No. DW 04-048, 24,654), reh'g denied, 2006 WL 4059090, NH PUC, September 22, 2006 (No. DW 04-048, 24,671).
[14] Order, at 4, *citing* Public Service Co. of New Hampshire, 89 NH PUC at 230.

13. Assuming for the sake of argument that discovery directed at the "thinking of parties that enter into contracts subject to [Commission] review" is "an established principle"[15] or even an accurate statement of law,[16] these documents do much more than "shed light on the thinking of parties that enter into contracts subject to [Commission] review."[17] Instead, "the heart of this case lay in" the data and analyses contained in these documents.[18] FairPoint's financial capacity to undertake this transaction while providing a public benefit to the state, as a public utility, is squarely at the heart of this case.

B. The Commission should consider new evidence that was unavailable at the time of the filing of the motions to compel.

14. Well after the OCA filed its motions to compel, on June 11 and July 2, 2007, FairPoint filed amendments to its SEC Form S-4.[19] These amendments contain significant changes that include new substantive information directly related to the OCA's data requests covered by the Commission's Order. These changes to the FairPoint S-4A include references to and descriptive detail regarding several key documents and due diligence materials responsive to the OCA's data requests.[20]

15. Specifically, Lehman Brothers and Morgan Stanley analyses are described in the "Background of the Merger" section beginning at page 52 of the S-4A filed on

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[15] Order, at 4.

[16] *Contra* Re City of Nashua, 90 NH PUC 568, 571 (2005) (PWW authorized to pursue evidence of Nashua's "lack of motive and lack of intent to follow through with the property taking" related to a petition under RSA Chapter 38, regardless of when evidence was generated. Such evidence of Nashua's thinking and intentions "would be relevant" to its review of Nashua's eminent domain petition).

[17] Order, at 4.

[18] Re City of Nashua, 2006 WL 2374315, NH PUC, August 7, 2006 (No. DW 04-048, 24,654 at p. 4), *reh'g denied*, 2006 WL 4059090, NH PUC, September 22, 2006 (No. DW 04-048, 24,671).

[19] See Attachments A and B, excerpts from FairPoint's amendments to Form S-4, filed with the SEC on June 11, 2007 and July 2, 2007, respectively.

[20] *See e.g.*, OCA I 1-15 (seeking all Lehman Brothers analysis and reports, 1-17 (seeking Morgan Stanley analysis and reports), 1-23 (seeking Deutsche Bank documents), 1-26 (seeking cash flow analysis), 1-38 (seeking cash flow analyses), 1-43 (seeking investment advisor reports), and 1-44 (seeking investment advisor presentations to FairPoint Board).

June 11, 2007 ("June 11th S-4A).[21] In text which is new as compared with the previous S-4A (filed May 25, 2007), FairPoint describes the specific documents which the investment advisors produced to analyze the proposed transaction between FairPoint and Verizon. The June 11th S-4A also contains additional new text which describes several analyses performed by investment advisors, including Lehman Brothers and Morgan Stanley, on issues such as free cash flow analysis, synergies, risks related to the transaction, and dividend payout ratios.

16. In addition, FairPoint's amendment to its S-4 filed on July 2, 2007 ("July 2nd S-4A")[22] includes two attachments, now publicly available, which were the subject of OCA data requests (*e.g.*, OCA GI 1-43 and OCA GI 1-44): the January 10, 2007 presentation to the FairPoint Board of Directors; and the January 14, 2007 presentation by investment advisors.[23]

17. These documents, or portions of these documents, which concern any of the terms of the pending agreement are relevant to the Commission's review of the proposed transaction or are reasonably calculated to lead to the discovery of admissible evidence. Specifically, they will shed light on the impacts of the transaction on consumers, shareholders and the public in general.

18. These documents, or portions of these documents, which concern any of the terms of the pending agreement (*i.e.,* the "results of the negotiations" as opposed to

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[21] See Attachment A, excerpts from FairPoint's amendment to Form S-4 dated June 11, 2007.
[22] Attachment B, excerpts from FairPoint's amendment to Form S-4 dated July 2, 2007.
[23] *Id*. Of note, in the amendments to the S-4, FairPoint implicitly acknowledges that the investment advisor documents, which pre-date the execution of the "deal as struck," are relevant to or may lead to the discovery of admissible evidence related to the "deal as struck." FairPoint Objection, at 3, paragraph 5.

the negotiations themselves) do not warrant protection from production as negotiations between the parties, or their thinking about the transaction.[24]

19. Importantly, they represent independent third-party analysis of the proposed transaction based on facts and information which previously were not public, including impacts and analyses that have a direct bearing on whether the proposed transaction is in the public interest.

20. These documents are also critically important because they represent the due diligence performed by the company in its review of the proposed transaction. Due diligence is a substantial and crucial task undertaken for transactions such as this one. To date, FairPoint has provided only one document pertaining to its due diligence activities (a high level engineering report).[25] No documents have been provided on FairPoint's financial and operational due diligence. However, the Form S-4A revised and amended by FairPoint on June 11, 2007 and July 2, 2007 clearly indicate that such documents exist and were produced by the Company's investment advisors.

21. FairPoint should produce in response to the OCA's data requests, which were the subject of the OCA's motions to compel, all of the documents or portions of the documents specifically referenced in FairPoint's June 11 and July 2 S-4As, to the extent that they pertain or relate to any of the terms of the agreement between FairPoint and Verizon New England, now pending before the Commission.[26]

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[24] *See* Order, at 4, *citing* Public Service Co. of New Hampshire, 89 NH PUC at 230.
[25] *See* FairPoint response to OCA FDR I-19.
[26] In the Maine proceedings concerning the proposed transaction, FairPoint has been ordered twice to produce the documents referenced in its June 11th and July 2nd S-4As. *See* Verizon New England Inc., Northern New England Telephone Operations Inc., Enhanced Communications Of Northern New England Inc., Northland Telephone Company Of Maine, Inc., Sidney Telephone Company, Standish Telephone Company, China Telephone Company, Maine Telephone Company, And Community Service Telephone Co., Docket No. 2007-67, Re: Joint Application for Approvals Related to Verizon's Transfer of Property and Customer Relations to Company to be Merged with and into FairPoint Communications, Inc., Procedural Order Denying Fairpoint Request For Revision Of Ruling Requring Production Of Investment

22. Any documents which require confidential treatment can be treated as such under the existing confidentiality agreement between the OCA, its consultants, and FairPoint.

## IV. Relief requested

Wherefore, the OCA respectfully requests the Commission to provide the following relief:

A. Grant rehearing of Order No. 24,767 as requested herein;

B. Compel FairPoint to produce in response to the OCA's data requests, which were the subject of the OCA's motions to compel (OCA GI 1-14, 1-15, 1-17, 1-23, 1-26, 1-38, 1-43, and 1-44), all of the documents or portions of the documents specifically referenced in FairPoint's June 11 and July 2 S-4As, to the extent that they pertain or relate to any of the terms of the agreement between FairPoint and Verizon New England, now pending before the Commission, including:

1. Presentation materials from Lehman Brothers and Morgan Stanley dated March 15, 2006 (p. 55, July 2 S-4A);
2. Presentation materials from Lehman Brothers and Morgan Stanley dated June 21, 2006 (p. 56, July 2 S-4A);
3. Presentation materials from Lehman Brothers and Morgan Stanley dated July 5, 2006 (p. 57, July 2 S-4A);
4. Presentation materials from Lehman Brothers and Morgan Stanley dated July 26, 2006 (p. 57, July 2 S-4A);

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Advisor Reports, dated June 29, 2007 (Attachment C). FairPoint has until July 9, 2007 to file a motion for reconsideration. *Id*., at 9, paragraph 3.

5. Presentation materials from Lehman Brothers and Morgan Stanley dated September 19, 2006 (p. 58, July 2 S-4A);
6. Presentation materials from Lehman Brothers and Morgan Stanley dated November 28, 2006 (p. 59, July 2 S-4A); and
7. The materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management that were included in presentations by FairPoint's management to FairPoint's board of directors on January 10, 2007 (p. 61 of July 2, 2007 S-4A) and January 14, 2007 (p. 62 of July 2, 2007 S-4A) (attached to July 2 S-4A as Annexes C-1 and C-2);

C. Clarify Order No. 24,767 to the extent that the information requested by the OCA does not concern negotiations but relates to the actual agreement of the joint petitioners;

D. Clarify Order No. 24,767 to the extent that the information requested by the OCA is relevant or likely to lead to the discovery of admissible evidence; and

E. Grant such other relief as justice requires.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing motion was forwarded this day to the parties by electronic mail.

July 6, 2007

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Meredith A. Hatfield

**From June 11, 2007 S-4A**

**Background of the Merger**

In pursuing strategies to enhance stockholder value, FairPoint regularly considers opportunities for strategic business combinations, including acquisitions of access lines. FairPoint's board of directors regularly has reviewed potential acquisitions identified by management. In addition to closing three

transactions in 2006, FairPoint also submitted written proposals to engage in at least four other significant acquisitions.

During the summer of 2005, FairPoint asked Lehman Brothers to convey to Verizon FairPoint's interest in acquiring rural access lines. That led to an initial meeting on September 30, 2005 between management of FairPoint and Verizon, which proposed exploring a business combination involving its wireline, long distance and Internet service provider businesses in Maine, New Hampshire and Vermont. Based on Verizon's initial reaction, FairPoint's management, at FairPoint's December 14, 2005 board of directors meeting, requested and received approval to pursue further discussions with Verizon. In December 2005, FairPoint signed a non-disclosure agreement with Verizon.

Following further discussions between FairPoint and Verizon, on February 13, 2006, Verizon provided FairPoint and others with an initial proposal letter, term sheet and information package for a proposed transaction involving the Northern New England business. Verizon proposed a tax-free spin-off or split-off followed by a merger, in connection with which Spinco would incur debt in an amount up to Verizon's basis in the assets contributed to Spinco with additional debt to be incurred by Spinco in an amount to be agreed. Verizon also proposed that the combined company would assume the pension and post-retirement benefits, referred to as OPEB, obligations to the existing and retired employees of the Northern New England business, and that the pension liabilities of the combined company would be funded with respect to these existing and retired employees through the transfer of existing Verizon plan assets. The initial proposal letter and term sheet required that Verizon stockholders would own more than 50% of the combined company.

On February 20, 2006, Eugene B. Johnson, Chairman and Chief Executive Officer of FairPoint, had a conference call with John Diercksen, Executive Vice President of Corporate Development at Verizon, in which both parties expressed interest in pursuing further discussions.

At its March 15, 2006 meeting, FairPoint's board of directors discussed the proposed transaction as part of a detailed review of various strategic alternatives as a result of which the board reconfirmed its direction to management to continue to pursue discussions with Verizon.

On March 16, 2006, FairPoint submitted to Verizon a proposal to acquire the Northern New England business. FairPoint indicated that it was interested in pursuing a spin-off and subsequent merger as proposed by Verizon. FairPoint proposed an initial leverage ratio for Spinco of 3.25 to 3.5 times earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, which would result in a leverage ratio of 3.6 to 3.7 times EBITDA for the combined company and was anticipated to permit a continuation of FairPoint's existing dividend policy. FairPoint also proposed a valuation of Spinco at 6.5 to 7.25 times Spinco's 2006 EBITDA. FairPoint indicated in its response that it needed additional information in order to evaluate Verizon's proposal regarding the pension and OPEB liabilities. In addition, FairPoint proposed a sale of its 7.5% interest in the Orange County-Poughkeepsie Limited Partnership to Cellco. FairPoint planned to use the net proceeds of the sale to finance transition costs to be incurred in anticipation of or in connection with the merger.

On March 20, 2006, FairPoint engaged Lehman Brothers as a financial advisor in connection with a proposed transaction with Verizon. Subsequently, on May 19, 2006, FairPoint also engaged Morgan Stanley as a financial advisor in connection with a proposed transaction with Verizon. In connection with their role as financial advisors to FairPoint, Lehman Brothers and Morgan Stanley, among other things, reviewed certain publicly available financial and other information and reviewed certain internal analyses and financial and other information furnished to them by FairPoint. Lehman Brothers and Morgan Stanley did not assume responsibility for the independent verification of, and did not independently verify, any information, whether publicly available or furnished to them, concerning FairPoint, Verizon, Spinco or comparable transactions, including, without limitation, any financial information, forecasts or projections furnished to them. Neither Lehman Brothers nor Morgan Stanley

rendered a fairness opinion with respect to the transaction, and neither expressed any opinion as to the merits of the underlying decision by FairPoint to engage in the transaction. If the merger is consummated, Lehman Brothers will receive $10 million and, in FairPoint's sole discretion, is eligible to receive an additional $5 million, as compensation for its financial advisory services. If the merger is consummated, Morgan Stanley will receive $5 million as compensation for its financial advisory services.

On April 20, 2006, FairPoint submitted a revised proposal based on its review of additional information provided by Verizon to FairPoint. FairPoint proposed, among other things, a capital structure for Spinco which included $1.7 billion of debt. FairPoint also proposed that the pension and OPEB obligations with respect to active employees of the Northern New England business covered by collective bargaining agreements could be transferred to the combined company on a fully-funded basis, subject to further due diligence, and that the pension and OPEB obligations for management employees of the Northern New England business would be retained by Verizon. FairPoint also proposed that Verizon stockholders would own not less than 70% of the combined company. FairPoint indicated that an acceptable transition services agreement would be required.

On May 25, 2006, Verizon sent to FairPoint a proposed term sheet which, among other terms, provided that Spinco would be capitalized with $1.7 billion of debt consisting of newly incurred bank debt and newly issued Spinco securities. The term sheet indicated that the combined company would create pension plans which mirror the Verizon pension plans that cover the active employees and retirees of the Northern New England business to cover those active employees and retirees following the merger. Verizon proposed that the combined company would assume the pension liabilities for current employees and retirees of the Northern New England business and receive a transfer of assets from the Verizon pension plans. Furthermore, the term sheet included a requirement that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business. Verizon indicated that no OPEB assets would be transferred to the combined company to satisfy OPEB liabilities. Verizon proposed that Verizon stockholders would own 75% of the combined company.

On June 1, 2006, Verizon sent to FairPoint a revised term sheet, which included a proposed requirement that FairPoint assume certain significant retiree pension and other obligations.

FairPoint responded in a letter the following day that it was willing to proceed with negotiations based on that term sheet. FairPoint proposed that Verizon stockholders would own a minimum of 70% of the combined company, assuming that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business.

On June 21, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley. These materials included: (i) a pro forma capitalization and free cash flow analysis assuming a certain price for the Spinco business; (ii) a comparison of the ownership split that would result from various scenarios of price and dividend payout ratios; and (iii) an analysis of the pro forma valuation of FairPoint in various scenarios of trading multiples, payout ratios and dividend yield. At this meeting, FairPoint's board of directors discussed how to respond to the Verizon term sheet. On June 26, 2006, Verizon made a management presentation to FairPoint in Boston, Massachusetts covering financial and operating aspects of the Northern New England business.

From June 27 to June 29, 2006, FairPoint's working team and its financial advisors and attorneys conducted due diligence in Verizon's data room in Dallas, Texas.

On July 5, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley. These materials included an

analysis of the effect of the ownership split on the dividend payout ratio and an updated free cash flow analysis.

On July 12, 2006, FairPoint gave a management presentation to Verizon and its financial advisor, Merrill Lynch, Pierce Fenner & Smith Incorporated, referred to as Merrill Lynch, covering financial and operational aspects of FairPoint's business in Charlotte, North Carolina.

On July 26, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley. These materials included a five point rationale for the transaction, including:

- Scale and scope;
- Improved revenue mix;
- Value creation opportunity;
- Improved financial condition; and
- Regional concentration.

In addition, the materials included summary data on the Spinco business and ranges of values for the Spinco business using various valuation methodologies such as discounted cash flow analysis, precedent transactions and trading comparable. At management's request, the financial advisors also analyzed the effect of various ownership splits on the dividend capacity of the combined company and calculated various common industry metrics in relation to the transaction based on various prices for the merger, including price per access line, price to EBITDA ratio (with and without the benefit of synergies) and price to free cash flow ratio. The price scenarios also reflected the resulting ownership split. Finally, the materials prepared by the financial advisors included an updated analysis of free cash flow accretion and stock price accretion and reported on the investor reaction to the Valor-Alltel (Windstream) transaction announcement and the original plan for synergies in the Hawaiian Telcom acquisition of Verizon lines.

On July 31, 2006, the management of FairPoint had a conference call with representatives of Lehman Brothers and Morgan Stanley to follow up on issues raised by the board of directors regarding due diligence and transaction structure.

On September 1, 2006, FairPoint's key managers met to discuss all aspects of the proposed transaction and its implications on FairPoint's existing operations.

On September 11, 2006 and September 14, 2006, Eugene Johnson and John Diercksen met again in Charlotte, North Carolina to discuss the progress of due diligence and negotiate further on open issues.

On September 14, 2006, Verizon proposed that FairPoint assume at closing the OPEB liabilities for current and retired employees of the Northern New England business and that no OPEB assets would be transferred to FairPoint to satisfy the OPEB liabilities. Verizon also proposed that Verizon would receive a minimum of $2.8 billion in value for Verizon and its stockholders, comprised of $1.7 billion of debt assumed by FairPoint and the greater of $1.1 billion of FairPoint equity or a 67.5% ownership interest in the combined company. Verizon also agreed in principle to a 15-month term for a transition services agreement.

At a meeting on September 18, 2006, John Crowley, Executive Vice President and Chief Financial Officer of FairPoint, reviewed for FairPoint's board of directors other possible acquisitions. FairPoint's directors also received a presentation prepared by FairPoint's management that updated the due diligence on the Spinco business and explained the effects on various estimates of key metrics,

including EBITDA, free cash flow and leverage. This presentation included materials prepared by Lehman Brothers and Morgan Stanley, including a translation of the latest due diligence analysis into updated valuation multiples and the effect on the dividend the combined company would pay and an analysis of the higher trading price of FairPoint stock on the ownership split. In addition, the materials prepared by Lehman Brothers and Morgan Stanley updated the analysis of free cash flow, updated the five point rationale for the transaction referred to above and identified seven risks related to the transaction: competition, workforce, regulatory approval risk, execution risk, financial market acceptance, pension/OPEB exposure and opportunity cost. The materials prepared by Lehman Brothers and Morgan Stanley also calculated the transaction value based on FairPoint's discussion with Verizon on September 11, 2006, the Verizon proposal using the then most recent FairPoint stock price and the Verizon proposal using the then 60 day average of the FairPoint stock price. These transaction values were compared to the valuation ranges of comparable companies using various valuation methodologies, such as discounted cash flow, precedent transactions and trading comparables. In addition, the materials prepared by Lehman Brothers and Morgan Stanley and included in management's presentation to FairPoint's board of directors:

- calculated the ownership split based on the specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures;
- calculated the free cash flow effect of various ownership split percentages in the range between the FairPoint and Verizon proposals;
- analyzed the free cash flow per share for FairPoint on a standalone basis, with a series of smaller hypothetical acquisitions and compared this with the acquisition of the Spinco business;
- analyzed the effect on the ownership split of alternatives to using the market value of FairPoint stock to determine the ownership split;
- analyzed the cash flow effect of alternative assumptions of pension and OPEB valuation and service cost;
- analyzed the value of the Spinco business using discounted cash flow and various assumptions for cost of capital and terminal multiples; and
- updated the analysis of free cash accretion at various transaction prices and assumptions on synergies.

At the board meeting on the following day, after extensive discussion, a decision was reached not to proceed with a transaction with Verizon under the terms then being proposed by Verizon. The board of directors particularly objected to Verizon's proposal that FairPoint assume significant retiree obligations. After the meeting, Eugene Johnson informed Verizon and its financial advisor, Merrill Lynch, that FairPoint's board of directors had concluded that FairPoint was not prepared to pursue the transaction based on the terms then being proposed by Verizon.

On September 29, 2006 and October 17, 2006 at John Diercksen's invitation, Eugene Johnson met with him in New York City to discuss in further detail various material terms of the transaction and the parties' positions on certain issues.

On October 18, 2006, Eugene Johnson had a conference call with FairPoint's board of directors to discuss updated proposals and to review Lehman Brothers' views on revised terms, including the elimination of the requirement that FairPoint assume retiree obligations relating to pension benefits and other post-employment benefits.

On October 30, 2006, FairPoint provided a revised counter-proposal to Verizon and, after further discussion, on November 16, 2006, FairPoint's management team met with representatives of Morgan Stanley to discuss certain issues. Further negotiations between Verizon and FairPoint ensued.

On November 19, 2006, representatives of Verizon and FairPoint met again. At that meeting, they agreed to continue negotiations on the basis that the split in ownership of the combined company would be calculated based on the 45-day average price of FairPoint common stock, which would result in a 61.6% - 38.4% split based on an assumed $18.02 price per share for FairPoint common stock; and that Spinco debt would not exceed $1.7 billion, including related financing fees, and that it would be based on market terms with covenants that permitted FairPoint to continue to pay dividends at a level consistent with its existing dividend policy. In addition, the parties agreed to continue negotiations on the basis that the combined company would accept pension assets and assume pension and OPEB liabilities for only those employees of the Northern New England business who were expected to continue as employees of the combined company after the transaction closed. However, they disagreed whether the combined company would assume obligations for employees who retired between the signing and the closing of the merger agreement. The parties agreed that if Spinco suffered a material adverse change or that if the trailing 12 months' unadjusted EBITDA of the local exchange carrier business of Spinco fell below a mutually agreed level, FairPoint could choose to terminate the merger agreement. The parties also agreed that Verizon's services under the transition services agreement would be based on Verizon's cost but could not agree on how to calculate the amount or timing of the monthly and other fees to be paid under the agreement.

On November 28, 2006, Lehman Brothers provided FairPoint's management with materials that summarized the status of discussions with Verizon. The materials included updated price and other proposed transaction elements, such as reimbursement of transition expenses by Verizon and MVNO and reported the pro forma capitalization and cash flow statement effect of leaving with Verizon the pension and OPEB obligations for already retired employees. In addition, the materials prepared by Lehman Brothers valued the proposed new transaction elements, including the sale and loss of future distributions from FairPoint's investment in the Orange County-Poughkeepsie Limited Partnership. Lehman Brothers also updated the analysis of free cash flow accretion, the comparable analysis relative to other transactions and other public companies, and possible stock price accretion. Finally, Lehman Brothers provided a graphic representation of key assumptions on access line growth, DSL penetration, regulated and non-regulated revenue, EBITDA and EBITDA less capital expenditures. These materials prepared by Lehman Brothers were included in management's telephonic update to FairPoint's board of directors on November 29, 2006.

On November 29, 2006, Lehman Brothers provided to FairPoint's management an illustrative estimate of pro forma shareholders' equity, including a write-up to fair market value under Delaware law. In addition, the materials prepared by Lehman Brothers updated its calculation of the ownership split based on specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures. Finally, the materials prepared by Lehman Brothers provided a forecast of certain financial measures for the combined company. These materials prepared by Lehman Brothers were included in management's telephonic update to FairPoint's board of directors during which the board and management discussed the status of the proposed transaction.

In early December 2006, FairPoint's management had discussions with Lehman Brothers and Morgan Stanley regarding potential financing structures for the proposed merger, principally for financial analysis, valuation and modeling purposes. In connection with these discussions, Lehman Brothers and Morgan Stanley each submitted unsolicited proposals to FairPoint to provide committed financing for the proposed merger.

On December 4, 2006, Verizon presented a term sheet which summarized the parties' proposals on key issues. FairPoint proposed that it not accept pension and OPEB expenses for the employees of the Northern New England business who retired prior to the closing date. Verizon proposed that the combined company would assume responsibility for all employees of the Northern New England business who continued with the combined company determined as of the signing date of the merger agreement. FairPoint proposed selling its interest in the Orange-Poughkeepsie Limited Partnership for

$55 million to $65 million while Cellco proposed a sale price of $55 million. The parties agreed to continue discussions on the previously discussed valuation of Spinco, subject to Verizon's proposal that its stockholders own at least 60% of FairPoint common stock after the spin-off and the merger. The parties continued to negotiate over the amount and timing of the monthly and other fees to be paid under the transition services agreement.

On December 8, 2006, initial drafts of a merger agreement, distribution agreement and other transaction documents were submitted to FairPoint and its legal counsel, Paul, Hasting, Janofsky & Walker LLP, referred to as Paul Hastings, by Debevoise & Plimpton LLP, legal counsel to Verizon.

On December 11, 2006, FairPoint's and Verizon's senior management and advisors met again in New York City to discuss the key terms of the proposed transaction. At its meeting on December 13, 2006, FairPoint's board of directors received a report on the progress of negotiations and discussed the proposed transaction, including a projected transaction schedule.

On December 19, 2006, John Diercksen met in New York City with Eugene Johnson and Ivan Seidenberg, Chairman and Chief Executive Officer of Verizon, to introduce the chief executive officers to each other.

During the last two weeks of December 2006, the parties and their representatives met from time to time to negotiate the transaction documents. Under the structure agreed to by the parties, Verizon would receive cash, certain Spinco debt securities and Spinco's common stock in exchange for substantially all of the assets of the Northern New England business.

On January 2, 2007, FairPoint's board of directors met telephonically with FairPoint's management team, legal counsel and financial advisors to discuss the status of the proposed transaction. At the meeting, Paul Hastings reviewed with the FairPoint board of directors its legal duties and responsibilities in connection with the proposed transaction. Representatives of Deutsche Bank, whose engagement as financial advisor to FairPoint was confirmed on January 4, 2007, participated in the meeting and addressed the scope of the work completed by them in connection with the evaluation of the proposed transaction and indicated that further due diligence by them in certain areas was required. FairPoint's management team reviewed with FairPoint's board of directors the documentation that would be required in connection with the proposed transaction, summarized the progress made in negotiating the terms of the transaction agreements and indicated that a few material terms relating to the merger agreement were still subject to negotiation. A discussion took place concerning the risks and benefits of the proposed transaction, including a requirement that FairPoint make significant transition expenditures during the period between the signing of the merger agreement and the closing of the merger, which would allow for a substantially more rapid transition, and that, if the merger failed to close, amounts so expended would have little value. FairPoint's management team discussed the status of obtaining bank financing commitments with FairPoint's board of directors. In addition, a thorough discussion took place concerning certain aspects of the possible transaction, including the impact on FairPoint's cash position and the effect on its ability to continue to pay dividends if the proposed transaction were not to close, the need to amend FairPoint's existing credit facility, the impact on FairPoint's cash position of the proposed sale of its Orange County–Poughkeepsie limited partnership interest, the "no-shop" and "fiduciary out" provisions contained in the draft merger agreement and the circumstances under which FairPoint would be required to pay a "break-up" fee and reimburse certain expenses to Verizon, synergies expected to be derived from the business combination and financial aspects of the proposed transaction.

On January 4, 2007, FairPoint began the formal process of seeking financing commitments in order to mitigate the market risk associated with financing the merger. A package of information including financial models, historical financial statements and other information was distributed to four financial institutions.

On January 5, 2007, FairPoint and Verizon conducted a joint due diligence call with these financial institutions. FairPoint and Verizon discussed with the financial institutions certain conditions the financing proposals should incorporate. Each of the financial institutions was then asked to submit its best financing proposal to FairPoint and Verizon.

On January 8, 2007, rather than accept any of the financing proposals submitted by any financial institution, FairPoint submitted a single term sheet to each of the financial institutions aggregating the most favorable terms of each of the previous financing proposals. FairPoint offered each financial institution a financing role contingent upon their confirmation that it could meet the terms in the revised term sheet. At the conclusion of this process, Lehman Brothers, Bank of America, N.A. and Morgan Stanley were selected to participate in the financing.

On January 10, 2007, FairPoint's board of directors met telephonically to discuss various matters relating to the proposed transaction. Prior to this meeting, the board members had received a variety of background materials for their review, including the most recent drafts of the transaction agreements, drafts of bank financing commitment letters and presentation materials of FairPoint's management team, including materials prepared by Lehman Brothers. The materials provided by Lehman Brothers updated the transaction status with particular note of the terms of the transition services agreement, FairPoint's termination rights under the merger agreement, break-up fees, the valuation of FairPoint stock and the governance structure. In addition, the materials provided by Lehman Brothers calculated the final ownership split and compared it to the relative contribution of access lines, revenue, EBITDA and EBITDA less capital expenditures; updated Lehman Brothers' valuation of the transaction elements, provided an EBITDA trend analysis of the Spinco business; updated the analysis of free cash flow accretion, comparable analysis relative to other transactions and other public companies, and possible stock price accretion; and updated the pro forma capital structure and related that information to the latest cash flow forecast. The materials provided by Lehman Brothers also compared the synergy budget to the Spinco business expenses versus historical run rate; identified avoidable corporate allocations from the Verizon cost structure and the source of synergies and updated the previously provided forecast of financial measures with the major elements of free cash flow, run rate EBITDA for FairPoint and the Spinco business, synergies, interest expense, cash taxes and capital expenditures. Finally, the materials provided by Lehman Brothers supplemented management's presentation with a graphic representation of key assumptions on access line growth, DSL penetration, regulated and non-regulated revenue growth, cash-adjusted EBITDA and EBITDA less capital expenditures.

At the January 10, 2007 meeting, FairPoint's management discussed with FairPoint's board of directors the material terms of the proposed transaction, including issues still being negotiated and issues relating to the transition services agreement and the master services agreement to be entered into with Capgemini, U.S. LLC, referred to as Capgemini, the regulatory closing conditions contained in the merger agreement and the adequacy of the proposed amount of Spinco's closing date working capital. FairPoint's management then reviewed its presentation materials with the board of directors. Thereafter, Paul Hastings summarized the principal terms of the merger agreement, the distribution agreement, the tax sharing agreement, the transition services agreement, the employee matters agreement and the intellectual property agreement, as the draft agreements stood at that time, and the material open issues that remained to be resolved in negotiations. FairPoint's management described the material terms of the interest purchase agreement relating to the sale of the Orange County-Poughkeepsie limited partnership interest. FairPoint's management team updated FairPoint's board of directors on the results of due diligence. At the conclusion of these various presentations and discussions, further discussions ensued concerning the proposed transaction, including a discussion of the risks and benefits of the proposed transaction, regulatory considerations in connection with the proposed transaction, the financial effect on FairPoint if the proposed transaction failed to close, the level of FairPoint's debt after the merger, the effect of the proposed transaction on employees and customers of FairPoint and Spinco, and the board composition of the combined company.

Representatives of Deutsche Bank reviewed with FairPoint's board of directors the financial terms of the proposed transactions as of that date and a preliminary financial analysis as of that date of the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the draft merger agreement. The process involved amending the existing credit facility for consent to the merger and merger related expenditures, obtaining bank financing commitments and the material considerations taken into account in evaluating the proposed terms of such commitments were also discussed.

On January 14, 2007, FairPoint's board of directors met at Paul Hastings' offices in New York City, to consider and act upon the proposed transaction. Prior to this meeting, FairPoint's board of directors had received various materials, including substantially final drafts of the transaction documents. During this meeting, Paul Hastings reviewed with FairPoint's board of directors the legal duties and responsibilities of FairPoint's board of directors in connection with the proposed transaction. A discussion took place concerning the risks and benefits of the proposed transaction, including those involved with FairPoint making significant transition expenditures during the period between the signing of the merger agreement and the closing of the merger, which would allow for a substantially more rapid transition, and that, if the merger failed to close, amounts so expended would have minimal value and that this would have a negative impact on FairPoint's ability to pay dividends at historical rates to its stockholders. A discussion ensued concerning the future prospects of FairPoint on a standalone basis relative to those that would result from the merger. FairPoint's management team discussed with FairPoint's board of directors the current and historical financial condition and results of operations of FairPoint and other rural wireline telecommunications carriers, and specifically the facts that FairPoint, consistent with the rest of the wireline telecommunications industry, had experienced a decline in its number of access lines and flat to declining organic growth, and that these trends did not appear likely to reverse in the future, absent the addition of new access lines and revenues resulting from acquisitions. FairPoint's management team discussed with the board of directors the reliance of FairPoint on regulated revenue streams, predominantly interstate and intrastate access revenues, as well as payments from the Universal Service Fund, and that such revenue streams were likely to continue declining. Additionally, FairPoint's board of directors discussed the increased competitive activity experienced by FairPoint from cable television providers, wireless carriers and other competitive local exchange carriers and the fact that competition might increase in the future with the advent of new technologies and applications, such as VoIP. FairPoint's management team then provided an update on the material terms and provisions of the transaction agreements, including a description of the changes to the transaction agreements that had been negotiated since the last meeting of FairPoint's board of directors, and indicated that each of the transaction agreements was substantially in final form. FairPoint's management team updated the board of directors on the results of due diligence and related matters. Representatives of Deutsche Bank then reviewed with FairPoint's board of directors Deutsche Bank's financial analysis of the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the merger agreement, and delivered to FairPoint's board of directors an oral opinion (which was confirmed by delivery of a written opinion dated January 15, 2007) to the effect that, as of the date of that opinion, based upon and subject to the assumptions made, matters considered and limits of the review undertaken by Deutsche Bank, the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the merger agreement was fair, from a financial point of view, to FairPoint and the holders of FairPoint common stock. Following a thorough discussion of the proposed transaction (including discussions relating to the fees and expenses payable by FairPoint and Verizon as provided for in the transaction agreements and the material terms of the bank financing commitment agreements), FairPoint's board of directors unanimously voted to approve the merger and the transaction agreements and authorized FairPoint's management to take certain actions designed to accomplish the transactions contemplated by the transaction agreements and enter into the master services agreement and the bank commitment letters, including with respect to Deutsche Bank's

commitment to refinance FairPoint's existing credit facility if the required consents under the credit facility relating to the merger could not be obtained.

On January 15, 2007, the board of directors of Verizon met to consider and approve the proposed transaction.

The ultimate transaction structure is a spin-off followed by a merger, with each transaction designed to qualify as a tax-free event for the companies involved and their respective stockholders. The resulting structure was also driven by the desired debt to equity ratio of the combined company following the merger, which was mutually agreed upon by FairPoint and Verizon, based on negotiations and evaluation of comparable leverage levels of other comparable telecommunications companies, to be approximately four times the combined company's pro forma EBITDA for 2007. To achieve the desired debt to equity ratio, the parties mutually agreed that Spinco would incur $1.7 billion of debt consisting of Spinco securities issued to the Verizon Group and third-party bank debt to fund a cash payment to the Verizon Group prior to the spin-off. The parties also mutually agreed that the amount of the special cash payment to Verizon in the spin-off was not to exceed Verizon's estimate of the tax basis of the assets to be contributed to Spinco, and the value of the debt securities to be issued by Spinco would equal the difference between $1.7 billion and the special cash payment. The covenants in the tax sharing agreement were negotiated by the parties in order to satisfy the requirements for the spin-off and merger to qualify for, and preserve, tax-free treatment as discussed above.

The exchange ratio of 1.5266 was determined based on the equity valuations of FairPoint and Spinco. FairPoint's equity value of $18.88 per share was based on the average trading price of FairPoint's common stock during the 30 trading day period ended January 12, 2007. This per share price was multiplied by the fully diluted number of shares of FairPoint common stock outstanding, as defined in the merger agreement, which resulted in FairPoint being valued at approximately $665 million. Spinco's valuation was based on negotiations between the parties, which took into account, among other things, the following factors: (i) a cash flow multiple of 5.8 applied to Spinco's projected EBITDA for 2007, (ii) the cost per access line to be acquired in the transaction relative to recent transactions in the telecommunications industry, and (iii) the expected improvement in FairPoint's dividend payout ratio, leverage ratio, earnings per share and overall financial condition as a result of the transaction. FairPoint separately considered the advice of its financial advisors. As a result, the parties assigned a $2.715 billion enterprise valuation to Spinco. By subtracting the $1.7 billion in debt for which Spinco was to be obligated, the equity value of Spinco was determined to be $1.015 billion. The number of shares to be issued to Verizon stockholders in the merger was calculated by dividing $1.015 billion by $18.88 (the per share equity value of FairPoint), resulting in approximately 53.8 million shares.

**From S-4A 6/29/07**

**Background of the Merger**

In pursuing strategies to enhance stockholder value, FairPoint regularly considers opportunities for strategic business combinations, including acquisitions of access lines. FairPoint's board of directors regularly has reviewed potential acquisitions identified by management. In addition to closing three transactions in 2006, FairPoint also submitted written proposals to engage in at least four other significant acquisitions.

During the summer of 2005, FairPoint asked Lehman Brothers to convey to Verizon FairPoint's interest in acquiring rural access lines. That led to an initial meeting on September 30, 2005 between management of FairPoint and Verizon, which proposed exploring a business combination involving its wireline, long distance and Internet service provider businesses in Maine, New Hampshire and Vermont. Based on Verizon's initial reaction, FairPoint's management, at FairPoint's December 14, 2005 board of directors meeting, requested and received approval to pursue further discussions with Verizon. In December 2005, FairPoint signed a non-disclosure agreement with Verizon.

Following further discussions between FairPoint and Verizon, on February 13, 2006, Verizon provided FairPoint and others with an initial proposal letter, term sheet and information package for a proposed transaction involving the Northern New England business. Verizon proposed a tax-free spin-off or split-off followed by a merger, in connection with which Spinco would incur debt in an amount up to Verizon's basis in the assets contributed to Spinco with additional debt to be incurred by Spinco in an amount to be agreed. Verizon also proposed that the combined company would assume the pension and post-retirement benefits, referred to as OPEB, obligations to the existing and retired employees of the Northern New England business, and that the pension liabilities of the combined company would be funded with respect to these existing and retired employees through the transfer of existing Verizon plan assets. The initial proposal letter and term sheet required that Verizon stockholders would own more than 50% of the combined company.

On February 20, 2006, Eugene B. Johnson, Chairman and Chief Executive Officer of FairPoint, had a conference call with John Diercksen, Executive Vice President of Corporate Development at Verizon, in which both parties expressed interest in pursuing further discussions.

At a March 15, 2006 meeting of FairPoint's board of directors, FairPoint's management made a presentation regarding FairPoint's overall corporate development strategy and gave a detailed review of various strategic alternatives, including a proposed transaction with Verizon. The presentation included the following materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management: (i) an analysis of the Northern New England business, (ii) certain projections for the combined company, (iii) a share price sensitivity analysis and (iv) a comparable company analysis. Following the presentation, the board reconfirmed its direction to management to continue to pursue discussions with Verizon.

On March 16, 2006, FairPoint submitted to Verizon a proposal to acquire the Northern New England business. FairPoint indicated that it was interested in pursuing a spin-off and subsequent merger as proposed by Verizon. FairPoint proposed an initial leverage ratio for Spinco of 3.25 to 3.5 times earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, which would result in a leverage ratio of 3.6 to 3.7 times EBITDA for the combined company and was anticipated to permit a continuation of FairPoint's existing dividend policy. FairPoint also proposed a valuation of Spinco at 6.5 to 7.25 times Spinco's 2006 EBITDA. FairPoint indicated in its response that it needed additional information in order to evaluate Verizon's proposal regarding the pension and OPEB liabilities. In addition, FairPoint proposed a sale of its 7.5% interest in the Orange County-Poughkeepsie Limited Partnership to Cellco. FairPoint planned to use the net proceeds of the sale to finance transition costs to be incurred in anticipation of or in connection with the merger.

On March 20, 2006, FairPoint engaged Lehman Brothers as a financial advisor in connection with a proposed transaction with Verizon. Subsequently, on May 19, 2006, FairPoint also engaged Morgan Stanley as a financial advisor in connection with a proposed transaction with Verizon. In connection with their role as financial advisors to FairPoint, Lehman Brothers and Morgan Stanley, among other things, reviewed certain publicly available financial and other information and reviewed certain internal analyses and financial and other information furnished to them by FairPoint. Lehman Brothers and Morgan Stanley did not assume responsibility for the independent verification of, and did not independently verify, any information, whether publicly available or furnished to them, concerning FairPoint, Verizon, Spinco or comparable transactions, including, without limitation, any financial

information, forecasts or projections furnished to them. Neither Lehman Brothers nor Morgan Stanley rendered a fairness opinion with respect to the transaction, and neither expressed any opinion as to the merits of the underlying decision by FairPoint to engage in the transaction. If the merger is completed, Lehman Brothers will receive $10 million and, in FairPoint's sole discretion, is eligible to receive an additional $5 million, as compensation for its financial advisory services. If the merger is completed, FairPoint will determine whether to pay Lehman Brothers all or a portion of the additional $5 million based on FairPoint's evaluation of Lehman Brothers' contributions during the negotiation phase of the transaction as well as the assistance Lehman Brothers renders during the period between signing and closing. If the merger is completed, Morgan Stanley will receive $5 million as compensation for its financial advisory services.

On April 20, 2006, FairPoint submitted a revised proposal based on its review of additional information provided by Verizon to FairPoint. FairPoint proposed, among other things, a capital structure for Spinco which included $1.7 billion of debt. FairPoint also proposed that the pension and OPEB obligations with respect to active employees of the Northern New England business covered by collective bargaining agreements could be transferred to the combined company on a fully-funded basis, subject to further due diligence, and that the pension and OPEB obligations for management employees of the Northern New England business would be retained by Verizon. FairPoint also proposed that Verizon stockholders would own not less than 70% of the combined company. FairPoint indicated that an acceptable transition services agreement would be required.

On May 25, 2006, Verizon sent to FairPoint a proposed term sheet which, among other terms, provided that Spinco would be capitalized with $1.7 billion of debt consisting of newly incurred bank debt and newly issued Spinco securities. The term sheet indicated that the combined company would create pension plans which mirror the Verizon pension plans that cover the active employees and retirees of the Northern New England business to cover those active employees and retirees following the merger. Verizon proposed that the combined company would assume the pension liabilities for current employees and retirees of the Northern New England business and receive a transfer of assets from the Verizon pension plans. Furthermore, the term sheet included a requirement that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business. Verizon indicated that no OPEB assets would be transferred to the combined company to satisfy OPEB liabilities. Verizon proposed that Verizon stockholders would own 75% of the combined company.

On June 1, 2006, Verizon sent to FairPoint a revised term sheet, which included a proposed requirement that FairPoint assume certain significant retiree pension and other obligations.

FairPoint responded in a letter the following day that it was willing to proceed with negotiations based on that term sheet. FairPoint proposed that Verizon stockholders would own a minimum of 70% of the combined company, assuming that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business.

On June 21, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included: (i) a pro forma capitalization and free cash flow analysis assuming a certain price for the Spinco business; (ii) a comparison of the ownership split that would result from various scenarios of price and dividend payout ratios; and (iii) an analysis of the pro forma valuation of FairPoint in various scenarios of trading multiples, payout ratios and dividend yield. At this meeting, FairPoint's board of directors discussed how to respond to the Verizon term sheet. On June 26, 2006, Verizon made a management presentation to FairPoint in Boston, Massachusetts covering financial and operating aspects of the Northern New England business.

From June 27 to June 29, 2006, FairPoint's working team and its financial advisors and attorneys conducted due diligence in Verizon's data room in Dallas, Texas.

On July 5, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included an analysis of the effect of the ownership split on the dividend payout ratio and an updated free cash flow analysis.

On July 12, 2006, FairPoint gave a management presentation to Verizon and its financial advisor, Merrill Lynch, Pierce Fenner & Smith Incorporated, referred to as Merrill Lynch, covering financial and operational aspects of FairPoint's business in Charlotte, North Carolina.

On July 26, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included a five point rationale for the transaction, including:

- Scale and scope;
- Improved revenue mix;
- Value creation opportunity;
- Improved financial condition; and
- Regional concentration.

In addition, the materials included summary data on the Spinco business and ranges of values for the Spinco business using various valuation methodologies such as discounted cash flow analysis, precedent transactions and trading comparable. The financial advisors and FairPoint's management also analyzed the effect of various ownership splits on the dividend capacity of the combined company and calculated various common industry metrics in relation to the transaction based on various prices for the merger, including price per access line, price to EBITDA ratio (with and without the benefit of synergies) and price to free cash flow ratio. The price scenarios also reflected the resulting ownership split. Finally, the materials prepared by the financial advisors in conjunction with FairPoint's management included an updated analysis of free cash flow accretion and stock price accretion and reported on the investor reaction to the Valor-Alltel (Windstream) transaction announcement and the original plan for synergies in the Hawaiian Telcom acquisition of Verizon lines.

On July 31, 2006, the management of FairPoint had a conference call with representatives of Lehman Brothers and Morgan Stanley to follow up on issues raised by the board of directors regarding due diligence and transaction structure.

On September 1, 2006, FairPoint's key managers met to discuss all aspects of the proposed transaction and its implications on FairPoint's existing operations.

On September 11, 2006 and September 14, 2006, Eugene Johnson and John Diercksen met again in Charlotte, North Carolina to discuss the progress of due diligence and negotiate further on open issues.

On September 14, 2006, Verizon proposed that FairPoint assume at closing the OPEB liabilities for current and retired employees of the Northern New England business and that no OPEB assets would be transferred to FairPoint to satisfy the OPEB liabilities. Verizon also proposed that Verizon would receive a minimum of $2.8 billion in value for Verizon and its stockholders, comprised of $1.7 billion of debt assumed by FairPoint and the greater of $1.1 billion of FairPoint equity or a 67.5% ownership interest in the combined company. Verizon also agreed in principle to a 15-month term for a transition services agreement.

At a meeting on September 19, 2006, John Crowley, Executive Vice President and Chief Financial Officer of FairPoint, reviewed for FairPoint's board of directors other possible acquisitions. FairPoint's directors also received a presentation prepared by FairPoint's management that updated the due diligence on the Spinco business and explained the effects on various estimates of key metrics, including EBITDA, free cash flow and leverage. This presentation included materials prepared by

Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management, including a translation of the latest due diligence analysis into updated valuation multiples and the effect on the dividend the combined company would pay and an analysis of the higher trading price of FairPoint stock on the ownership split. In addition, the materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management updated the analysis of free cash flow, updated the five point rationale for the transaction referred to above and identified seven risks related to the transaction: competition, workforce, regulatory approval risk, execution risk, financial market acceptance, pension/OPEB exposure and opportunity cost. The materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management also calculated the transaction value based on FairPoint's discussion with Verizon on September 11, 2006, the Verizon proposal using the then most recent FairPoint stock price and the Verizon proposal using the then 60 day average of the FairPoint stock price. These transaction values were compared to the valuation ranges of comparable companies using various valuation methodologies, such as discounted cash flow, precedent transactions and trading comparables. In addition, the materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management and included in management's presentation to FairPoint's board of directors:

- calculated the ownership split based on the specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures;

- calculated the free cash flow effect of various ownership split percentages in the range between the FairPoint and Verizon proposals;

- analyzed the free cash flow per share for FairPoint on a standalone basis, with a series of smaller hypothetical acquisitions and compared this with the acquisition of the Spinco business;

- analyzed the effect on the ownership split of alternatives to using the market value of FairPoint stock to determine the ownership split;

- analyzed the cash flow effect of alternative assumptions of pension and OPEB valuation and service cost;

- analyzed the value of the Spinco business using discounted cash flow and various assumptions for cost of capital and terminal multiples; and

- updated the analysis of free cash accretion at various transaction prices and assumptions on synergies.

At the board meeting on the following day, after extensive discussion, a decision was reached not to proceed with a transaction with Verizon under the terms then being proposed by Verizon. The board of directors particularly objected to Verizon's proposal that FairPoint assume significant retiree obligations. After the meeting, Eugene Johnson informed Verizon and its financial advisor, Merrill Lynch, that FairPoint's board of directors had concluded that FairPoint was not prepared to pursue the transaction based on the terms then being proposed by Verizon.

On September 29, 2006 and October 17, 2006 at John Diercksen's invitation, Eugene Johnson met with him in New York City to discuss in further detail various material terms of the transaction and the parties' positions on certain issues.

On October 18, 2006, Eugene Johnson had a conference call with FairPoint's board of directors to discuss updated proposals and to review Lehman Brothers' views on revised terms, including the elimination of the requirement that FairPoint assume retiree obligations relating to pension benefits and other post-employment benefits.

On October 30, 2006, FairPoint provided a revised counter-proposal to Verizon and, after further discussion, on November 16, 2006, FairPoint's management team met with representatives of Morgan Stanley to discuss certain issues. Further negotiations between Verizon and FairPoint ensued.

On November 19, 2006, representatives of Verizon and FairPoint met again. At that meeting, they agreed to continue negotiations on the basis that the split in ownership of the combined company would be calculated based on the 45-day average price of FairPoint common stock, which would result in a 61.6% - 38.4% split based on an assumed $18.02 price per share for FairPoint common stock; and that Spinco debt would not exceed $1.7 billion, including related financing fees, and that it would be based on market terms with covenants that permitted FairPoint to continue to pay dividends at a level consistent with its existing dividend policy. In addition, the parties agreed to continue negotiations on the basis that the combined company would accept pension assets and assume pension and OPEB liabilities for only those employees of the Northern New England business who were expected to continue as employees of the combined company after the transaction closed. However, they disagreed whether the combined company would assume obligations for employees who retired between the signing and the closing of the merger agreement. The parties agreed that if Spinco suffered a material adverse change or that if the trailing 12 months' unadjusted EBITDA of the local exchange carrier business of Spinco fell below a mutually agreed level, FairPoint could choose to terminate the merger agreement. The parties also agreed that Verizon's services under the transition services agreement would be based on Verizon's cost but could not agree on how to calculate the amount or timing of the monthly and other fees to be paid under the agreement.

On November 28, 2006, Lehman Brothers provided FairPoint's management with materials that summarized the status of discussions with Verizon. The materials, which were prepared in conjunction with FairPoint's management, included updated price and other proposed transaction elements, such as reimbursement of transition expenses by Verizon and MVNO and reported the pro forma capitalization and cash flow statement effect of leaving with Verizon the pension and OPEB obligations for already retired employees. In addition, the materials valued the proposed new transaction elements, including the sale and loss of future distributions from FairPoint's investment in the Orange County-Poughkeepsie Limited Partnership. Lehman Brothers and FairPoint's management also updated the analysis of free cash flow accretion, the comparable analysis relative to other transactions and other public companies, and possible stock price accretion. Finally, Lehman Brothers and FairPoint's management provided a graphic representation of key assumptions on access line growth, DSL penetration, regulated and non-regulated revenue, EBITDA and EBITDA less capital expenditures. These materials were included in management's telephonic update to FairPoint's board of directors on November 29, 2006.

On November 29, 2006, Lehman Brothers, working in conjunction with FairPoint's management, provided to FairPoint's management an illustrative estimate of pro forma shareholders' equity, including a write-up to fair market value under Delaware law. In addition, the materials prepared by Lehman Brothers in conjunction with FairPoint's management updated the calculation of the ownership split based on specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures. Finally, the materials prepared by Lehman Brothers, working in conjunction with FairPoint's management, provided a forecast of certain financial measures for the combined company. These materials prepared by Lehman Brothers, working in conjunction with FairPoint's management, were included in management's telephonic update to FairPoint's board of directors during which the board and management discussed the status of the proposed transaction.

In early December 2006, FairPoint's management had discussions with Lehman Brothers and Morgan Stanley regarding potential financing structures for the proposed merger, principally for financial analysis, valuation and modeling purposes. In connection with these discussions, Lehman Brothers and Morgan Stanley each submitted unsolicited proposals to FairPoint's management to provide committed financing for the proposed merger.

On December 4, 2006, Verizon presented a term sheet which summarized the parties' proposals on key issues. FairPoint proposed that it not accept pension and OPEB expenses for the employees of the Northern New England business who retired prior to the closing date. Verizon proposed that the

combined company would assume responsibility for all employees of the Northern New England business who continued with the combined company determined as of the signing date of the merger agreement. FairPoint proposed selling its interest in the Orange-Poughkeepsie Limited Partnership for $55 million to $65 million while Cellco proposed a sale price of $55 million. The parties agreed to continue discussions on the previously discussed valuation of Spinco, subject to Verizon's proposal that its stockholders own at least 60% of FairPoint common stock after the spin-off and the merger. The parties continued to negotiate over the amount and timing of the monthly and other fees to be paid under the transition services agreement.

On December 8, 2006, initial drafts of a merger agreement, distribution agreement and other transaction documents were submitted to FairPoint and its legal counsel, Paul, Hasting, Janofsky & Walker LLP, referred to as Paul Hastings, by Debevoise & Plimpton LLP, legal counsel to Verizon.

On December 11, 2006, FairPoint's and Verizon's senior management and advisors met again in New York City to discuss the key terms of the proposed transaction. At its meeting on December 13, 2006, FairPoint's board of directors received a report on the progress of negotiations and discussed the proposed transaction, including a projected transaction schedule.

On December 19, 2006, John Diercksen met in New York City with Eugene Johnson and Ivan Seidenberg, Chairman and Chief Executive Officer of Verizon, to introduce the chief executive officers to each other.

During the last two weeks of December 2006, the parties and their representatives met from time to time to negotiate the transaction documents. Under the structure agreed to by the parties, Verizon would receive cash, certain Spinco debt securities and Spinco's common stock in exchange for substantially all of the assets of the Northern New England business.

On January 2, 2007, FairPoint's board of directors met telephonically with FairPoint's management team, legal counsel and financial advisors to discuss the status of the proposed transaction. At the meeting, Paul Hastings reviewed with the FairPoint board of directors its legal duties and responsibilities in connection with the proposed transaction. Representatives of Deutsche Bank, whose engagement as financial advisor to FairPoint was confirmed on January 4, 2007, participated in the meeting and addressed the scope of the work completed by them in connection with the evaluation of the proposed transaction and indicated that further due diligence by them in certain areas was required. FairPoint's management team reviewed with FairPoint's board of directors the documentation that would be required in connection with the proposed transaction, summarized the progress made in negotiating the terms of the transaction agreements and indicated that a few material terms relating to the merger agreement were still subject to negotiation. A discussion took place concerning the risks and benefits of the proposed transaction, including a requirement that FairPoint make significant transition expenditures during the period between the signing of the merger agreement and the closing of the merger, which would allow for a substantially more rapid transition, and that, if the merger failed to close, amounts so expended would have little value. FairPoint's management team discussed the status of obtaining bank financing commitments with FairPoint's board of directors. In addition, a thorough discussion took place concerning certain aspects of the possible transaction, including the impact on FairPoint's cash position and the effect on its ability to continue to pay dividends if the proposed transaction were not to close, the need to amend FairPoint's existing credit facility, the impact on FairPoint's cash position of the proposed sale of its Orange County–Poughkeepsie limited partnership interest, the "no-shop" and "fiduciary out" provisions contained in the draft merger agreement and the circumstances under which FairPoint would be required to pay a "break-up" fee and reimburse certain expenses to Verizon, synergies expected to be derived from the business combination and financial aspects of the proposed transaction.

On January 4, 2007, FairPoint began the formal process of seeking financing commitments in order to mitigate the market risk associated with financing the merger. A package of information including

financial models, historical financial statements and other information was distributed to four financial institutions.

On January 5, 2007, FairPoint and Verizon conducted a joint due diligence call with these financial institutions. FairPoint and Verizon discussed with the financial institutions certain conditions the financing proposals should incorporate. Each of the financial institutions was then asked to submit its best financing proposal to FairPoint and Verizon.

On January 8, 2007, rather than accept any of the financing proposals submitted by any financial institution, FairPoint submitted a single term sheet to each of the financial institutions aggregating the most favorable terms of each of the previous financing proposals. FairPoint offered each financial institution a financing role contingent upon their confirmation that it could meet the terms in the revised term sheet. At the conclusion of this process, Lehman Brothers, Bank of America, N.A. and Morgan Stanley were selected to participate in the financing.

On January 10, 2007, FairPoint's board of directors met telephonically to discuss various matters relating to the proposed transaction. Prior to this meeting, the board members had received a variety of background materials for their review, including the most recent drafts of the transaction agreements, drafts of bank financing commitment letters and presentation materials of FairPoint's management team, including materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. The materials updated the transaction status with particular note of the terms of the transition services agreement, FairPoint's termination rights under the merger agreement, break-up fees, the valuation of FairPoint stock and the governance structure. In addition, the materials calculated the final ownership split and compared it to the relative contribution of access lines, revenue, EBITDA and EBITDA less capital expenditures; updated the valuation of the transaction elements, provided an EBITDA trend analysis of the Spinco business; updated the analysis of free cash flow accretion, comparable analysis relative to other transactions and other public companies, and possible stock price accretion; and updated the pro forma capital structure and related that information to the latest cash flow forecast. The materials also compared the synergy budget to the Spinco business expenses versus historical run rate; identified avoidable corporate allocations from the Verizon cost structure and the source of synergies and updated the previously provided forecast of financial measures with the major elements of free cash flow, run rate EBITDA for FairPoint and the Spinco business, synergies, interest expense, cash taxes and capital expenditures. Finally, the materials supplemented management's presentation with a graphic representation of key assumptions on access line growth, DSL penetration, regulated and non-regulated revenue growth, cash-adjusted EBITDA and EBITDA less capital expenditures.

At the January 10, 2007 meeting, FairPoint's management discussed with FairPoint's board of directors the material terms of the proposed transaction, including issues still being negotiated and issues relating to the transition services agreement and the master services agreement to be entered into with Capgemini, U.S. LLC, referred to as Capgemini, the regulatory closing conditions contained in the merger agreement and the adequacy of the proposed amount of Spinco's closing date working capital. FairPoint's management then reviewed its presentation materials with the board of directors. Thereafter, Paul Hastings summarized the principal terms of the merger agreement, the distribution agreement, the tax sharing agreement, the transition services agreement, the employee matters agreement and the intellectual property agreement, as the draft agreements stood at that time, and the material open issues that remained to be resolved in negotiations. FairPoint's management described the material terms of the interest purchase agreement relating to the sale of the Orange County-Poughkeepsie limited partnership interest. FairPoint's management team updated FairPoint's board of directors on the results of due diligence. At the conclusion of these various presentations and discussions, further discussions ensued concerning the proposed transaction, including a discussion of the risks and benefits of the proposed transaction, regulatory considerations in connection with the proposed transaction, the financial effect on FairPoint if the proposed transaction failed to close, the

level of FairPoint's debt after the merger, the effect of the proposed transaction on employees and customers of FairPoint and Spinco, and the board composition of the combined company. Representatives of Deutsche Bank reviewed with FairPoint's board of directors the financial terms of the proposed transactions as of that date and a preliminary financial analysis as of that date of the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the draft merger agreement. The process involved amending the existing credit facility for consent to the merger and merger related expenditures, obtaining bank financing commitments and the material considerations taken into account in evaluating the proposed terms of such commitments were also discussed.

On January 14, 2007, FairPoint's board of directors met at Paul Hastings' offices in New York City, to consider and act upon the proposed transaction. Prior to this meeting, FairPoint's board of directors had received various materials, including substantially final drafts of the transaction documents. During this meeting, Paul Hastings reviewed with FairPoint's board of directors the legal duties and responsibilities of FairPoint's board of directors in connection with the proposed transaction. A discussion took place concerning the risks and benefits of the proposed transaction, including those involved with FairPoint making significant transition expenditures during the period between the signing of the merger agreement and the closing of the merger, which would allow for a substantially more rapid transition, and that, if the merger failed to close, amounts so expended would have minimal value and that this would have a negative impact on FairPoint's ability to pay dividends at historical rates to its stockholders. A discussion ensued concerning the future prospects of FairPoint on a standalone basis relative to those that would result from the merger. FairPoint's management provided the board of directors with materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management which updated certain pro forma financial information for the combined company that was presented to the board on January 10, 2007, focusing on free cash flow, earnings per share, dividend payout ratio and leverage. FairPoint's management team discussed with FairPoint's board of directors the current and historical financial condition and results of operations of FairPoint and other rural wireline telecommunications carriers, and specifically the facts that FairPoint, consistent with the rest of the wireline telecommunications industry, had experienced a decline in its number of access lines and flat to declining organic growth, and that these trends did not appear likely to reverse in the future, absent the addition of new access lines and revenues resulting from acquisitions. FairPoint's management team discussed with the board of directors the reliance of FairPoint on regulated revenue streams, predominantly interstate and intrastate access revenues, as well as payments from the Universal Service Fund, and that such revenue streams were likely to continue declining. Additionally, FairPoint's board of directors discussed the increased competitive activity experienced by FairPoint from cable television providers, wireless carriers and other competitive local exchange carriers and the fact that competition might increase in the future with the advent of new technologies and applications, such as VoIP. FairPoint's management team then provided an update on the material terms and provisions of the transaction agreements, including a description of the changes to the transaction agreements that had been negotiated since the last meeting of FairPoint's board of directors, and indicated that each of the transaction agreements was substantially in final form. FairPoint's management team updated the board of directors on the results of due diligence and related matters. Representatives of Deutsche Bank then reviewed with FairPoint's board of directors Deutsche Bank's financial analysis of the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the merger agreement, and delivered to FairPoint's board of directors an oral opinion (which was confirmed by delivery of a written opinion dated January 15, 2007) to the effect that, as of the date of that opinion, based upon and subject to the assumptions made, matters considered and limits of the review undertaken by Deutsche Bank, the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the merger agreement was fair, from a financial point of view, to FairPoint and the holders of FairPoint common stock. Following a thorough discussion of the proposed transaction (including discussions relating to the fees and expenses payable by FairPoint and

Verizon as provided for in the transaction agreements and the material terms of the bank financing commitment agreements), FairPoint's board of directors unanimously voted to approve the merger and the transaction agreements and authorized FairPoint's management to take certain actions designed to accomplish the transactions contemplated by the transaction agreements and enter into the master services agreement and the bank commitment letters, including with respect to Deutsche Bank's commitment to refinance FairPoint's existing credit facility if the required consents under the credit facility relating to the merger could not be obtained.

On January 15, 2007, the board of directors of Verizon met to consider and approve the proposed transaction.

The ultimate transaction structure is a spin-off followed by a merger, with each transaction designed to qualify as a tax-free event for the companies involved and their respective stockholders. The resulting structure was also driven by the desired debt to equity ratio of the combined company following the merger, which was mutually agreed upon by FairPoint and Verizon, based on negotiations and evaluation of comparable leverage levels of other comparable telecommunications companies, to be approximately four times the combined company's pro forma EBITDA for 2007. To achieve the desired debt to equity ratio, the parties mutually agreed that Spinco would incur $1.7 billion of debt consisting of Spinco securities issued to the Verizon Group and third-party bank debt to fund a cash payment to the Verizon Group prior to the spin-off. The parties also mutually agreed that the amount of the special cash payment to Verizon in the spin-off was not to exceed Verizon's estimate of the tax basis of the assets to be contributed to Spinco, and the value of the debt securities to be issued by Spinco would equal the difference between $1.7 billion and the special cash payment. The covenants in the tax sharing agreement were negotiated by the parties in order to satisfy the requirements for the spin-off and merger to qualify for, and preserve, tax-free treatment as discussed above.

The exchange ratio of 1.5266 was determined based on the equity valuations of FairPoint and Spinco. FairPoint's equity value of $18.88 per share was based on the average trading price of FairPoint's common stock during the 30 trading day period ended January 12, 2007. This per share price was multiplied by the fully diluted number of shares of FairPoint common stock outstanding, as defined in the merger agreement, which resulted in FairPoint being valued at approximately $665 million. Spinco's valuation was based on negotiations between the parties, which took into account, among other things, the following factors: (i) a cash flow multiple of 5.8 applied to Spinco's projected EBITDA for 2007, (ii) the cost per access line to be acquired in the transaction relative to recent transactions in the telecommunications industry, and (iii) the expected improvement in FairPoint's dividend payout ratio, leverage ratio, earnings per share and overall financial condition as a result of the transaction. FairPoint separately considered the advice of its financial advisors. As a result, the parties assigned a $2.715 billion enterprise valuation to Spinco. By subtracting the $1.7 billion in debt for which Spinco was to be obligated, the equity value of Spinco was determined to be $1.015 billion. The number of shares to be issued to Verizon stockholders in the merger was calculated by dividing $1.015 billion by $18.88 (the per share equity value of FairPoint), resulting in approximately 53.8 million shares.

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**Annex C-1**

***Confidential Presentation Regarding:***

# Project Nor'Easter

# Discussion Materials

***January 10, 2007***

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**Executive Summary**

- Meaningful progress has occurred since Falcon's last board update
- Resolution of all key business issues achieved (subject to final documentation and drafting)
- Agreed TSA structure encourages Viper to cooperate and facilitate an accelerated cut-over
- Viper receives $37.2 million of its set up costs if the cut-over occurs within three months of closing and only $30 million thereafter
- Monthly TSA fees also begin declining after month eight
- Economics of the transaction continue to appear to be highly attractive:
- 5.8x 2007E EBITDA Spinco valuation; 9.7x Falcon valuation
- Meaningful FCF accretion; deleveraging and improvement in Falcon's pro forma dividend payout ratio
- Merger agreement allows Falcon to terminate agreement under various circumstances including if Spinco Adjusted EBITDA falls below a specified level or if regulatory approval becomes contingent on concessions which would have a Material Adverse Effect on pro forma Falcon
- Parties working towards an announcement on January 16th

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**Transaction Summary**

| | |
|---|---|
| • Value to Viper: | $2,715 million of total consideration, comprised of $1,700 million of cash and $1,015 million of FairPoint stock(1) |
| • Structure: | Reverse Morris Trust with FairPoint stock issued at $18.88 (equal to the 30-day average closing price as of 1/7/07) which implies Viper ownership of 60.4% |
| • Governance/Social: | Viper to appoint 6 of 9 directors |
| | FairPoint to appoint all management |
| | Retain FairPoint name |
| • Other Economic Considerations: | MVNO agreement with Viper Wireless, LD contract and ability to purchase equipment under existing Viper contracts |
| • Transition Services: | Structured to provide incentive for Viper's cooperation and early termination |
| • Financing: | Commitments in place at announcement for $1,940 million (includes unfunded revolver of $200 million). Does not include $800 million associated with Viper debt-for-debt exchange |
| • Conditions to Close: | FairPoint shareholder vote |
| | Regulatory approval |
| | Completion of debt-for-debt exchange |
| | Spinco LTM LEC EBITDA is above a specified level |
| | FairPoint LTM Adjusted EBITDA is above a specified level |
| • Termination Payment: | Break-up fee equal to 3.5% |
| | Reimbursement of Viper's expenses |

*1.*
*Assuming a 30-day average price of $18.88.*

**Contribution/Ownership Analysis**

## Ownership Analysis

### Ownership Split

| | 30-Day Avg.(1) |
|---|---|
| Falcon Share Price(2) | $ 18.88 |
| Falcon Shares(3) | 35,268,443 |
| Viper Equity ($mm) | $ 1,015 |
| Falcon Shares Issued to Viper | 53,763,441 |
| **Pro Forma Shares** | **89,031,884** |
| Viper % Ownership | 60.4 % |
| Falcon % Ownership | 39.6% |

### Exchange Ratio

| | |
|---|---|
| **Viper Equity ($mm)** | **$ 1,015** |
| Falcon Share Price(2) | $ 18.88 |
| Falcon Shares Issued to Viper | 53,763,441 |
| Falcon Shares(3) | 35,268,443 |
| **Implied Exchange Ratio for Contract Purposes** | **1.5244** |

## Summary Contribution Analysis

### At Closing

| | Falcon | Nor'Easter |
|---|---|---|
| Common Equity | 40% | 60% |
| Enterprise Value | 32% | 68% |
| Access Lines | 14 % | 86 % |
| Revenue | 19% | 81% |
| EBITDA | 20% | 80% |
| USF Reliance | 7 % | 1 % |
| Support Revenue Reliance | 50% | 20% |

## Projected Financials

| 2008E | 2012E |
|---|---|

($ in millions)

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| | | |
|---|---|---|
| *EBITDA(4)* | | |
| Falcon | $ 117 | $ 103 |
| Nor'Easter | 433 | 431 |
| Total | $ 550 | $ 534 |
| Falcon Contribution | 21 % | 19 % |
| Implied Falcon Ownership(6) | 15% | 10% |
| *EBITDA—Capex(5)* | | |
| Falcon | $ 96 | $ 82 |
| Nor'Easter | 317 | 338 |
| Total | $ 413 | $ 420 |
| Falcon Contribution | 23 % | 19 % |
| Implied Falcon Ownership(6) | 20% | 11% |

1. *30-day average fixed as of 1/7/07.*

2. *Falcon share price based on 30-trading day closing share price, as of 1/7/07.*

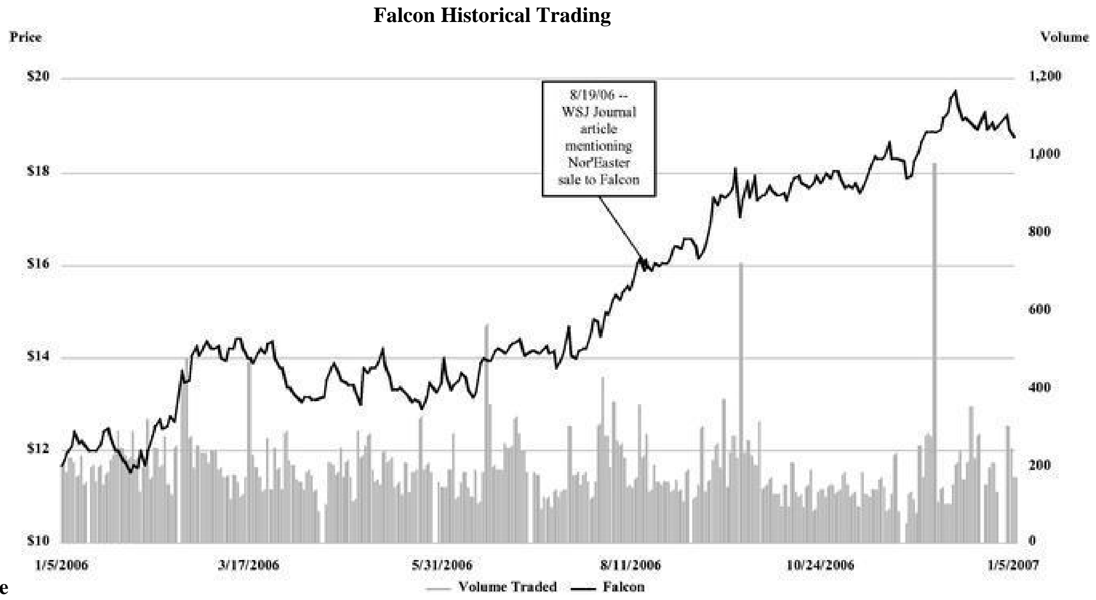
3. *Source: Falcon shares outstanding based on Falcon management.*

4. *Excludes higher legacy labor costs, one-time operating expenditures and OPEB-related cash adjustments.*

5. *EBITDA includes Pension / OPEB cash adjustment.*

6. *Adjusts contribution to reflect pro forma capital structure of NewCo at closing.*

**Falcon Historical Trading Performance**




**Performance**

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**Illustrative Purchase Price Analysis•**

$2,715 million purchase price, adjusted for the value of the concessions (excluding pension and OPEB for inactive employees), implies a 5.4x – 5.7x 2007E multiple

**Summary**

| | 2005A | 2006E | 2007E | | |
|---|---|---|---|---|---|
| | **Viper Case** | **Viper Case** | **Viper Case** | **Falcon Case** | **Downside Case** |
| | | | ($ in millions) | | |
| Access Line Growth | (5.4%) | (6.0%) | (4.6%) | (6.0%) | (9.0%) |
| Adjusted LEC Only EBITDA(1) | $ 444 | $ 434 | $ 400 | $ 393 | $ 379 |
| *% Growth* | *(12%)* | *(2%)* | *(8%)* | *(9%)* | *(13%)* |
| Adjusted LEC (Incl. Pension/OPEB adjustments) | $ 468 | $ 460 | $ 427 | $ 420 | $ 406 |
| Plus: LD + DSL EBITDA | 15 | 35 | 52 | 51 | 50 |
| **Total Adjusted EBITDA(2)** | **$ 483** | **$ 496** | **$ 479** | **$ 472** | **$ 456** |
| *% Growth* | *NA* | *3%* | *(3%)* | *(5%)* | *(8%)* |
| Assumed Purchase Price | $ 2,715 | $ 2,715 | $ 2,715 | $ 2,715 | $ 2,715 |
| *Implied Purchase Multiple* | *5.6x* | *5.5x* | *5.7x* | *5.8x* | *6.0x* |
| Less: Net Incremental Value (see p5 for further details) | $ 116 | $ 116 | $ 116 | $ 116 | $ 116 |
| Adjusted Purchase Price | $ 2,599 | $ 2,599 | $ 2,599 | $ 2,599 | $ 2,599 |
| *Implied Purchase Multiple* | *5.4x* | *5.2x* | *5.4x* | *5.5x* | *5.7x* |
| Plus: Conversion Capex + Closing Costs(3) | $ 203 | $ 203 | $ 203 | $ 203 | $ 203 |
| Adjusted Purchase Price + Conversion Capex + Closing Costs | $ 2,801 | $ 2,801 | $ 2,801 | $ 2,801 | $ 2,801 |
| *Implied Purchase Multiple (w/o Synergies)* | *5.8x* | *5.7x* | *5.8x* | *5.9x* | *6.1x* |
| *Implied Purchase Multiple (PF Synergies)(4)* | *5.2x* | *5.1x* | *5.2x* | *5.3x* | *5.5x* |

*1.*
*Pro forma for fully-funded pension plan.*
*2.*
*Pro forma for Falcon's cost structure for LD/DSL businesses.*
*3.*
*Assumes $37 million of closing costs. Assumes Viper pays $40 million of transition expenses. Excludes DSL buildout cost.*
*4.*
*Calculated with Total Adjusted EBITDA plus $56 million of synergies.*

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**Illustrative Value Analysis**

**Summary**

| | ($ in millions) | |
|---|---|---|
| **Fixed Price** | **$ 2,715** | |
| Less: | | |
| Viper Wireless MVNO(1) | $ 60 | |
| Most Favored Nation LD Pricing(2) | 11 | |
| Non-Nor'Easter Service Employee Severance Costs(3) | 7 | |
| Pre-Closing Transition Expenses | 40 | |
| Loss of Falcon Orange County-Poughkeepsie (OP) EBITDA(4) | (66) | |
| Sale of OP | 55 | |
| Purchasing Joint Venture(5) | 10 | |
| Net Incremental Value | $ 116 | |
| **Implied Net Value** | **$ 2,599** | |
| **Implied Net Value + Conversion Capex + Closing Costs** | | **$ 2,801** |
| **Implied Multiples :** | | |
| *Assumed '07 Total EBITDA* | | |
| *$485* | 5.4x | 5.8x |
| *$475* | 5.5x | 5.9x |
| *$465* | 5.6x | 6.0x |
| *$455* | 5.7x | 6.2x |

*1. Assumes MVNO agreement improves access line loss by 0.5%. Reflects midpoint of DCF values with and without the MVNO agreement.*

*2. Assumes Falcon able to achieve $0.005 reduction in yield for 2 years. Assumes incremental value is taxed at 38%.*

*3. Assumes an average annual salary of $70,000 per employee and severance cost equivalent to nine months of salary payable to 50% of the workforce (~125 employees).*

*4. Value loss of Falcon OP EBITDA assumes ~$8.6 million in cash flow generated by OP in 2007 valued at a 9.0x multiple less 15% minority interest discount.*

*5. Assumes 15% discount achieved on purchase of equipment, representing ~50% of recurring capital expenditures, for the first year.*

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**EBITDA Trend Analysis**

- As shown below, a key driver in Nor'Easter's reported historical LEC EBITDA declines has been the fluctuation related to its underfunded pension/OPEB liabilities for both inactive and active employees

- Since the pension/OPEB liabilities for the inactive employees will not be transferred, the trend is expected to be less severe when adjusted for active only employees

- The analysis below highlights that, in 2004 to 2005, LEC EBITDA (before pension/OPEB expenses) declined 3% and 6%, compared to 8% and 13% (as reported, including pension/OPEB expenses for all employees), respectively

**Summary**

| | 2003A | 2004A | 2005A | 9 Mos. 2005 | 9 Mos. 2006 |
|---|---|---|---|---|---|
| | | | ($ in millions) | | |
| **LEC Revenue** | **$ 1,180** | **$ 1,160** | **$ 1,155** | **$ 861** | **$ 852** |
| ***% Growth*** | | ***(2%)*** | ***(0%)*** | | ***(1%)*** |
| **LEC EBITDA (as reported)(1)** | **$ 546** | **$ 503** | **$ 435** | **$ 350** | **$ 323** |
| ***% Margin*** | ***46%*** | ***43%*** | ***38%*** | ***41%*** | ***38%*** |
| ***% Growth*** | | ***(8%)*** | ***(13%)*** | | ***(8%)*** |
| **LEC EBITDA (excl. Pension & Benefits)** | **$ 621** | **$ 605** | **$ 566** | **$ 443** | **$ 429** |
| ***% Margin*** | ***53%*** | ***52%*** | ***49%*** | ***51%*** | ***50%*** |
| ***% Growth*** | | ***(3%)*** | ***(6%)*** | | ***(3%)*** |

*1. Includes underfunded pension/OPEB expense for both active and inactive employees.*

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**Pro Forma Financial Summary—$2.715 bn Purchase Price—Base Case**

**Agreed upon pro forma ownership of 60.4% based upon a 30-day average Falcon stock price of $18.88 as of 1/7/07**

•

Assumes 6 months of TSA, plus $30 million of set-up costs

Assumes NewCo will continue to pay a $1.59 per share dividend

Meaningful FCF accretion achieved; EPS calculations impacted by non-cash depreciation and amortization charges

Additional details available in the Appendix

**Free Cash Flow Analysis**

| | 2008E | PF 2008E(2) | 2009E | 2011E | 2013E |
|---|---|---|---|---|---|
| | | | ($ in millions) | | |
| **FCF(1)** | **$ 163** | **$ 216** | **$ 244** | **$ 243** | **$ 231** |
| FCF / Share | $ 1.83 | $ 2.43 | $ 2.74 | $ 2.73 | $ 2.59 |
| *FCF Accretion / (Dilution)—Status Quo* | *18%* | *57%* | *92%* | *142%* | *227%* |
| *FCF Accretion / (Dilution)—Acquisition Case* | *4%* | *38%* | *57%* | *65%* | *95%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | *87%* | *66%* | *58%* | *58%* | *61%* |
| EPS(3) | $ (0.15 ) | $ 0.22 | $ 0.45 | $ 0.52 | $ 0.60 |
| *EPS Accretion / (Dilution)—Status Quo* | *(121%)* | *(68%)* | *(31%)* | *1%* | *54%* |
| *EPS Accretion / (Dilution)—Acquisition Case* | *(118%)* | *(73%)* | *(45%)* | *(36%)* | *(27%)* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ 2,489 | $ 2,489 | $ 2,387 | $ 2,182 | $ 1,997 |
| Pro Forma Net Debt / EBITDA(5) | 4.8x | 4.4x | 4.0x | 3.8x | 3.6x |
| **Falcon Acquisition Case FCF** | **$ 63** | **$ 63** | **$ 65** | **$ 68** | **$ 60** |
| FCF / Share | $ 1.76 | $ 1.76 | $ 1.75 | $ 1.65 | $ 1.33 |
| Dividend Payout Ratio | 90% | 90% | 91% | 96% | 119% |
| EPS | $ 0.82 | $ 0.82 | $ 0.83 | $ 0.82 | $ 0.83 |
| Leverage | 4.9x | 4.9x | 4.8x | 4.8x | 4.9x |
| **Falcon Status Quo FCF** | **$ 54** | **$ 54** | **$ 50** | **$ 40** | **$ 28** |
| FCF / Share | $ 1.55 | $ 1.55 | $ 1.43 | $ 1.13 | $ 0.79 |
| Dividend Payout Ratio | 103% | 103% | 111% | 141% | 201% |
| EPS | $ 0.71 | $ 0.71 | $ 0.65 | $ 0.52 | $ 0.39 |
| Leverage | 4.8x | 4.8x | 4.9x | 5.5x | 6.3x |

*1.*
*Pro forma for sale of Orange County-Poughkeepsie (OP). Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*
*2.*
*Excludes one-time opex and TSA Schedule B set up costs in 2008.*
*3.*
*EPS reflects actual cost savings.*
*4.*
*2007 and 2008 include $37mm and $172mm of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*
*5.*
*Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension / OPEB cash adjustments.*

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**Pro Forma Financial Summary—$2.715 bn Purchase Price—12-Month TSA Case**

**Agreed upon pro forma ownership of 60.4% based upon a 30-day average Falcon stock price of $18.88 as of 1/7/07**

•Assumes 12 months of TSA, plus $30 million of set-up costs

Assumes NewCo will continue to pay a $1.59 per share dividend

Meaningful FCF accretion achieved; EPS calculations impacted by non-cash depreciation and amortization charges

Additional details available in the Appendix

**Free Cash Flow Analysis**

| | | 2008E | | PF 2008E(2) | | 2009E | | 2011E | | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | ($ in millions) | | | | |
| **FCF(1)** | **$** | **110** | **$** | **163** | **$** | **242** | **$** | **240** | **$** | **228** |
| FCF / Share | $ | 1.23 | $ | 1.83 | $ | 2.71 | $ | 2.69 | $ | 2.56 |
| *FCF Accretion / (Dilution)—Status Quo* | | *(20%)* | | *19%* | | *90%* | | *139%* | | *223%* |
| *FCF Accretion / (Dilution)—Acquisition Case* | | *(30%)* | | *4%* | | *55%* | | *63%* | | *92%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | | *129%* | | *87%* | | *59%* | | *59%* | | *62%* |
| *EPS(3)* | *$* | *(0.52 )* | *$* | *(0.14 )* | *$* | *0.43* | *$* | *0.49* | *$* | *0.57* |
| *EPS Accretion / (Dilution)—Status Quo* | | *(173%)* | | *(120%)* | | *(35%)* | | *(5%)* | | *45%* |
| *EPS Accretion / (Dilution)—Acquisition Case* | | *(163%)* | | *(118%)* | | *(48%)* | | *(40%)* | | *(31%)* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ | 2,542 | $ | 2,542 | $ | 2,442 | $ | 2,243 | $ | 2,065 |
| Pro Forma Net Debt / EBITDA(5) | | 5.4x | | 4.9x | | 4.1x | | 3.9x | | 3.8x |
| **Falcon Acquisition Case FCF** | **$** | **63** | **$** | **63** | **$** | **65** | **$** | **68** | **$** | **60** |
| FCF / Share | $ | 1.76 | $ | 1.76 | $ | 1.75 | $ | 1.65 | $ | 1.33 |
| Dividend Payout Ratio | | 90% | | 90% | | 91% | | 96% | | 119% |
| EPS | $ | 0.82 | $ | 0.82 | $ | 0.83 | $ | 0.82 | $ | 0.83 |
| Leverage | | 4.9x | | 4.9x | | 4.8x | | 4.8x | | 4.9x |
| **Falcon Status Quo FCF** | **$** | **54** | **$** | **54** | **$** | **50** | **$** | **40** | **$** | **28** |
| FCF / Share | $ | 1.55 | $ | 1.55 | $ | 1.43 | $ | 1.13 | $ | 0.79 |
| Dividend Payout Ratio | | 103% | | 103% | | 111% | | 141% | | 201% |
| EPS | $ | 0.71 | $ | 0.71 | $ | 0.65 | $ | 0.52 | $ | 0.39 |
| Leverage | | 4.8x | | 4.8x | | 4.9x | | 5.5x | | 6.3x |

*1. Pro forma for sale of Orange County-Poughkeepsie (OP). Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*

*2. Excludes one-time opex and TSA Schedule B set up costs in 2008.*

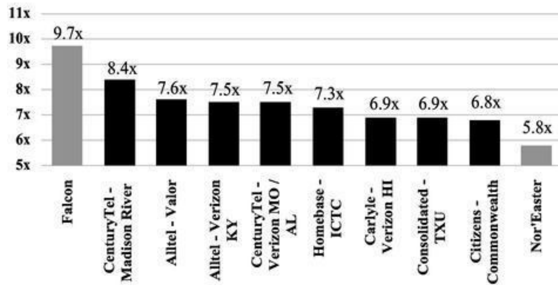
*3. EPS reflects actual cost savings.*

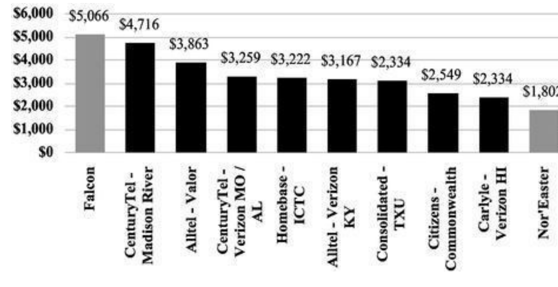
*4. 2007 and 2008 include $37mm and $172mm of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*

*5. Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension / OPEB cash adjustments.*

**Precedent Transaction Analysis**

**Assumes $2.715 billion purchase price**




**Summary Comparaable Transactions**

| Date | Acquiror | Acquiree | Access Lines | Net Transaction Value | Net Transaction Value as a Multiple of: Access Lines | Net Transaction Value as a Multiple of: EBITDA |
|---|---|---|---|---|---|---|
| | | | | ($ in millions) | | |
| 12/18/06 | CenturyTel | Madison River | 176,000 | $ 830 | $ 4,716 | 8.4x |
| 09/18/06 | Citizens Communications | Commonwealth Telephone | 454,297 | 1,158 | 2,549 | 6.8x |
| 12/09/05 | Alltel | Valor Telecom | 524,702 | 2,027 | 3,863 | 7.6x |
| | | | 2,885,673 | 9,150 | 3,171 | 6.4x(1) |
| 05/21/04 | The Carlyle Group | Verizon Hawaii | 707,000 | 1,650 | 2,334 | 6.9x |
| 01/16/04 | Consolidated Communications | TXU (telecom assets) | 172,000 | 527 | 3,064 | 6.9x |
| 07/17/02 | Homebase Acquisition Corp. | ICTC (McLeodUSA) | 90,000 | 290 | 3,222 | 7.3x |
| 10/31/01 | Alltel | Verizon Kentucky | 600,000 | 1,900 | 3,167 | 7.5x |
| 10/22/01 | CenturyTel | Verizon Missouri and Alabama | 675,000 | 2,200 | 3,259 | 7.5x |
| | | | **Average(2)** | | **$ 3,272** | **7.4x** |

*1. Implied Alltel wireline valuation*

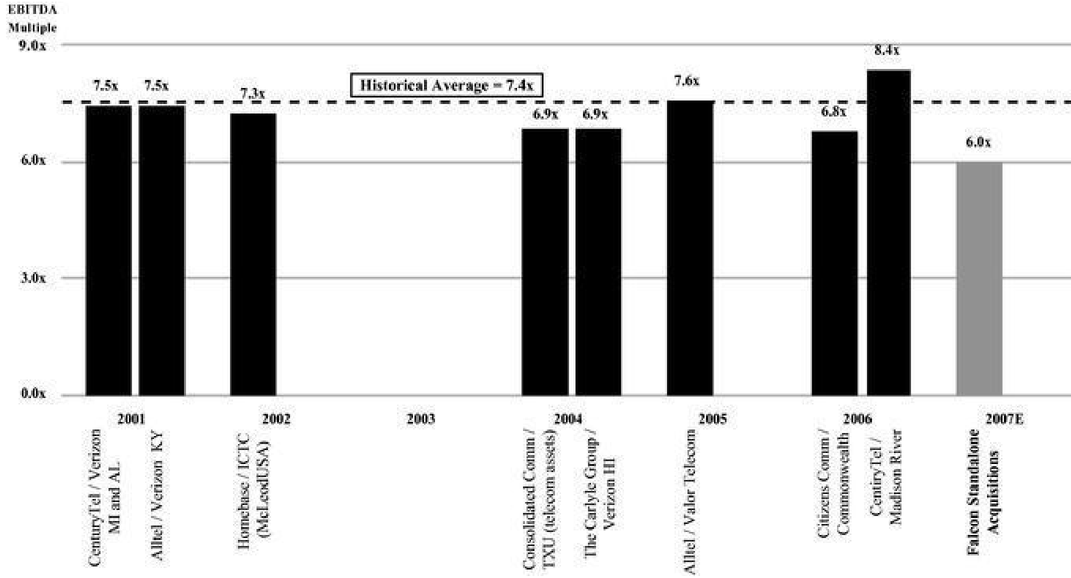
*2. Average excludes implied Alltel wireline valuation.*

**Precedent Transaction Multiple Trend•**
RLEC acquisition multiples have averaged 7.4x over the last six years

•
CenturyTel's acquisition of Madison River implies an 8.4x multiple

•
As a result, Falcon's standalone acquisition scenario, which assumes annual acquisitions are completed at 6.0x, could be overly optimistic

**Summary**



ATTACHMENT B

**Comparable Company Analysis**

**Comparable Company Analysis**

| Company | Price 1/5/07 | Market Cap. | Enterprise Value | Ent. Value/ EBITDA(1) 2007E | Ent. Value/ EBITDA(1) 2008E | Equity Value/ Levered FCF 2007E | Equity Value/ Levered FCF 2008E | Current Dividend Yield | Divident Payout Ratio | Total Debt/ LTM EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | ($ in millions, except per share amounts) | | | | | |
| **RLEC High Dividend Payers** | | | | | | | | | | |
| Alaska (consol.) | $ 15.24 | $ 644 | $ 1,043 | 8.7x | 8.4x | 13.2x | 12.8x | 5.6% | 75% | 3.7x |
| Citizens | 14.11 | 4,561 | 7,919 | 7.3x | 7.3x | 10.1x | 10.9x | 7.1% | 65% | 3.4x |
| Commonwealth (consol.) | 41.56 | 1,199 | 1,072 | 7.0x | 7.1x | 21.8x | 22.3x | 4.8% | 78% | 0.0x |
| Consolidated Comm. | 20.38 | 530 | 1,068 | 7.5x | 7.3x | 10.0x | 9.9x | 7.6% | 70% | 4.4x |
| Iowa Telecom | 19.01 | 613 | 1,099 | 8.8x | 9.0x | 9.7x | 10.0x | 8.5% | 78% | 3.9x |
| Windstream | 13.90 | 6,665 | 11,791 | 7.1x | 7.1x | 10.6x | 11.0x | 7.2% | 81% | 3.3x |
| Embarq | 52.30 | 7,914 | 14,423 | 5.5x | 5.6x | 9.7x | 9.5x | 3.8% | 39% | 2.4x |
| **Mean(2)** | | | | **7.7x** | **7.7x** | **12.6x** | **12.8x** | **6.8 %** | **75 %** | **3.1** |
| **Median(2)** | | | | **7.4x** | **7.3x** | **10.3x** | **11.0x** | **7.1%** | **77%** | **3.6x** |
| **$75 million Acquisition Case** | | | | | | | | | | |
| **Falcon(3)** | **$ 18.88** | **$ 666** | **$ 1,392** | **9.8x** | **9.3x** | **10.7x** | **10.6x** | **8.4%** | **91%(4)** | **4.9x** |
| **Assumes $1.59 Dividend (66% Payout Ratio) and Dividend Yields of 6.9% to 8.4%** | | | | | | | | | | |
| Falcon/Viper(3) | $ 22.97 | $ 2,045 | $ 4,534 | 7.6x | 8.2x | 9.3x | 9.5x | **6.9%** | **66**% | 4.8x |
| Falcon/Viper(3) | $ 21.42 | $ 1,907 | $ 4,396 | 7.4x | 8.0x | 8.6x | 8.8x | **7.4%** | **66**% | 4.8x |
| Falcon/Viper(3) | $ 20.07 | $ 1,787 | $ 4,276 | 7.2x | 7.8x | 8.1x | 8.3x | **7.9%** | **66**% | 4.8x |
| Falcon/Viper(3) | $ 18.88 | $ 1,681 | $ 4,170 | 7.0x | 7.6x | 7.6x | 7.8x | **8.4%** | **66**% | 4.8x |

*1.*
*EBITDA multiples based on adjusted EBITDA, excluding pension/OPEB cash adjustments and one-time operating expenses and transaction related fees and expenses.*
*2.*
*Payout ratio mean and median excludes Embarq.*
*3.*
*Assumes 2008E FCF multiple based on 2008E pro forma free cash flow (excludes one-time operating expenses and transaction related fees and expenses).*
*4.*
*Excludes one-time gains.*

**Appendix**

ATTACHMENT B

**Summary Income Statement**

| | Summary | | | | | |
|---|---|---|---|---|---|---|
| | **2008(1)** | **2009** | **2010** | **2011** | **2012** | **2013** |
| | | | **($ in millions)** | | | |
| Falcon Revenues | $ 275 | $ 274 | $ 272 | $ 269 | $ 266 | $ 263 |
| *% Y-o-Y Growth* | | *(0.5%)* | *(0.5%)* | *(1.2%)* | *(1.2%)* | *(1.1%)* |
| Viper Revenues | 1,144 | 1,140 | 1,146 | 1,142 | 1,137 | 1,136 |
| *% Y-o-Y Growth* | | *(0.4%)* | *0.6%* | *(0.4%)* | *(0.4%)* | *(0.1%)* |
| **Pro Forma Revenue** | **$ 1,419** | **$ 1,414** | **$ 1,419** | **$ 1,411** | **$ 1,403** | **$ 1,399** |
| *% Y-o-Y Growth* | | *(0.4%)* | *0.4%* | *(0.5%)* | *(0.6%)* | *(0.3%)* |
| Falcon Operating Expenses | 158 | 160 | 162 | 163 | 163 | 163 |
| *% Y-o-Y Growth* | | *1.5%* | *1.5%* | *0.2%* | *0.2%* | *0.2%* |
| Viper Operating Expenses | 765 | 682 | 690 | 699 | 707 | 715 |
| *% Y-o-Y Growth* | | *(10.9%)* | *1.2%* | *1.4%* | *1.1%* | *1.2%* |
| **Falcon EBITDA** | **$ 117** | **$ 114** | **$ 110** | **$ 106** | **$ 103** | **$ 100** |
| **Viper EBITDA** | **$ 379** | **$ 458** | **$ 457** | **$ 443** | **$ 431** | **$ 421** |
| Less: Viper Legacy Labor Expense | (4 ) | (4 ) | (4 ) | (4 ) | (4 ) | (3 ) |
| Less: FPNE DSL Pricing Impact | (2) | (2) | (2) | (2) | (2) | (3) |
| **Pro Forma EBITDA** | **$ 491** | **$ 566** | **$ 561** | **$ 544** | **$ 528** | **$ 515** |
| Depreciation and Amortization | 332 | 322 | 314 | 302 | 292 | 276 |
| **Operating Income** | **$ 159** | **$ 244** | **$ 247** | **$ 242** | **$ 236** | **$ 239** |
| Interest / Dividend Income | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Expense | (181 ) | (179 ) | (173 ) | (167 ) | (160 ) | (153 ) |
| Total Other Income / (Expense) | $ (181) | $ (179) | $ (173) | $ (166) | $ (159) | $ (153) |
| **Pre-Tax Income / (Loss)** | **$ (22 )** | **$ 65** | **$ 74** | **$ 75** | **$ 76** | **$ 86** |
| Federal Income Tax Benefit / (Expense) | 7 | (23) | (26) | (26) | (27) | (30) |
| **Net Income / (Loss)** | **$ (15)** | **$ 42** | **$ 48** | **$ 49** | **$ 50** | **$ 56** |

*1.*
*Viper 2008 financials include one-time operating expenses of $24 million and one-time TSA setup costs of $30 million.*

ATTACHMENT B

**PF Detailed Summary—$2.715 bn Purchase Price (Base Case)**

**Free Cash Flow Analysis**

($ in millions)

| | 2006PF | 2007PF | 2008E | PF 2008E(2) | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **LEC EBITDA (w/Pen./OPEB adj. & w/o 1-Time Opex)** | $ 398 | $ 359 | $ 304 | $ 304 | $ 312 | $ 292 | $ 277 | $ 267 | $ 261 | $ 257 | $ 255 |
| Plus: LD/DSL/MVNO EBITDA | 98 | 113 | 129 | 129 | 146 | 164 | 166 | 163 | 160 | 157 | 154 |
| Falcon EBITDA(6) | 121 | 121 | 117 | 117 | 114 | 110 | 106 | 103 | 100 | 96 | 93 |
| Less: Legacy Labor Cost | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (3) | (3) | (3) |
| Less: FPNE DSL Pricing Impact | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (3) | (3) | (3) |
| Less: One-Time Opex | 0 | 0 | (24) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: One-Time TSA | 0 | 0 | (30) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pro Forma EBITDA**(7) | **$ 610** | **$ 588** | **$ 491** | **$ 545** | **$ 566** | **$ 561** | **$ 544** | **$ 528** | **$ 515** | **$ 504** | **$ 496** |
| Pension/OPEB Cash Adjustments | $ 27 | $ 24 | $ 27 | $ 27 | $ 29 | $ 30 | $ 31 | $ 33 | $ 34 | $ 36 | $ 37 |
| **Cash Adj. EBITDA**(1) | **$ 638** | **$ 612** | **$ 518** | **$ 572** | **$ 595** | **$ 591** | **$ 575** | **$ 561** | **$ 549** | **$ 540** | **$ 533** |
| Interest, Net | (160) | (164) | (181) | (181) | (179) | (173) | (166) | (159) | (153) | (148) | (143) |
| Cash Taxes | (39) | (40) | (2) | (2) | (5) | (9) | (9) | (10) | (13) | (36) | (46) |
| Capital Expenditures (Excl. Conversion) | (188) | (177) | (173) | (173) | (167) | (163) | (157) | (154) | (152) | (150) | (149) |
| • in Net Working Capital | 0 | 0 | 0 | 0 | 0 | (0) | 1 | 1 | 0 | 0 | 0 |
| Closing Costs | 0 | (10) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **FCF**(1) | **$ 251** | **$ 221** | **$ 163** | **$ 216** | **$ 244** | **$ 245** | **$ 243** | **$ 237** | **$ 231** | **$ 207** | **$ 195** |
| FCF/Share | $ 2.82 | $ 2.48 | $ 1.83 | $ 2.43 | $ 2.74 | $ 2.76 | $ 2.73 | $ 2.66 | $ 2.59 | $ 2.32 | $ 2.18 |
| *FCF Accretion/(Dilution)—Status Quo* | *24%* | *46%* | *18%* | *57%* | *92%* | *120%* | *142%* | *183%* | *227%* | *262%* | *354%* |
| *FCF Accretion/(Dilution)—Acquisition Case* | *24%* | *39%* | *4%* | *38%* | *57%* | *66%* | *65%* | *77%* | *95%* | *90%* | *119%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | *56%* | *64%* | *87%* | *66%* | *58%* | *58%* | *58%* | *60%* | *61%* | *69%* | *73%* |
| EPS(3) | $ 1.02 | $ 0.90 | ($ 0.15 ) | $ 0.22 | $ 0.45 | $ 0.51 | $ 0.52 | $ 0.53 | $ 0.60 | $ 0.77 | $ 0.95 |
| *EPS Accretion/(Dilution)—Status Quo* | *9%* | *19%* | *(121%)* | *(68%)* | *(31%)* | *(5%)* | *1%* | *21%* | *54%* | *123%* | *228%* |
| *EPS Accretion/(Dilution)—Acquisition Case* | *9%* | *13%* | *(118%)* | *(73%)* | *(45%)* | *(33%)* | *(36%)* | *(34%)* | *(27%)* | *(8%)* | *10%* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ 2,338 | $ 2,338 | $ 2,489 | $ 2,489 | $ 2,387 | $ 2,283 | $ 2,182 | $ 2,087 | $ 1,997 | $ 1,932 | $ 1,879 |
| Pro Forma Net Debt/EBITDA(5) | 3.7x | 3.8x | 4.8x | 4.4x | 4.0x | 3.9x | 3.8x | 3.7x | 3.6x | 3.6x | 3.5x |
| **Falcon Acquisition Case FCF** | **$ 79** | **$ 62** | **$ 63** | **$ 63** | **$ 65** | **$ 65** | **$ 68** | **$ 65** | **$ 60** | **$ 57** | **$ 46** |
| FCF/Share | $ 2.27 | $ 1.78 | $ 1.76 | $ 1.76 | $ 1.75 | $ 1.66 | $ 1.65 | $ 1.51 | $ 1.33 | $ 1.22 | $ 1.00 |
| Dividend Payout Ratio | 70% | 89% | 90% | 90% | 91% | 96% | 96% | 106% | 119% | 130% | 160% |
| EPS | $ 0.93 | $ 0.80 | $ 0.82 | $ 0.82 | $ 0.83 | $ 0.77 | $ 0.82 | $ 0.81 | $ 0.83 | $ 0.84 | $ 0.86 |
| Leverage | 4.3x | 4.8x | 4.9x | 4.9x | 4.8x | 4.9x | 4.8x | 4.9x | 4.9x | 4.9x | 4.9x |
| **Falcon Status Quo FCF** | **$ 79** | **$ 59** | **$ 54** | **$ 54** | **$ 50** | **$ 44** | **$ 40** | **$ 33** | **$ 28** | **$ 23** | **$ 17** |
| FCF/Share | $ 2.27 | $ 1.70 | $ 1.55 | $ 1.55 | $ 1.43 | $ 1.25 | $ 1.13 | $ 0.94 | $ 0.79 | $ 0.64 | $ 0.48 |
| Dividend Payout Ratio | 70% | 94% | 103% | 103% | 111% | 127% | 141% | 169% | 201% | 248% | 331% |
| EPS | $ 0.93 | $ 0.76 | $ 0.71 | $ 0.71 | $ 0.65 | $ 0.54 | $ 0.52 | $ 0.44 | $ 0.39 | $ 0.35 | $ 0.29 |
| Leverage | 4.3x | 4.6x | 4.8x | 4.8x | 4.9x | 5.2x | 5.5x | 5.9x | 6.3x | 6.8x | 7.4x |

*1.*
*Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*
*2.*
*Excludes one-time opex and TSA Schedule B set up costs in 2008.*
*3.*
*EPS reflects actual cost savings.*

*4.*
*2007 and 2008 include approx. $37 million and $172 million of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*
*5.*
*Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension/OPEB cash adjustments.*
*6.*
*Falcon EBITDA pro forma for sale of Orange County-Poughkeepsie (OP).*
*7.*
*Reflects EBITDA assuming pension/OPEB expense for active employees only (based on Viper estimates provided 11/2/06). Includes expected cost savings, increased legacy labor costs, DSL pricing impact and one-time opex of $24 mm (2008 only).*

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## PF Detailed Summary—$2.715 bn Purchase Price (12 Mo. TSA Case)

### Free Cash Flow Analysis

($ in millions)

| | 2006PF | 2007PF | 2008E | PF 2008E(2) | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **LEC EBITDA (w/ Pen./OPEB adj. & w/o 1-Time Opex)** | $ 398 | $ 359 | $ 255 | $ 255 | $ 312 | $ 292 | $ 277 | $ 267 | $ 261 | $ 257 | $ 255 |
| Plus: LD / DSL / MVNO EBITDA | 98 | 113 | 129 | 129 | 146 | 164 | 166 | 163 | 160 | 157 | 154 |
| Falcon EBITDA(6) | 121 | 121 | 117 | 117 | 114 | 110 | 106 | 103 | 100 | 96 | 93 |
| Less: Legacy Labor Cost | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (3) | (3) | (3) |
| Less: FPNE DSL Pricing Impact | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (3) | (3) | (3) |
| Less: One-Time Opex | 0 | 0 | (24) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: One-Time TSA | 0 | 0 | (30) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pro Forma EBITDA(7)** | **$ 610** | **$ 588** | **$ 441** | **$ 495** | **$ 566** | **$ 561** | **$ 544** | **$ 528** | **$ 515** | **$ 504** | **$ 496** |
| Pension/OPEB Cash Adjustments | $ 27 | $ 24 | $ 27 | $ 27 | $ 29 | $ 30 | $ 31 | $ 33 | $ 34 | $ 36 | $ 37 |
| **Cash Adj. EBITDA(1)** | **$ 638** | **$ 612** | **$ 468** | **$ 522** | **$ 595** | **$ 591** | **$ 575** | **$ 561** | **$ 549** | **$ 540** | **$ 533** |
| Interest, Net | (160) | (164) | (184) | (184) | (183) | (177) | (171) | (164) | (158) | (152) | (148) |
| Cash Taxes | (39) | (40) | (2) | (2) | (4) | (8) | (8) | (9) | (12) | (20) | (41) |
| Capital Expenditures (Excl. Conversion) | (188) | (177) | (173) | (173) | (167) | (163) | (157) | (154) | (152) | (150) | (149) |
| • in Net Working Capital | 0 | 0 | 0 | 0 | 0 | (0) | 1 | 1 | 0 | 0 | 0 |
| Closing Costs | 0 | (10) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **FCF(1)** | **$ 251** | **$ 221** | **$ 110** | **$ 163** | **$ 242** | **$ 243** | **$ 240** | **$ 234** | **$ 228** | **$ 218** | **$ 196** |
| FCF/Share | $ 2.82 | $ 2.48 | $ 1.23 | $ 1.83 | $ 2.71 | $ 2.73 | $ 2.69 | $ 2.63 | $ 2.56 | $ 2.45 | $ 2.20 |
| *FCF Accretion/(Dilution)—Status Quo* | *24%* | *46%* | *(20)%* | *19%* | *90%* | *118%* | *139%* | *180%* | *223%* | *281%* | *357%* |
| *FCF Accretion/(Dilution)—Acquisition Case* | *24%* | *39%* | *(30)%* | *4%* | *55%* | *64%* | *63%* | *74%* | *92%* | *100%* | *121%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | *56%* | *64%* | *129%* | *87%* | *59%* | *58%* | *59%* | *61%* | *62%* | *65%* | *72%* |
| EPS(3) | $ 1.02 | $ 0.90 | ($ 0.52) | ($ 0.14) | $ 0.43 | $ 0.49 | $ 0.49 | $ 0.50 | $ 0.57 | $ 0.74 | $ 0.92 |
| *EPS Accretion/(Dilution)—Status Quo* | *9%* | *19%* | *(173)%* | *(120)%* | *(35)%* | *(10)%* | *(5)%* | *14%* | *45%* | *113%* | *218%* |
| *EPS Accretion/(Dilution)—Acquisition Case* | *9%* | *13%* | *(163)%* | *(118)%* | *(48)%* | *(37)%* | *(40)%* | *(38)%* | *(31)%* | *(12)%* | *7%* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ 2,338 | $ 2,338 | $ 2,542 | $ 2,542 | $ 2,442 | $ 2,341 | $ 2,243 | $ 2,151 | $ 2,065 | $ 1,989 | $ 1,934 |
| Pro Forma Net Debt/EBITDA(5) | 3.7x | 3.8x | 5.4x | 4.9x | 4.1x | 4.0x | 3.9x | 3.8x | 3.8x | 3.7x | 3.6x |
| **Falcon Acquisition Case FCF** | **$ 79** | **$ 62** | **$ 63** | **$ 63** | **$ 65** | **$ 65** | **$ 68** | **$ 65** | **$ 60** | **$ 57** | **$ 46** |
| FCF/Share | $ 2.27 | $ 1.78 | $ 1.76 | $ 1.76 | $ 1.75 | $ 1.66 | $ 1.65 | $ 1.51 | $ 1.33 | $ 1.22 | $ 1.00 |
| Dividend Payout Ratio | 70% | 89% | 90% | 90% | 91% | 96% | 96% | 106% | 119% | 130% | 160% |
| EPS | $ 0.93 | $ 0.80 | $ 0.82 | $ 0.82 | $ 0.83 | $ 0.77 | $ 0.82 | $ 0.81 | $ 0.83 | $ 0.84 | $ 0.86 |
| Leverage | 4.3x | 4.8x | 4.9x | 4.9x | 4.8x | 4.9x | 4.8x | 4.9x | 4.9x | 4.9x | 4.9x |
| **Falcon Status Quo FCF** | **$ 79** | **$ 59** | **$ 54** | **$ 54** | **$ 50** | **$ 44** | **$ 40** | **$ 33** | **$ 28** | **$ 23** | **$ 17** |
| FCF/Share | $ 2.27 | $ 1.70 | $ 1.55 | $ 1.55 | $ 1.43 | $ 1.25 | $ 1.13 | $ 0.94 | $ 0.79 | $ 0.64 | $ 0.48 |
| Dividend Payout Ratio | 70% | 94% | 103% | 103% | 111% | 127% | 141% | 169% | 201% | 248% | 331% |
| EPS | $ 0.93 | $ 0.76 | $ 0.71 | $ 0.71 | $ 0.65 | $ 0.54 | $ 0.52 | $ 0.44 | $ 0.39 | $ 0.35 | $ 0.29 |
| Leverage | 4.3x | 4.6x | 4.8x | 4.8x | 4.9x | 5.2x | 5.5x | 5.9x | 6.3x | 6.8x | 7.4x |

1. *Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*

2. *Excludes one-time opex and TSA Schedule B set up costs in 2008.*

3. *EPS reflects actual cost savings.*

4. *2007 and 2008 include approx. $37 million and $172 million of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*

*5.*
*Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension / OPEB cash adjustments.*

*6.*
*Falcon EBITDA pro forma for sale of Orange County-Poughkeepsie (OP).*

*7.*
*Reflects EBITDA assuming pension/OPEB expense for active employees only (based on Viper estimates provided 11/2/06). Includes expected cost savings, increased legacy labor costs, DSL pricing impact and one-time opex of $24 mm (2008 only).*

ATTACHMENT B

**Preliminary Nor'Easter Synergy Analysis**

**Nor'Easter Stand-Alone Assumptions**

| | **2005A (From Audit)** | | | | **2007B (November Best View)** | | | | **2009E** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **LEC** | **Non-Reg.** | **Elim.** | **Cons.** | **LEC** | **Non-Reg.(1)** | **Elim.** | **Cons.** | **LEC(2)** | **Non-Reg.(3)** | **Elim.(4)** | **Cons.** |
| | | | | | | **($ in millions)** | | | | | | |
| Revenue | $ 1,155 | $ 123 | $ (72) | $ 1,206 | $ 1,066 | $ 170 | $ (62) | $ 1,174 | $ 989 | $ 209 | $ (62) | $ 1,137 |
| Operating Expenses | 720 | 163 | (72) | 811 | 666 | 225 | (62) | 830 | 619 | 278 | (62) | 835 |
| EBITDA | $ 435 | $ (40) | | $ 395 | $ 400 | $ (55) | | $ 344 | $ 370 | $ (68) | | $ 302 |
| Plus: Pension Funding Adjustment | 9 | 0 | | 9 | 0 | 0 | | 0 | 0 | 0 | | 0 |
| Plus: Active Only Pension/OPEB | 23 | 0 | | 23 | 28 | 0 | | 28 | 26 | 0 | | 26 |
| Adjusted EBITDA | 468 | (40 ) | | 428 | 427 | (55 ) | | 372 | 396 | (68 ) | | 328 |
| **Pro Forma Recurring Expenses** | **$ 687** | **$ 163** | **$ (72)** | **$ 778** | **$ 639** | **$ 225** | **$ (62)** | **$ 802** | **$ 593** | **$ 278** | **$ (62)** | **$ 809** |
| *% Annual Growth* | *NA* | *53%* | *68%* | *NA* | *(4)%* | *17%* | *(7)%* | *1%* | *(4)%* | *11%* | *0%* | *0%* |
| *% Revenue* | *60%* | *133%* | *NM* | *65%* | *60%* | *133%* | *NM* | *68%* | *60%* | *133%* | *NM* | *71%* |

**Preliminary Synergy Analysis**

| | **2009E** |
|---|---|
| | **($ in millions)** |
| Nor'Easter Pro Forma Recurring Expenses | |
| Under Viper | $ 809 |
| Under Falcon(5) | 685 |
| **Implied Annual Synergy** | **$ 124** |
| *% of Total Expenses* | *15%* |

*1. Revenues from Nor'Easter 2007 Metrics provided by Viper. Assumes pro forma recurring expenses equal to 133% of revenue (per 2005A audit).*

*2. Revenues based on Nor'Easter model. Assumes pro forma recurring expenses equal to 60% of revenue (per 2005A and 2007B). Active only pension/OPEB adjustment based on schedule provided by Viper.*

*3. Revenue based on Nor'Easter model and excludes MVNO. Assumes pro forma recurring expenses equal to 133% of revenue (per 2005A audit).*

*4. Assumes 0% growth from 2007B.*

*5. Excludes MVNO.*

ATTACHMENT B

**Preliminary Synergies Composition Analysis**

**2009 Non-Reg Cost Analysis(1)**

| | Viper Audit | Falcon View |
|---|---|---|
| | ($ in millions) | |
| **Revenues** | **$ 209** | **$ 209** |
| Expenses: | | |
| LD Transport | 35 | 35 |
| ISP Transport | 12 | 12 |
| DSL Line Sharing | 111 | 111 |
| Billing & Collection | 32 | 32 |
| DSL Truck Rolls | 3 | 3 |
| DSL Help Desk | 7 | 7 |
| DSL Tech Support | 7 | 7 |
| FUSC & Total Other | 2 | 2 |
| DSL Modem Expense(2) | 4 | — |
| SG&A and Corporate Allocations(3) | 63 | — |
| *% of total expenses* | *23%* | |
| **Total Expenses** | **$ 278** | **$ 210** |

**Synergy Composition**

| | 2009E | % of Synergies |
|---|---|---|
| | ($ in millions) | |
| Total Non-Regulated Expenses | $ 278 | — |
| % Total SG&A and Allocations | 23% | — |
| **Non-Regulated SG&A and Allocations** | **$ 63** | **51%** |
| **DSL Modem Accounting** | **4** | **3%** |
| **LEC Synergies(4)** | **56** | **46%** |
| *Total Synergies* | *$ 124* | *100%* |

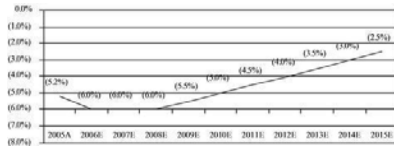
**LEC Synergy Detail**

| | 2005A | % Yearly Growth 05A - 09E | Implied 2009E | PF Falcon Standalone | Implied Synergies | % of Total |
|---|---|---|---|---|---|---|
| | | | ($ in millions) | | | |
| Viper Corporate Allocations | $ 37 | (4%) | $ 32 | $ 0 | $ 32 | 56% |
| Sales | 18 | (4%) | 15 | 0 | 15 | 27% |
| Marketing | 21 | (4%) | 18 | 12 | 6 | 12% |
| Other | | | | | 3 | 6% |
| **Total** | | | | | **$ 56** | **100%** |

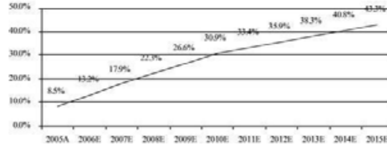
*1.*
*Assumes comparable direct LD+DSL costs for Viper audited financials and Falcon view.*
*2.*
*Assumes $100 cost per modem for incremental DSL adds.*
*3.*
*Includes salaries, wages, sales and marketing and corporate allocations for non-regulated businesses.*
*4.*
*Net of negative impact to legacy Falcon operations (legacy labor and DSL pricing adjustment in Falcon's New England footprint).*

**Viper Stand-Alone Summary Statistics**

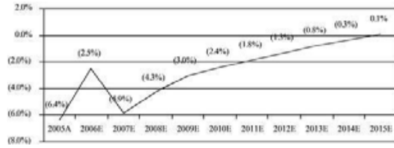
**Access Line Growth**



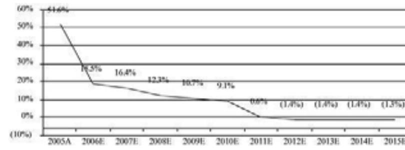

**DSL Penetration**



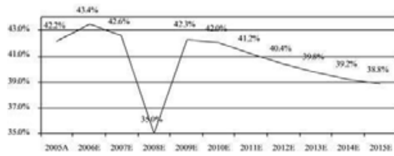

**ILEC Revenue Growth**



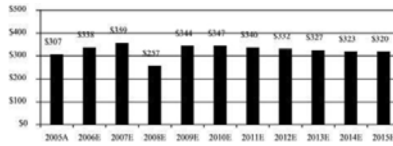

**LD/DSL Revenue Growth**




**Cash Adjusted EBITDA Margin**




**EBITDA - Capex (Excl. Conversion)($mm)**



ATTACHMENT B

**ANNEX C-2**

*Confidential Presentation Regarding:*

# Project Nor'Easter

# Discussion Materials

***January 14, 2007***

**Pro Forma Financial Summary—$2.715 bn Purchase Price—New Base Case**

**Agreed upon pro forma ownership of 60.4% based upon a 30-day average Falcon stock price of $18.88 as of 1/7/07**

- Assumes 6 months of TSA, plus $30 million of set-up costs

- Assumes NewCo will continue to pay a $1.59 per share dividend

- Meaningful FCF accretion achieved; EPS calculations impacted by non-cash depreciation and amortization charges

**Free Cash Flow Analysis**

| | 2008E | PF 2008E(2) | 2009E | 2011E | 2013E |
|---|---|---|---|---|---|
| | | | ($ in millions) | | |
| **FCF(1)** | **$ 139** | **$ 193** | **$ 225** | **$ 224** | **$ 210** |
| FCF / Share | $ 1.56 | $ 2.17 | $ 2.53 | $ 2.51 | $ 2.36 |
| *FCF Accretion / (Dilution)—Status Quo* | *(5)%* | *32%* | *69%* | *108%* | *155%* |
| *FCF Accretion / (Dilution)—Acquisition Case* | *(11)%* | *23%* | *45%* | *52%* | *77%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | *102%* | *73%* | *63%* | *63%* | *67%* |
| EPS(3) | $ (0.32) | $ 0.06 | $ 0.30 | $ 0.36 | $ 0.41 |
| *EPS Accretion / (Dilution)—Status Quo* | *(145)%* | *(92)%* | *(55)%* | *(31)%* | *6%* |
| *EPS Accretion / (Dilution)—Acquisition Case* | *(140)%* | *(93)%* | *(63)%* | *(56)%* | *(52)%* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ 2,513 | $ 2,513 | $ 2,429 | $ 2,260 | $ 2,117 |
| Pro Forma Net Debt / EBITDA(5) | 5.1x | 4.6x | 4.2x | 4.1x | 4.0x |
| **Falcon Acquisition Case FCF** | **$ 61** | **$ 61** | **$ 61** | **$ 64** | **$ 58** |
| FCF / Share | $ 1.73 | $ 1.73 | $ 1.71 | $ 1.65 | $ 1.37 |
| Dividend Payout Ratio | 92% | 92% | 93% | 98% | 118% |
| EPS | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.81 | $ 0.85 |
| Leverage | 4.8x | 4.8x | 4.9x | 4.8x | 4.9x |
| **Falcon Status Quo FCF** | **$ 57** | **$ 57** | **$ 53** | **$ 43** | **$ 33** |
| FCF / Share | $ 1.64 | $ 1.64 | $ 1.50 | $ 1.21 | $ 0.92 |
| Dividend Payout Ratio | 97% | 97% | 106% | 132% | 172% |
| EPS | $ 0.76 | $ 0.76 | $ 0.69 | $ 0.56 | $ 0.47 |
| Leverage | 4.6x | 4.6x | 4.8x | 5.3x | 6.0x |

*1. Pro forma for sale of Orange County-Poughkeepsie (OP). Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*

*2. Excludes one-time opex and TSA Schedule B set up costs in 2008.*

*3. EPS reflects actual cost savings.*

*4. 2007 and 2008 include $37mm and $172mm of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*

*5. Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension / OPEB cash adjustments.*

ATTACHMENT B

## PF Detailed Summary—$2.715 bn Purchase Price (New Base Case)

### Free Cash Flow Analysis

($ in millions)

| | 2008E | PF 2008E(2) | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E |
|---|---|---|---|---|---|---|---|---|---|
| **LEC EBITDA (w/Pen./OPEB adj. & w/o 1-Time Opex)** | $ 275 | $ 275 | $ 284 | $ 265 | $ 250 | $ 240 | $ 232 | $ 228 | $ 225 |
| Plus: LD/DSL/MVNO EBITDA | 133 | 133 | 151 | 170 | 172 | 170 | 168 | 166 | 163 |
| Falcon EBITDA(6) | 119 | 119 | 116 | 112 | 108 | 105 | 101 | 98 | 95 |
| Less: Legacy Labor Cost | (4) | (4) | (4) | (4) | (4) | (4) | (3) | (3) | (3) |
| Less: FPNE DSL Pricing Impact | (2) | (2) | (2) | (2) | (2) | (2) | (3) | (3) | (3) |
| Less: One-Time Opex | (24) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: One-Time TSA | (30) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pro Forma EBITDA**(7) | **$ 468** | **$ 521** | **$ 546** | **$ 541** | **$ 525** | **$ 509** | **$ 496** | **$ 486** | **$ 477** |
| Pension/OPEB Cash Adjustments | $ 27 | $ 27 | $ 29 | $ 30 | $ 31 | $ 33 | $ 34 | $ 36 | $ 37 |
| **Cash Adj. EBITDA** (1) | **$ 495** | **$ 548** | **$ 575** | **$ 571** | **$ 556** | **$ 542** | **$ 531** | **$ 522** | **$ 514** |
| Interest, Net | (181) | (181) | (180) | (176) | (171) | (165) | (160) | (156) | (154) |
| Cash Taxes | (2) | (2) | (2) | (2) | (3) | (4) | (4) | (15) | (36) |
| Capital Expenditures (Excl. Conversion) | (172) | (172) | (167) | (164) | (159) | (157) | (156) | (156) | (156) |
| • in Net Working Capital | 0 | 0 | 1 | (0) | 1 | 1 | 0 | 0 | 0 |
| Closing Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **FCF**(1) | **$ 139** | **$ 193** | **$ 225** | **$ 229** | **$ 224** | **$ 216** | **$ 210** | **$ 195** | **$ 169** |
| FCF/Share | $ 1.56 | $ 2.17 | $ 2.53 | $ 2.57 | $ 2.51 | $ 2.43 | $ 2.36 | $ 2.19 | $ 1.90 |
| *FCF Accretion/(Dilution)—Status Quo* | *(5%)* | *32%* | *69%* | *93%* | *108%* | *129%* | *155%* | *178%* | *205%* |
| *FCF Accretion/(Dilution)—Acquisition Case* | *(11%)* | *23%* | *45%* | *55%* | *52%* | *61%* | *77%* | *72%* | *79%* |
| *Actual Dividend Payout Ratio (at $1.59 per share)* | *102%* | *73%* | *63%* | *62%* | *63%* | *66%* | *67%* | *73%* | *84%* |
| EPS(3) | ($ 0.32 ) | $ 0.06 | $ 0.30 | $ 0.35 | $ 0.36 | $ 0.36 | $ 0.41 | $ 0.57 | $ 0.73 |
| *EPS Accretion/(Dilution)—Status Quo* | *(145%)* | *(92%)* | *(55%)* | *(35%)* | *(31%)* | *(19%)* | *6%* | *64%* | *152%* |
| *EPS Accretion/(Dilution)—Acquisition Case* | *(140%)* | *(93%)* | *(63%)* | *(54%)* | *(56%)* | *(57%)* | *(52%)* | *(29%)* | *(0%)* |
| Pro Forma Net Debt (Incl. Conversion)(4) | $ 2,513 | $ 2,513 | $ 2,429 | $ 2,342 | $ 2,260 | $ 2,186 | $ 2,117 | $ 2,064 | $ 2,036 |
| Pro Forma Net Debt / EBITDA(5) | 5.1x | 4.6x | 4.2x | 4.1x | 4.1x | 4.0x | 4.0x | 4.0x | 4.0x |
| **Falcon Acquisition Case FCF** | **$ 61** | **$ 61** | **$ 61** | **$ 61** | **$ 64** | **$ 65** | **$ 58** | **$ 55** | **$ 46** |
| FCF/Share | $ 1.73 | $ 1.73 | $ 1.71 | $ 1.65 | $ 1.65 | $ 1.59 | $ 1.37 | $ 1.27 | $ 1.06 |
| Dividend Payout Ratio | 92% | 92% | 93% | 97% | 98% | 101% | 118% | 125% | 150% |
| EPS | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.76 | $ 0.81 | $ 0.82 | $ 0.85 | $ 0.80 | $ 0.73 |
| Leverage | 4.8x | 4.8x | 4.9x | 4.9x | 4.8x | 4.9x | 4.9x | 5.1x | 5.3x |
| **Falcon Status Quo FCF** | **$ 57** | **$ 57** | **$ 53** | **$ 47** | **$ 43** | **$ 37** | **$ 33** | **$ 28** | **$ 22** |
| FCF/Share | $ 1.64 | $ 1.64 | $ 1.50 | $ 1.33 | $ 1.21 | $ 1.06 | $ 0.92 | $ 0.79 | $ 0.62 |
| Dividend Payout Ratio | 97% | 97% | 106% | 120% | 132% | 150% | 172% | 202% | 256% |
| EPS | $ 0.76 | $ 0.76 | $ 0.69 | $ 0.58 | $ 0.56 | $ 0.51 | $ 0.47 | $ 0.41 | $ 0.31 |
| Leverage | 4.6x | 4.6x | 4.8x | 5.0x | 5.3x | 5.6x | 6.0x | 6.4x | 6.9x |

*1.*
*Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*
*2.*
*Excludes one-time opex and TSA Schedule B set up costs in 2008.*
*3.*

*EPS reflects actual cost savings.*

*4.*

*2007 and 2008 include approx. $37 million and $172 million of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*

*5.*

*Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension/OPEB cash adjustments.*

*6.*

*Falcon EBITDA pro forma for sale of Orange County-Poughkeepsie (OP).*

*7.*

*Reflects EBITDA assuming pension/OPEB expense for active employees only (based on Viper estimates provided 11/2/06). Includes expected cost savings, increased legacy labor costs, DSL pricing impact and one-time opex of $24mm (2008 only).*

ATTACHMENT C

state OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2007-67

June 29 , 2007

VERIZON NEW ENGLAND INC., NORTHERN NEW ENGLAND TELEPHONE OPERATIONS INC., ENHANCED COMMUNICATIONS OF NORTHERN NEW ENGLAND INC., NORTHLAND TELEPHONE COMPANY OF MAINE, INC., SIDNEY TELEPHONE COMPANY, STANDISH TELEPHONE COMPANY, CHINA TELEPHONE COMPANY, MAINE TELEPHONE COMPANY, AND COMMUNITY SERVICE TELEPHONE CO.,
Re: Joint Application for Approvals Related to Verizon's Transfer of Property and Customer Relations to Company to be Merged with and into FairPoint Communications, Inc.

PROCEDURAL ORDER DENYING FAIRPOINT REQUEST FOR REVISION OF RULING REQURING PRODUCTION OF INVESTMENT ADVISOR REPORTS

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## I. BACKGROUND AND SUMMARY OF RULING

On May 24, 2006, Examiner Bragdon issued a Procedural Order requiring FairPoint to produce, in response to a Public Advocate data request, certain investment advisor documents issued in summer 2005 by Lehman Brothers, Deutsche Bank and Morgan Stanley.[1]

On June 8, 2007, FairPoint requested reconsideration and reversal of this ruling. FairPoint's request is denied for the reasons explained below.

## II. FAIRPOINT'S ARGUMENT

FairPoint argues:

> The information sought in the data requests relates to a time period prior to the execution of the Agreement and Plan of Merger. The documents reflect the confidential advice to FairPoint of the independent advisors that guided FairPoint through earlier stages of its negotiations with Verizon. It further reflects FairPoint's most highly confidential thinking regarding the manner in which FairPoint analyzes and values acquisition opportunities.

Although FairPoint states that the information sought relates to a much earlier time period, it also refers to an "extended period covered by the request, over eighteen months from Summer, 2005 until January 14, 2007." In any event, FairPoint believes that the "information relating to the negotiation and valuation of the transaction by

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[1] The portion of the Procedural Order that subject to the request for reconsideration is set forth in Appendix A.

FairPoint has no relevance to the ultimate transaction that has been presented to the Commission for approval." FairPoint argues that the 18 month period "demonstrates that after February 2006, there was substantial 'give and take' between the parties, and clearly suggests that FairPoint was actively evaluating a variety of transaction structures that were ultimately rejected and/or modified by the parties" that "now fall into the realm of the hypothetical and are simply irrelevant to this proceeding."

FairPoint further claims that "the most relevant information" has been made available "either confidentially or in summary form as part of FairPoint's' S-4 Registration Statement as filed with the Securities and Exchange Commission."

FairPoint relies extensively on a ruling by the Commission in *Bangor Hydro-Electric Company, Maine Electric Power Company, EMERA, Inc., Chester SVC Partnership; Request for Approval of Reorganization (Joint Petition)*, Docket No. 2000-663, *Order on Appeal of Discovery Ruling* (MPUC Oct. 16, 2000)("*Bangor Hydro-Emera*") that denied access to "all materials provided by or to Nesbitt Burns (Emera's financial advisor) relating to the merger," "information provided to investment bankers or advisors," and "information provided by investment bankers or advisors."

We discuss the *Bangor Hydro-Emera* ruling below.

On June 26, 2007 FairPoint requested leave to submit a copy of a June 11, 2007 ruling by the New Hampshire Public Utilities Commission (NHPUC), claiming it had "denied the motions of the New Hampshire Office of Consumer Advocate (OCA) seeking to compel production of the same type pf documentation sought by the Maine OPA in the above-referenced data requests, relying on the precedent cited in FairPoint's Request for Reconsideration."[2]

Finally, in its motion, FairPoint argues that the Commission and the parties already have adequate information (much of it confidential) to analyze the transaction. FairPoint (in a passage in the motion that it designates as "confidential") names various information (which is itself confidential) that it has already provided to parties. Finally, FairPoint argues that providing the requested materials would cause it "substantial harm if the documents were made available to parties with whom FairPoint would be competing or negotiating in any number of forums" and that it is impossible for persons afforded access to be able to "expunge" this information from their memories.

## III. PUBLIC ADVOCATE RESPONSE

The Public Advocate argues "The overall issue in this proceeding is whether the proposed transaction is "consistent with the interests of the utility's ratepayers and investors," citing 35-A MRSA §708, and that the "investment-advisor documents are directly relevant to the issues involved in the Joint Applicant's request for approval of the proposed transaction. Although the Public Advocate argues they are "directly relevant," it also argues that the "documents certainly fall within the scope of permissible discovery because they constitute information that is 'reasonably calculated to lead to the

[2] The NHPUC relied on its own precedent cited in FairPoint's motion, not the Maine precedent (*BHE/Emera*) cited by FairPoint's motion.

discovery of admissible evidence,' " citing the standard contained in Maine Rules of Civil Procedure 26 (b)(1).

The Public Advocate further states:

> One of the arguments that FairPoint makes is that the investment advisor reports and presentations are 'highly confidential.' However, there are protections for highly confidential material.

The OPA then addresses what it characterizes as "[t]he argument that FairPoint appears to rely on the most," i.e., "the argument that the investment advisors reports are not relevant because those reports were prepared and delivered to FairPoint 'at a time prior to the execution of the Agreement and Plan of Merger.' " The Public Advocate argues:

> The Commission should not accept FairPoint's argument that the timing of the preparation of the reports makes them irrelevant. [footnote omitted] The investment advisors reports are relevant here because they present the overall analysis and evaluation of the possible transaction given by those investment advisors at the time that those advisors were first considering the "pro's and con's" of the transaction.
>
> There is no doubt that the investment advisor reports constitute information that is reasonably calculated to lead to the discovery of admissible evidence. Both now, and under the proposed transaction, FairPoint operates as a "high dividend/high debt" rural local exchange company with non-investment grade bond credit ratings. Accordingly, one of the critical issues in this proceeding is whether the newly-created FairPoint entity will be financially viable – i.e., will the new entity have sufficient amounts of cash flow to fund current operations, to pay its high level of dividends, and to finance the expansions necessary to purchase Verizon's NNE territories and to deploy broadband services in the rural areas of northern New England?
>
> Here, due to details contained in FairPoint's recently filed S-4A, the Commission now knows that, as FairPoint approached the idea of purchasing Verizon's northern New England (NNE) territories, FairPoint asked several investment advisors – including Lehman Brothers and Morgan Stanley – to provide information and analysis about the prospective transaction and about how FairPoint might best be able to accomplish it. Included in that advice are materials such as a list of factors that FairPoint should consider as it approached the transaction, an evaluation of what the transaction would mean for FairPoint, a valuation of the Verizon NNE territories, and a list of points to consider in negotiations. That type of advice – given by the very professionals who are hired to analyze the transaction on behalf of investors – is directly relevant to the Section 708 issues in this proceeding. Furthermore, that advice remains relevant even though it may have first been prepared at the earlier stages of the discussions between FairPoint and Verizon. The advisors reports are relevant precisely because they will provide an overall analysis of the ramifications of the transaction, whatever the form it eventually took. In short, those investment

> advisor reports have high probative value. They will help the Commission to determine whether the newly-created FairPoint entity will maintain access to capital and remain financially stable for the foreseeable future.

The Public Advocate's June 19 memorandum also relies on FairPoint's most recent Form S-4A filed with the Securities and Exchange Commission (SEC):

> Furthermore, FairPoint's Request for Reconsideration is highly inconsistent with its recently filed Form S-4A (June 11, 2007). The changes to the FairPoint S-4A from its previous amended version show clearly the importance of the documents that OPA seeks. … The Lehman Brothers and Morgan Stanley analyses are directly and specifically described in the "Background of the Merger" beginning at page 52 of the S-4A, and this text was specifically and substantially augmented from the previous S-4A, on the specific work which the investment advisors performed which further indicates the importance of these documents.

The Public Advocate then quoted extensively from the listing of documents and presentations in the most recent S-4A.

The Public Advocate also addresses the *BHE/Emera* ruling and FairPoint's arguments concerning that ruling by the Commission:

> FairPoint argues that the *BHE/Emera* case stands for the proposition that the Commission will not require a utility to produce information provided by investment bankers or advisors. However, FairPoint's interpretation of the *BHE/Emera* case is overly broad.
>
> … the *BHE/Emera* case does not stand for the broad proposition that the Commission will deny a request for company-generated models or investment advisors reports. Instead, it is a case in which the Commission simply performed the balancing task required under 35-A M.R.S.A. § 1311-A (1)(F)(1), and denied the request for the valuation studies because they had low probative value.
>
> Furthermore, in this case – as in past instances – there is limited potential for damage from disclosure of the investment advisor reports because the Hearing Examiner can limit the number of parties to whom the investment advisors reports are provided. In this instance, the Public Advocate is asking only that its consultants … be permitted to examine the investment advisors reports, subject to the terms of the Protective Order issued by the Commission in this proceeding.[3]

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[3] In its memorandum filed on June 19, 2007, the Public Advocate effectively appeared to have narrowed its request to specific documents listed in FairPoint's S4-A filing. On June 29, 2007, the Public Advocate filed a letter stating that its request was so limited. In the ordering paragraphs, we require FairPoint to provide only those documents.

Finally, in a further memorandum filed on June 28, 2007, the Public Advocate commented on FairPoint's filing of June 26 that had included a copy of a recent decision from the NHPUC:

> The materials that the New Hampshire OCA was seeking, and the materials that the Public Advocate is seeking here, are the business and financial analyses prepared for, and delivered to, FairPoint's Board of Directors by the two firms -- Lehman Brothers, and Morgan Stanley – that FairPoint had hired to provide a rationale for the proposed transaction. … In short, the presentations and the analysis provided by Lehman Brothers and Morgan Stanley to FairPoint, are the documents that the FairPoint Board of Directors considered when it determined that the proposed transaction was a transaction that would be reasonable and in the interests of FairPoint's shareholders.[4]
>
> It appears that the New Hampshire Public Utilities Commission was not provided with copies of FairPoint's most recent S-4 filing. … At the time (a) when the New Hampshire Office of Consumer Advocate originally asked for copies of the investment advisors reports in discovery, and (b) when that same Office filed its motion to compel, FairPoint had not filed its most recent (June 11, 2007) amendment to its S-4 filing at the SEC.[5]
>
> [T]he New Hampshire PUC may not have had before it the facts (contained in that S-4 filing) that show the significant role that the reports and presentations by FairPoint's investment advisors played as FairPoint's Board of Directors decided whether or not to go forward with the proposed Verizon/FairPoint transaction.

## III. DISCUSSION AND DECISION

### A. Discoverability Under M.R.Civ.P. 26

The Public Advocate cites the standard from M.R.Civ.P. 26(c)(1) for whether material is discoverable: "It is not ground for objection that the information sought will be inadmissible at the trial if the information sought appears reasonably calculated to lead to the discovery of admissible evidence." Nevertheless, both the Public Advocate and FairPoint argue this matter as if the standard were admissibility in the record of the proceeding. It is not necessary to address that issue now. We apply the standard stated in Rule 26(b)(1) and find that the materials meet that standard.

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[4] The Public Advocate claims that "In denying the motion to compel, the New Hampshire Commission incorrectly refers to the materials sought in discovery as "'information concerning negotiations'".

[5] As noted above, the Public Advocate relies extensively on FairPoint's most recent Form S-4A filing for its arguments as to the relevance or possible relevance of the materials at issue.

We reject FairPoint's apparent argument that the fact the materials are "confidential" or "highly confidential" is itself a reason to deny discovery pursuant to the Rule 26(c)(1) standard.[6] The Protective Order addresses confidentiality issues. We apply the standard contained in M.R.Civ.P. 26(c)(1). The providing of these materials is, of course, subject to the provisions of the Protective Order.

FairPoint may well be correct that more recent materials[7] (which it has provided) are "the most relevant information," but that argument simply does not address whether the materials sought are either admissible or likely to lead to the discovery of admissible evidence."[8] We find that the Public Advocate has made a compelling argument that the advice provided by the investment advisors retained by FairPoint concerning such matters as "a list of factors that FairPoint should consider as it approached the transaction, an evaluation of what the transaction would mean for FairPoint, [and] a valuation of the Verizon [northern New England service areas]" may well be important to a party's evaluation of the transaction itself.

As noted above, on June 27, 2007, FairPoint filed a decision of the NHPUC, issued on June 22, 2007, that denies access to the New Hampshire Consumer Advocate access to documents that FairPoint claims are the same or similar to those requested in this case. We have reviewed the decision. On the face of the decision, it is not obvious that its decision relates to the same materials sought by the Public Advocate here. The Public Advocate's filing on June 28 indicates that the OCA in New Hampshire sought the same materials as the Public Advocate has here. Nevertheless, the NHPUC described the information as follows:

> At issue are materials prepared by FairPoint or its outside advisors that relate to FairPoint's internal deliberations as to its negotiations with Verizon[9] and the agreement FairPoint ultimately reached with Verizon. …

This description appears to indicate that the NHPUC either was considering whether to order a different set of materials than those requested in Maine, or that it at least thought it was considering a different set of materials. Either possibility could have affected the ruling. We therefore cannot rely on the New Hampshire ruling as strong precedent for the ruling in this Order.

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[6] As discussed below, however, the extent of the need for confidentiality does come into play under 35-A M.R.S.A § 1311-A.

[7] Although it argues that the materials sought by the Public Advocate are for period prior to the agreement between FairPoint and Verizon and therefore "not relevant" or describing "hypothetical" transactions, FairPoint also states that the materials are from an "extended period covered by the request, over eighteen months from Summer, 2005 until January 14, 2007." Some of that period is quite recent, of course.

[8] In fact, the very phrasing of this argument (that later materials are "most" relevant) suggests that the materials sought by the Public Advocate, although less than "most" relevant, are nevertheless relevant in some degree.

[9] As noted above, the Public Advocate states that none of the material the OCA sought in

B. Discovery Under 35-A M.R.S.A § 1311-A(1)

As described above, FairPoint argues that the Commission's decision in the *BHE/Emera* case also requires nondisclosure of the investment advisor information at issue in this case. That decision was issued pursuant to Section 1311-A (2) (an appeal from a protective order issued by a hearing examiner). Section 1311-A (1) applies to the issuance of a protective order by either an examiner or the Commission. This request by FairPoint is for reconsideration of the May 24, 2007 Procedural Order rather than any Protective Order. Nevertheless, the issues in this reconsideration request relate to the kinds of issues addressed in 35-A M.R.S.A. § 1311-A (1) – the extent to which discovery will be permitted and the extent to which protection against disclosure will be ordered. In particular, Section 1311-A (1)(F)(1) states that access to information shall be denied upon a finding that "potential for harm from disclosure of the information outweighs its probative value in the proceeding."[10] The statute specifically states that M.R.Civ.P. 26(c) governs discovery and the issuance of protective orders, but contains additional requirements such as those described above. Section 1311-A (1)(C) states that the "party requesting a protective order bears the burden of demonstrating the need for protection." Here, FairPoint in effect is seeking protection (nondisclosure) beyond any protection previously ordered in this proceeding for the material at issue.

In the *BHE/Emera* ruling, the Commission found that the requested information met the discovery standard of M.R.Civ.P. 26(c)(1). It also found, however, that the potential for harm outweighed the probative value of the requested information. It found, based on assertions by Emera about the nature of the information, that is was "highly sensitive and substantial harm may result from its disclosure." It also found that the probative value of the information was "relatively low because the Commission has the ultimate authority to set BHE's rates and can act to a large degree to assure that rates will not be any higher as a result of the merger …" *BHE/Emera* at 3. The Commission also stated "We premise our decision, in part, on representations by Emera that it is in a healthy financial condition. If it should appear in the course of these proceedings that this premise is unfounded … we might well reconsider our decision."

It is clear by now that the financial ability of FairPoint to finance this acquisition is very much an issue in this case. The Public Advocate's argument in connection with the Rule 26(c) standard (quoted extensively above in Part II) is one strong indication of that fact, and that the materials may have substantial probative value.

As described above, FairPoint argues that provision of these materials would cause it "substantial harm if the documents were made available to parties with whom FairPoint would be competing or negotiating in any number of forums." However,

[10] Section 1311-B (2), governing appeals to the Commission, contains the same standard.

other than the labor unions that are parties,[11] FairPoint does not state which other parties in the case it considers its competitors or those with whom it might negotiate or the forums in which these events might occur. The Examiner finds FairPoint's argument fairly speculative.

For the foregoing reasons, the Examiner concludes that the probative value of the information in the proceeding outweighs the potential for harm from disclosure, and denies FairPoint's request for modification of the May 24, 2007 Order.

### C. Distribution

As represented in the Public Advocate's memorandum, only the Public Advocate initially asked for access to the contested material and only the Public Advocate has pursued this matter with diligence. On June 20, 2007, after the filing of both FairPoint's request for reconsideration (June 8, 2007) and the Public Advocate's memorandum opposing FairPoint's request (June 19, 2007), the attorney for the Labor Intervenors sent an email to the Hearing Examiner. The email was also sent to all other parties, but was not filed with the Commission.[12] The email stated that the Labor Intervenors wanted their counsel and financial consultant to be provided with these materials because they "appear to be directly relevant to the financial review and analysis being conducted by Labor Intervenors' financial consultant." Labor did not, however, attempt to address FairPoint's concern about access to "competitors" and others who might negotiate with Labor in the future, with particular emphasis on the Labor Intervenors IBEW and CWA. Labor did, however, note that it was making the request at the time it did "to avoid further delays."

In the Order Denying Modification issued on June 25, 2007, the Examiner ordered FairPoint to provide Labor's financial consultant with the FairPoint financial model. FairPoint raised arguments about access by the consultant to the financial model that were very similar to the arguments it has raised in this case, in particular, that the consultant might represent the unions that are parties in this case in future labor negotiations with FairPoint. For the same reasons that we permitted access in the June 25 Order, we will permit access by the Labor Intervenors to the information at issue in this Order. We will not require FairPoint to provide this information to any other party because no other party has requested such access.

## IV. ORDERING PARAGRAPHS

[11] See discussion of the Labor Intervenors' request for these materials in Part III.C below.

[12] On June 29, 2007, the Examiner requested the Clerk of the Commission to place a copy of this email in the case file.

1. The request for reconsideration by FairPoint is DENIED, except to the extent that the requirements stated in Ordering Paragraph 2 may be construed as a limitation on the original data requests;

2. FairPoint shall provide the materials listed in its most recent Form S-4A (June 11, 2007) to the Public Advocate and to the Labor Intervenors, but to no other party;

3. Any request for reconsideration of the ruling pursuant to M.R.Civ.P. 26(c)(1) shall be filed within 5 days of the issuance of this Order, notwithstanding the 20-day time period stated in PUC Rules, Ch. 110, § 1004. The Examiner enters this order pursuant to PUC Rules, Ch. 110, §§ 103 and 1302;

4. Any appeal of the ruling under 35-A M.R.S.A § 1311-B(1) is governed by the provisions of 35-A M.R.S.A § 1311-B(2).

Dated at Augusta, Maine, this 29th day of June, 2007

BY ORDER OF THE HEARING EXAMINER

________________________________

Peter Ballou

**APPENDIX A**

**Portion of May 24, 2007 Procedural Order subject to FairPoint's motion for reconsideration:**

OPA
1-20-10: As a follow-up to OPA I-1-23, regarding presentations/ reports/workpaper/other docs from investment advisors on the transaction.

FairPoint's response refers to 1) 19 pages of Leach back-up; and 2) the 1/14/07 presentation to Board. That information is not responsive. FairPoint should provide investment advisor documents from Summer 2005 for Lehman Brothers, Deutsche Bank and Morgan Stanley pertaining to due diligence, financial projections (including cash flow), and financing strategies. (See NH FRP responses to OCA 1-15; 1-17; 1-23.)

OBJ [by FairPoint]: FairPoint Maine objects to this data request on the grounds that it exceeds the scope of a reasonable follow-up data request.

REPLY [by OPA]: This OPA follow-up request asks for investment advisor documents from three specific advisors, for one specific time period (i.e., Summer 2005).

FairPoint's representatives here in Maine stand by their objection, explaining that they are in the process of waiting to see if those investment advisor documents will be distributed in the New Hampshire proceeding.

The Public Advocate requests that the Hearing Examiner order FairPoint to provide the investment advisor documents from three specific investment advisors, for that one specific time period. Here in Maine, we should not have to wait to see if those documents will be provided to the parties to the New Hampshire PUC proceeding. Those documents certainly fall within the scope of discovery – i.e., those documents are certainly likely to lead to the admissible evidence. Hence, FairPoint should provide them.

**RULING: Sustained in part, overruled in part. FairPoint shall produce the requested presentations, reports, or memoranda made to the Board of Directors or senior management but need not produce workpapers or other documents.**

OPA
1-20-11: As a follow-up to OPA I-4-7, regarding reports, memoranda, presentations, etc. from Lehman Bros. and Morgan Stanley.

FairPoint's response stated: "See response to OPA I-1-23." That answer is not responsive. Please provide the documents, as requested.

OBJ: FairPoint Maine objects to this data request on the grounds that it exceeds the scope of a reasonable follow-up data request.

REPLY: In this follow-up the Public Advocate asks for reports or presentations by Morgan Stanley and by Lehman Brothers.

FairPoint's representatives here in Maine stand by their objection, explaining that they are in the process of waiting to see if those reports or presentations will be distributed in the New Hampshire proceeding.

The Public Advocate requests that the Hearing Examiner order FairPoint to provide the reports or presentations by Morgan Stanley and by Lehman Brothers. Here in Maine, we should not have to wait to see if those documents will be provided to the parties to the New Hampshire PUC proceeding. Those documents certainly fall within the scope of discovery – i.e., those documents are certainly likely to lead to the admissible evidence. Hence, FairPoint should be directed to provide them.

**RULING: Overruled.**

July 6, 2007

Re: DT 07-011, Verizon New Hampshire
Transfer of Assets to FairPoint Communications
Procedural Schedule

To the Parties:

On July 3, 2007, Staff filed an assented to proposal to revise the procedural schedule in the above referenced proceeding. The revised procedural schedule will provide additional time to respond to discovery requests and the preparation of testimony by intervenors, OCA and Staff. The hearings will now commence on September 20th with all other hearing dates remaining as previously scheduled.

The Commission has determined that the proposed revisions to the procedural schedule will promote the orderly and efficient conduct of the proceeding. Accordingly, the following procedural schedule will govern the remainder of the proceeding:

| | |
|---|---|
| Staff/Intervenor Testimony | 7/20/07 |
| Data Requests | 7/26/07 |
| Settlement Conference | 7/25-27/07 |
| Objections | 7/31/07 |
| | |
| Motions to Compel | 8/06/07 |
| Data Responses (unobjected) | 8/08/07 |
| Responses to Motions to Compel | 8/10/07 |
| Teleconference to Resolve Disputes | 8/14/07 |
| Data Responses (Compelled) | 8/21/07 |
| Rebuttal Testimony | 8/22/07 |
| Data Requests on Rebuttal Testimony | 08/29/07 |
| | |
| Objections | 09/04/07 |
| Motions to Compel | 09/06/07 |
| Responses to Motion to Compel | 09/12/07 |
| Teleconference to Resolve Disputes | 09/14/07 |
| Data Responses on Rebuttal (unobjected) | 09/14/07 |

| | |
|---|---|
| Data Responses on Rebuttal (compelled) | 09/18/07 |
| Hearings on the Merits | 09/20-21, 24-28/07 |
| | |
| Briefs | 10/12/07 |
| Reply Briefs | 10/31/07 |

Sincerely,

Debra A. Howland
Executive Director