Fair Point 85

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New York, March 26 (LCD) – Early markets in the new Fairpoint Communications 13.125% senior notes due 2018 indicated a firm break from syndicate. The new bonds, priced late this afternoon at 97.97 to give a yield of 13.5%, are quoted in a 98/98.5 market, according to sources.

Terms for B+/B3 rated deal, proceeds from which will fund the company's merger with Verizon's Northern New England business, were forced 200 bps wide of initial guidance, to 13.5%, amid the highly challenging market conditions, but the full $540 million was raised as planned via the slight discount on a $551 million face-value bond deal. Joint bookrunners are Bank of America, Lehman Brothers and Morgan Stanley.

The FairPoint break is one of three this afternoon, suggesting an early spring thaw of what's been a frozen new-issue market so far this year. Both others also felt aftermarket demand, with the Abitibi 13.75% notes up three points, at 103, and the Harrah's block sale of 10.75% cash-pay notes pegged at 84.25/84.75, versus the 84 print, according to sources.

The FairPoint offering netted a B+/B3 profile, with stable and positive outlooks, respectively, following an upgrade by Standard & Poor's of the company's corporate credit to BB, from BB-.

"The rating upgrade on FairPoint reflects the increased size and scale of the new company, which is expected to result in improved operating efficiencies; moderate cable modem overlap of 60-70%, which provides some medium-term protection against cable competition for voice and data services; and prospects for revenue growth by expanding DSL service in the former Verizon territories," according to S&P credit analyst Susan Madison.

"Tempering factors include significant integration risk given that post-merger the company will be almost six times larger than the legacy FairPoint operations," added Madison.

The combined company's debt to EBITDA (adjusted for one-time merger-related expenses) is estimated to be about 4.7x for 2008, according to S&P.

FairPoint Communications earlier this month received final regulatory approvals for its merger with Verizon's Northern New England business, and management said the deal now will close on March 31, sources said.

The transaction was announced in January 2007. FairPoint will issue about 53.8 million shares of its common stock to be distributed tax-free to Verizon shareholders. FairPoint's shareholders will own roughly 40% of the combined company, while Verizon's shareholders will own roughly 60%. Verizon will contribute its operations in Maine, New Hampshire and Vermont. Additional support comes from a roughly $2 billion senior secured credit. – Jon Hemingway

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