STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

(Redacted - Confidential Pages Removed)

October 23, 2007 - 9:10 a.m.
Concord, New Hampshire **Day II**

RE: **DT 07-011**
VERIZON NEW ENGLAND, ET AL:
Transfer of Assets to FairPoint Communications, Inc.

NHPUC NOV03'07 PM 5:05

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Jody O'Marra, Clerk

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Kevin M. Baum, Esq. (Devine, Millimet...)

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APPEARANCES: (C o n t i n u e d)

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I N D E X

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning, everyone. We're back on the record in docket DT 07-011, the proposed transaction between Verizon New England and FairPoint Communications. Let's start with appearances for today.

MR. McHUGH: Good morning, Mr. Chairman. Patrick McHugh, from Devine, Millimet & Branch, counsel for FairPoint Communications, Inc. With me today is Frederick Coolbroth and Kevin Baum, from Devine, Millimet. And, also sitting at counsel's table is Lee Newett, Peter Nixon, who is the President of FairPoint. And, we have Walter Leach, Executive Vice President of Corporate Development, who will be our first witness for today.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. DEL VECCHIO: Good morning, Mr. Chairman, Commissioner Morrison, Commissioner Below. Victor Del Vecchio and Sarah Knowlton, representing Verizon. And, with us at the table today is Stephen Smith, Goodwin Bennett, and Sheila Gorman, among others.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. MANDL: For the New England Cable and Telecommunications Association and Comcast Phone of New Hampshire, Alan Mandl.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. MANDL: Good morning.

MR. PRICE: Ted Price, for One Communications.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. RUBIN: Good morning. Scott Rubin, representing the Communications Workers of America and the International Brotherhood of Electrical Workers. With me at the table is our consultant, Randy Barber, and, from IBEW, Robert Erickson.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MS. HOLLEBERG: Good morning. Rorie Hollenberg, here for the Office of Consumer Advocate. And, with me today is Meredith Hatfield, the Consumer

Advocate, David Brevitz, and Kenneth Traum, the Assistant Consumer Advocate.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MS. FABRIZIO: Good morning. Lynn Fabrizio, for Staff. With me today at the table, John Antonuk and Randy Vickroy of Liberty Consulting, and Kate Bailey and David Guyette of Staff.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

CHAIRMAN GETZ: Well, before we turn to the testimony of Mr. Leach, one procedural issue. We had filed yesterday afternoon, by FairPoint, a motion for a partial reconsideration concerning the filing of settlement agreements. And, my understanding of this letter or this motion is with respect to the CLEC settlement agreements, not to the Electric, NHTA, or NHLA, that's correct, Mr. McHugh?

MR. McHUGH: Yes, Mr. Chairman. And not the CLEC coalition settlement agreement that was filed as a joint stipulation for the record.

CHAIRMAN GETZ: And, then, we'll set

close of business Friday for any responses that anyone wants to file to this motion. And, then, we'll have a decision in advance of the hearings that are scheduled for next Wednesday. Otherwise, I might not have anything to do over the weekend, if I didn't have a motion to consider.

Are there any other procedural issues that we need to address before we start today?

MS. HOLLENBERG: Good morning. I would just like to inquire as to whether -- excuse me, when the record requests are going to be returned that were discussed yesterday, and that probably will be discussed throughout this hearing? Some of them may be relevant to cross of witnesses.

CHAIRMAN GETZ: Mr. McHugh? Mr. Coolbroth?

MR. McHUGH: We haven't talked about it.

MR. COOLBROTH: By tomorrow morning --

CHAIRMAN GETZ: Well, during a break, why don't we have a conversation --

MR. McHUGH: That's what I was going to say.

CHAIRMAN GETZ: -- and we could report back later in the day.

MR. McHUGH: That would be fine. Thank you.

CHAIRMAN GETZ: Anything else, before we turn to Mr. Leach?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then if you could proceed, gentlemen.

MR. McHUGH: Mr. Leach.

(Whereupon **Walter E. Leach, Jr.**, was duly sworn and cautioned by the Court Reporter.)

WALTER E. LEACH, JR., SWORN

DIRECT EXAMINATION

BY MR. McHUGH:

Q. Good morning, Mr. Leach. Could us please state for the record your full name and title with FairPoint, please.

A. Walter Elliot Leach, Jr., Executive Vice President of Corporate Development.

Q. And, business address please, Mr. Leach?

A. Charlotte, North Carolina.

Q. And, are you the same Mr. Leach who prefiled direct testimony on behalf of FairPoint Communications on March 23, which we premarked as "Exhibit 8P" for the public version and "8C" for the confidential version?

A. Yes.
Q. And, Mr. Leach, did you also prefile rebuttal testimony on behalf of FairPoint Communications on September 10 of 2007, which we've premarked as Exhibit "FairPoint Exhibit 9P" for the public version, "9C" for the confidential version, and "9HC" for the highly confidential version, sir?
A. Yes.
Q. And, we -- or, did we file on your behalf an errata sheet last week to certain of your prefiled rebuttal testimony, Mr. Leach?
A. Yes.
Q. With that errata sheet, are there any updates or corrections to either your direct testimony or your prefiled rebuttal testimony?
A. Yes, there is one change. And, this is on the rebuttal testimony, referencing the errata sheet that was filed last week. Basically, we corrected one page, Page 88 of the prefiled rebuttal testimony, and we effectively eliminated one sentence that was incorrectly carried over from our Maine filing, and was not applicable to the New Hampshire filing. So, that sentence is Lines 17 and 18 on Page 88.
Q. And, actually extends down through part of 19, sir, is

that correct?
A. That's correct.
Q. Okay. Any other corrections or updates, Mr. Leach?
A. No.
Q. With that, do you adopt your prefiled direct and your prefiled rebuttal testimony as your own, sir?
A. Yes, I do.

MR. McHUGH: The witness is available for cross-examination, Mr. Chairman.

CHAIRMAN GETZ: Okay. Thank you. Mr. Price?

MR. PRICE: No questions at this time.

CHAIRMAN GETZ: Mr. Mandl?

MR. MANDL: I do have questions, but during our earlier discussion we discussed some other parties preceding me.

CHAIRMAN GETZ: Okay. Would someone like to illuminate the Bench on the order of cross that's been agreed to?

MS. FABRIZIO: Mr. Chairman, Mr. Rubin has agreed to go first, followed by Mr. Mandl, and then Ms. Hollenberg and myself.

CHAIRMAN GETZ: Okay. That's fine. Mr. Rubin.

MR. RUBIN: Thank you, Mr. Chairman. Good morning, Mr. Leach.

WITNESS LEACH: Good morning, Mr. Rubin. Nice to see you again. And, I'll try to keep my voice up.

CROSS-EXAMINATION

BY MR. RUBIN:

Q. Could you turn in your rebuttal testimony to Page 92. And, I can't see much except your head. So, if you could just let me know when you have it, that would be great.

A. I have it.

Q. Now, beginning on this page and carrying over through Page 94, you discuss FairPoint's discontinued CLEC operation. At its peak, was your CLEC operation about twice as large as FairPoint's largest single telephone subsidiary?

A. Yes, it was.

Q. At the time of its existence, was the CLEC business the only FairPoint business that was separately reportable for financial reporting purposes?

A. I believe that's correct, yes.

Q. And, did that CLEC business account for more than 50 percent of FairPoint's capital expenditures in the year 2000?

A. I believe that's true, yes.

Q. And, did FairPoint lose in excess of $200 million on that business?

A. I believe that's true, yes, sir.

Q. All right. Now, if you could turn to Page 71 in your rebuttal. On roughly Lines 5 through 7, you say that "FairPoint's projected capital expenditures as a percentage of depreciation and amortization is increasing" so that it would be "77 percent by the year 2015." Do you see that?

A. Yes, I do.

Q. Is that ratio increasing because your capital expenditures are increasing or is the ratio increasing because the amount of depreciation and amortization is decreasing?

A. It's the latter.

Q. Okay. And, in fact, you project that for, well, I'll refer to this as "Spinco", which is the Northern New England operation. Are we okay with that?

A. Yes, sir.

Q. Okay. So, for Spinco, you project your capital expenditures will actually decline in each year after 2009, don't you?

A. Well, it depends on how you look at it. They actually increase as a function of access lines, which we think is a more relative term.

Q. Okay. But, in terms of the ratio you present, the "77 percent" on Page 71 of your testimony, that's looking at total capital expenditures and total depreciation and amortization expense, right?

A. That's correct.

Q. So, just looking at the way you calculated that ratio, if we look at the numerator, the capital expenditure part of it, that figure is decreasing each year after 2009, is that correct?

A. That's correct.

Q. And, would you accept subject to check that, from 2009 through 2015, there's about an 8 percent decline in capital expenditures over that time period?

A. Again, I think the relevant response is, based on access lines, there's a substantial increase over time. That's how I would answer a more meaningful question. The answer to your question is "yes".

Q. Yes, I'd appreciate it if you'd answer the question I asked, instead of the one you wished I asked, because we've got a lot to cover today. And, again, looking --

CHAIRMAN GETZ: Excuse me. I mean, if you just reverse the order, that would be acceptable as well. "Yes, but" is fine.

WITNESS LEACH: I understand.

MR. McHUGH: Thank you, Mr. Chairman.

BY MR. RUBIN:

Q. And, you project that your depreciation and amortization expense is declining at a much faster rate than your total capital expenditures are declining, is that right?

A. That's correct.

Q. And, again, if we compare 2009 to 2015, would you accept subject to check that there's about a 30 percent decline in total depreciation and amortization expense?

A. Subject to check I would accept that, with the "but" being that a large part of that drop in depreciation is based upon a prior expense -- expenditure that Verizon made that they have stopped making, in terms of the FiOS business, so that tends to color pretty dramatically the drop in depreciation.

Q. All right. But, in terms of your testimony, where you say "oh, look this ratio is increasing", it's increasing because you have a -- let's call it a modest decline in capital expenditures, and a pretty steep decline in depreciation and amortization expense?

A. That's correct.

Q. Still in your rebuttal, could you turn to Page 99. And, on Lines 16 through 18, you state that "Any restriction on the transfer of funds from the New Hampshire operation to FairPoint, the parent company, would not be acceptable to the Company's lenders." Do you see that?

A. Yes.

Q. Now, in your testimony on this point, were you providing or are you providing a legal opinion as to the meaning of the agreement between FairPoint and its lenders?

A. Here I am providing the basis upon which our discussions with the lenders were tied. So, this is the business arrangement that was verbally agreed to with the lender group, as versus a strict legal interpretation of any document.

Q. Okay. And, in fact, as of today, you don't have a final form of the agreement that you will have with your lenders, is that right?

A. As of today, we have a commitment letter, a pretty thorough commitment letter, but the loan agreements have not been finalized yet. That's correct.

Q. All right. So, just so we're clear though, you're not -- in your testimony here, you're not providing a legal opinion as to what that commitment letter might mean, is that right?

A. That's correct.

Q. And, just so we're clear, I will have other questions for you about this. I want your opinion about those questions to be rendered in the same way as the opinion in your testimony, not a legal opinion, but based on your dealings with the lenders. And, do you understand that?

A. Yes, sir.

Q. Okay. Do you, in front of you, hopefully, is a stack of exhibits from the Labor intervenors. There's a cover sheet and then a number of exhibits underneath it. Do you see that up there?

A. Yes, I do.

Q. And, if you could look at Labor Exhibit 4C. And, just so we're clear, that "C" means that parts of the document are confidential. First, is this a copy of the commitment letter with your lenders that you were just referring to?

A. It does appear to be so, yes, sir.

MR. RUBIN: And, just to establish on the record my understanding of what's confidential and what isn't, and I'll ask you and/or your counsel to verify that. My understanding is that the commitment letter itself is a public document. I believe that was even filed with the Securities and Exchange Commission. But the term sheet, which is labeled "Exhibit A", and begins on the page that's Bates stamped TRANS, T-R-A-N-S, 0473 --

CHAIRMAN GETZ: Excuse me, Mr. Rubin. I don't believe we have copies of these documents to which you're referencing.

MR. RUBIN: Oh. I gave them all to the reporter. I'm not sure where they went from there. I'm sorry, that was my mistake.

CHAIRMAN GETZ: So, these are not confidential documents?

MR. RUBIN: Well, this document, the first portion of it, through Page 472, is not confidential; from Page 473 on is confidential. That's my understanding.

MR. McHUGH: And, FairPoint concurs with that assessment.

CHAIRMAN GETZ: All right. Then, you just need to --

MR. McHUGH: Separate, that's what I was going to ask, Mr. Chairman.

CHAIRMAN GETZ: But you have to give us

a heads-up when you're going to go into confidential material.

MR. RUBIN: Yes. And, my cross is divided into three portions. This -- What I'm asking Mr. Leach about concerning this document is not confidential, even though a portion of the document is confidential.

CHAIRMAN GETZ: Okay. Thank you. Please proceed.

BY MR. RUBIN:

Q. Mr. Leach, can you show us where in this commitment letter and the attachments it says that there should not be any restrictions on the transfer of funds from subsidiaries to FairPoint, the parent company?

A. To save time, could you direct me to where you think that is or do you want me to just look through the document for that?

Q. Frankly, I read through this and I could not find it. If there's a place in here where there is such a restriction, I'd appreciate it. I'd note that there's a list of negative covenants that begins on the bottom of page, again using the bottom page numbers, it's Page 0479, and carrying over to the next page. That's where I thought there would have been such a restriction, but I didn't see it there. So, I'm asking you, is there something in here where it says that you cannot have any restrictions on the transfer of funds from your subsidiaries to the parent company?

A. I will need to take some time and look through this.

MR. McHUGH: Mr. Chairman, maybe to speed things up, maybe we can take this as a record request and provide a response?

CHAIRMAN GETZ: Well, either that, or after a break.

MR. McHUGH: That's fine. Just to keep the process moving.

CHAIRMAN GETZ: Yes, let's keep this moving then. And, we'll get back to your question after the first morning recess, I presume would be enough time to review it?

MR. McHUGH: I think that would be fine, Mr. Chairman.

MR. RUBIN: All right. That's fine.

BY MR. RUBIN:

Q. Mr. Leach, in your existing credit agreement with lenders, is there a similar type of provision that restricts the transfer of funds from subsidiaries to the parent company?

A. As a legal response, I do not know the answer to that.

And, I know the bank group essentially expects to be in that position. But I do not know what the official agreement contains.

Q. Okay. And, in fact, when you were asked about this in, I believe, in both Vermont and Maine, you referred to language in your existing credit agreement that you think has a similar condition to what would be in your new credit agreement. Do you recall that?

A. I'll trust -- I'll trust you with that conclusion. I don't recall.

MR. McHUGH: No, no. Yes, I want to be clear. If you don't recall, answer you "don't recall", or we could check.

BY THE WITNESS:

A. I don't recall.

MR. McHUGH: That's fine.

WITNESS LEACH: Okay.

BY MR. RUBIN:

Q. And, Mr. Leach, could you look at Labor Exhibit 5P. And, again, so you're clear, that "P" means this is a public document.

A. I have it.

Q. And, will you accept that this document contains excerpts from your existing credit agreement with your

lenders?
A. It appears to be so, yes, sir.
Q. And, what I've copied here, after the cover page and list of contents, is Section 7 of the agreement, which has all of the negative covenants. Do you see that? It's the numbering from, I guess, from what was filed with the Securities & Exchange Commission, is Page 54, and then continuing on for, I guess, through Page 70.
A. I see that, yes, sir.
Q. Could you turn to, again, using that numbering, to Page 68 in that document. And, in the paragraph that's labeled "(b)" on that page, I see language that talks about there being "no restrictions on transfers from subsidiaries to the parent". Do you see that?
A. I need to take a minute to review it.
Q. Sure. Please do.
A. Okay. Would you repeat the question please.
Q. Yes. I asked if, in this paragraph, there is language that talks about there being "no restrictions on transfers of funds from subsidiaries to the parent company"?
A. There does appear to be such language, yes.
Q. And, would it also -- would I also be correct that there's a list of ten exceptions to that?

A. That appears to be true, yes.
Q. And, the first exception, for example, is for prohibitions or restrictions that exist by reason of applicable law, is that right?
A. Actually, I think that's (ii). Does that mean it's the second versus the first?
Q. Yes, I think you're right.
A. Okay.
Q. But, in any case, that is in there, is that right?
A. Yes, it is.
Q. Mr. Leach, this credit agreement was entered into back in February of 2005, is that right?
A. I believe that's true, yes.
Q. And, at that time, what was your position with FairPoint?
A. The Chief Financial Officer.
Q. As Chief Financial Officer at that time, did you have a role in negotiating this agreement?
A. Yes, I did.
Q. Was this financing transaction part of the recapitalization of FairPoint that included an initial public offering?
A. Yes, it was.
Q. And is this agreement also referred to in various

places as your "Senior Credit Agreement" or "Senior Credit Facility"?

A. Believe that's correct, yes.

Q. Now, in your capacity as Chief Financial Officer back in 2005, did you voluntarily agree with any state regulatory commission to restrictions on dividend payments from any of your operating subsidiaries to your parent company?

A. Yes, we did.

Q. And, would I be correct that you filed an application before the Illinois Commerce Commission for approval of the initial public offering and related transactions back in 2004?

A. That's correct.

Q. And, in May 2004, the Illinois Commission issued an order approving the recapitalization, with certain conditions. Do you recall that?

A. Yes, that's correct.

Q. And, were you a witness in that case?

A. I believe I was, yes, sir.

Q. All right. If you could look in your exhibit packet, the next document should be Labor Exhibit 6P, which is a copy of an order of the Illinois Commerce Commission issued in May 2004. Have you seen that before?

A. Yes, I have.

Q. Now, could you turn to Page 6 of that order.

A. I'm there.

Q. And, in paragraph -- I guess the paragraph numbered "6", would you agree with me that the Illinois Commission adopted a condition that prohibits the FairPoint companies in Illinois from paying dividends to the parent if certain service quality standards are not met? Is that a fair summary of what's there?

A. That's a fair summary, with the "but", if I might. We agreed in this case that this was an acceptable condition, because it refers to quality of service kind of parameters that were historically very easy to meet. We believe they would continue to be very easy to meet and didn't create any practical constraint in terms of ultimate cash flows going to the operating company up to the parent. And, number two, the companies in Illinois are very small, less than 10,000 access lines in total, so it represented a very insignificant part of the organization, which also, as a practical matter, didn't cause us or the lenders any concern because of the size of the companies involved.

Q. Okay. Would I be correct that FairPoint voluntarily agreed to these restrictions?

A. Yes, we did.

Q. Now, this order was issued in May of 2004, but, as we discussed a moment ago, the refinancing and initial public offering didn't take place until February 2005, is that right?

A. That's correct.

Q. Do you remember if FairPoint filed before the Illinois Commission to reopen the record in that case, because the specific method of financing had changed?

A. I do not recall.

Q. Okay. The next document in your packet, Labor Exhibit 7P, is an affidavit dated December 20, 2004, that at least purports to be an affidavit from you, with your signature and all of that. Do you recognize this?

A. Yes, I do.

Q. And, would I be correct that, as Chief Financial Officer of FairPoint at that time, you voluntarily agreed to be bound by all of the conditions in the May 2004 order?

A. That's correct.

Q. And, did the Illinois Commission accept your representations and approve the recapitalization with these and other conditions?

A. Yes, they did.

Q. And, is a copy of that order issued by the Illinois Commission in January 2005 the next document in your packet there, Labor Exhibit 8P?
A. It does appear to be so, yes.
Q. Okay. And, can you turn to Page 9 of that order? And, I guess the indented text there, under -- well, do you see the heading "Credit Facility Agreement"?
A. Yes.
Q. Would I be correct that, in this order, the Illinois Commission added an eighth condition that concerns any restriction or negative covenant in the credit agreement that concerns FairPoint's ability to make capital expenditures?
A. That's correct.
Q. And, this ties -- or, this states that the credit agreement should allow FairPoint to spend at least 30 percent of its EBITDA, E-B-I-T-D-A, on capital expenditures, is that right?
A. That's correct.
Q. And, in fact, your existing credit agreement has such a restriction, but allows you to spend up to 37.5 percent of EBITDA. Do you recall that or --
A. Yes, I do.
Q. Okay.

A. That's correct.
Q. Now, Mr. Leach, earlier this year FairPoint filed again with the Illinois Commerce Commission for approval of a change in control of FairPoint, the parent company, that would occur as a result of the proposed Northern New England transaction, do you recall that?
A. Yes, I do.
Q. And, again, were you a witness in that case?
A. I believe I was, yes, sir.
Q. And, in your testimony in that case, did you explain how these existing conditions would help meet the Illinois standards for approving a change in control?
A. Would you repeat the question please?
Q. Yes. I said, in your testimony in Illinois earlier this year, did you explain how the existing conditions, in the order we've just been looking at, would help FairPoint meet the Illinois standards for approving a change in control?
MR. McHUGH: I'm sorry, Attorney Rubin, do you have a copy of that produced as an exhibit or are you just asking generally?
MR. RUBIN: I'm asking if he recalls. I do have a copy of his testimony. I was hoping we wouldn't have to go there. And, the next exhibit is a copy of the

Illinois Commission's order approving FairPoint's application earlier this year.

MR. McHUGH: If you recall, Mr. Leach. That wasn't part of the question, I don't believe.

BY THE WITNESS:

A. I'm sorry, I really do not recall.

BY MR. RUBIN:

Q. All right.

A. I just don't recall.

CHAIRMAN GETZ: And, the order, Exhibit Number 9, appears to summarize in great length what Mr. Leach testified to at that proceeding. Is that correct, Mr. Rubin?

MR. RUBIN: That is correct, Mr. Chairman, yes. And, I thought that that might be a better approach, than actually going through his fairly lengthy testimony in Illinois.

MR. McHUGH: And, that would be fine, Mr. Chairman. Referring to this document, that's fine.

BY MR. RUBIN:

Q. Mr. Leach, do you have Labor Exhibit 9P?

A. Yes.

Q. And, would you accept that this is a copy of the order issued by the Illinois Commerce Commission in June of

2007 approving the change in control of FairPoint, the parent company?

A. Yes.

Q. And, would you also agree with me that the Illinois Commission required FairPoint to continue to be bound by the conditions that were imposed in 2005, except for one condition that expired after one year?

A. I believe that's correct, yes.

Q. And, Mr. Leach, other than these Illinois -- or, in the Illinois case we've been discussing, have there been any other cases, since the recapitalization of FairPoint in February 2005, where FairPoint agreed to restrictions on the level of dividends an operating company could pay up to the parent company?

A. There has been one other situation, again, a very small company, that had similar kinds of conditions. I actually don't remember the timing, whether that was before or after '05, but, if you have the documents here, we could quickly confirm that.

Q. Sure. It should be the next document in your packet, Labor Exhibit 10P is an order from the New York Public Service Commission. If you see up in the upper right-hand corner, it's dated "March 16, 2005". It concerns FairPoint's acquisition of Berkshire Telephone

Corporation. Is this what you were referring to?
A. Yes.
Q. And, with a date of March 16, 2005, that was about one month after the initial public offering and your entering into the Senior Credit Agreement?
A. That's correct.
Q. Okay. Are you familiar with this transaction and with the order of the New York Commission?
A. Yes, sir.
Q. And, at the time of this transaction, were you still the Chief Financial Officer of FairPoint?
A. Yes.
Q. Could you turn to Page 13 of that order. And, beginning on this page, and going on for a few pages after that, would you agree with me that the New York Commission approved the acquisition, but with a number of conditions?
A. Yes.
Q. And, if you look at, on Page 14, the paragraph number 7, and if you'd like a minute to review that, just tell me and I'll stop talking here.
A. Please, let me review it.
Q. Okay. And, just like me know when you're ready.
A. Okay.

Q. Would you agree with me that this paragraph limits the ability of Berkshire and FairPoint's other New York operating companies to pay dividends to the parent company, if certain service quality standards are not met?

A. The answer to that is "yes", with the additional clarification that this refers to meeting a service quality standard, which again historically had been very easy to meet, and we had no expectation that it would be difficult to meet going forward. And, in fact, there was also an "extraordinary event" out, if there was an extraordinary event that caused a service disruption or caused us to meet -- miss the metrics, that could also be dealt with separately. So, as a practical matter, this doesn't have any impact on our -- any meaningful impact on the cash flow being encumbered from the Company up to the parent. As a technical matter, he is correct.

Q. Okay. And, nevertheless, it does provide a form of we can call it a "safety net" maybe, some assurance that your service quality will not decline substantially, because there would be a financial restriction or penalty associated with that. Is that true?

A. There would be a financial impact associated with that,

that's correct.
Q. Okay. And, if we look at the next few paragraphs in this order, paragraphs 8 through 11, and, again, if you'd like to take a minute to review those quickly, that's fine.
A. I would. [short pause] Okay.
Q. Would you agree with me that these paragraphs restrict Berkshire's dividend payments to being no more than the difference between EBITDA and 100 percent of depreciation expense, unless Berkshire sets aside a certain amount of funds in reserve? I hope that's an accurate characterization. If not, if you could correct me, that would be fine.
A. The restrictions in Paragraph 8 and 9 do relate to depreciation reserves. So, that part is correct. The practical answer here is in Condition Number 10, which says specifically "The dividend provisions established in clauses 8 and 9 are suspended", i.e. they don't play a role, to the extent that we basically set aside funds in a separate account to cover future capital expenditures, which is what we did. That was a fairly insignificant amount, and it basically allowed us to ignore Items 8 and 9 as a way to also assure that this didn't have any meaningful impact on our ability to

move funds from the Company up to the parent.

Q. Okay. And, then, just to sort of complete what's here, in paragraph 11, the Commission said "well, and none of that applies if the parent company has an investment grade bond rating"?

A. That's correct.

Q. At any time since this order was issued in March of 2005, has the parent company obtained an investment grade bond rating?

A. No.

Q. Did FairPoint accept these conditions and complete the acquisition of Berkshire Telephone Company?

A. Yes, we did.

Q. In your opinion, as the Chief Financial Officer at that time, did this order violate the Senior Credit Agreement?

A. We concluded it did not.

Q. And, the same question as to the Illinois orders. Did you conclude, as Chief Financial Officer at that time, that those orders violated the Senior Credit Agreement?

A. We concluded it did not.

Q. All right. I'd like to change to a different topic. If you could turn back to Labor Exhibit 5P, the excerpt from your existing credit agreement. And, it's the very last page of that exhibit. If you just turn to the -- you know, just flip the whole exhibit over. It's labeled "Annex IV", the heading is "ERISA Section 3(2) Pension Plans subject to Title IV". Do you have that page?

A. Yes, I do.

Q. Would I be correct that this page shows all of FairPoint's pension plans as of February 2005?

A. Yes.

Q. And, as I read this, it shows that FairPoint, at that time, did not have any active pension plans for its employees. Is that accurate?

A. That's accurate.

Q. But there are a number of inactive plans, plans that used to cover some group of employees that have been terminated. And, that's what's listed on this page, is that accurate?

A. That's correct.

Q. Were all of those plans terminated right around the time of FairPoint's acquisition of those companies? If you know?

A. I would say, as a general rule, when FairPoint completed acquisitions, the sellers typically knew they could get a higher price if there was no pension plan in place. So, as a general rule, the pension plans were announced or the intention to terminate those plans was typically made by the seller as part of his decision running a family business to sell the operations. So, as a result of that, they typically would be terminated either right before or right after the acquisition occurred.

Q. All right. And, just to be clear, the answer to my question was "yes", and then you provided the explanation, is that right?

A. Yes, sir.

Q. Okay. It would help us if you could do that.

A. Okay. I'll try.

Q. If we were to update this page as of today, does FairPoint have any active pension plans today?

A. I do not believe we do, no.

Q. And, do you know if, in the last two and a half years or so, are there other pension plans that would be listed as "terminated plans"?

A. I believe we did three acquisitions in 2006, and I believe one of those fit the description that I described earlier, where the controlling shareholders concluded, to get the best price for that property, they concluded that they would terminate the pension plans. So, that would be one of the three acquisitions we did in 2007, yes. I'm sorry, 2006.

MR. RUBIN: Yes. Mr. Chairman, that concludes my public questions for the witness. I have a line of questioning that's confidential, and then a number of questions that are highly confidential. So, however you would like to proceed.

CHAIRMAN GETZ: Well, do I assume correctly that other examiners will have areas that are confidential or highly confidential?

MS. HOLLENBERG: Yes.

MS. FABRIZIO: Actually, Staff does not, for Mr. Leach.

CHAIRMAN GETZ: Okay. Well, let's continue with Mr. Rubin then and move into the confidential portion of the hearing. Or, is there some other preference that the parties have?

MS. HOLLENBERG: I'm just wondering if, is NECTA going to have public after Labor's confidential? I mean, it would make sense if we moved from confidential labor to confidential OCA, and then I could do public OCA after that. But I just wondered about NECTA/Comcast.

CHAIRMAN GETZ: Well, Mr. Mandl, what's the substance of your inquiry? Is it confidential or public?

MR. MANDL: I expect it will be public. I have one area where I just want to confirm with FairPoint counsel that certain questions will be okay on the public record. But it's basically public.

MS. HOLLENBERG: And, if I could just make one other comment. It may be better to do my public before confidential, because there are times when I will refer to a confidential or highly confidential exhibit, but not ask questions about the -- specific questions about the specific content, but the witness may feel like they need to go into a confidential record because of that, which we would have to redo at the end, so -- if I did my confidential first. Does that make sense?

CHAIRMAN GETZ: You mean your public first?

MS. HOLLENBERG: If I did my confidential first, and then did my public with questions that the witness might perceive as confidential or FairPoint might perceive as confidential, I would have to do another confidential section at the end.

CHAIRMAN GETZ: Okay. Let's move to Mr. Mandl, and see if we can conclude his public inquiry.

MR. MANDL: Good morning, Mr. Leach.

WITNESS LEACH: Good morning.

BY MR. MANDL:

Q. I'd like to refer you to your direct testimony, at Pages 19 to 20.

A. This is direct and not rebuttal?

Q. Direct prefiled testimony.

MS. BAILEY: What page, Alan?

MR. MANDL: I'm starting at Page 19.

BY THE WITNESS:

A. And, this is Page 19 of 110?

BY MR. MANDL:

Q. I believe it's your direct testimony. I have a -- I'm working off of a public version, which consists of 46 pages. So, --

A. Page 19. Yes, sir. I have it in front of me.

Q. All right. On Page 19, you begin to discuss the financial projections that FairPoint performed as part of its due diligence, is that correct?

A. Yes.

Q. And, if we could turn to Page 20. Now, you indicate that you developed a financial model through the year 2015, is that correct?

A. Yes.

Q. And, you also indicate that that model focused on a

five-year projection period?
A. Yes.
Q. What were the five years that were focused on?
A. That would have been the first five years following the acquisition. So, '08, '09, '10, '11 and '12.
Q. All right. Thank you. During that five-year period covered by the financial model, did FairPoint assume any increases in existing Verizon rates for telecommunications services?
A. No.
Q. And, would that statement apply to both retail and wholesale telecommunications services?
A. Yes.
Q. Would I also be correct that FairPoint assumed no increases in pole attachment rates in its financial model?
A. That's correct.
Q. I'm going to refer you to a confidential exhibit. I do hope to avoid any need to get into confidential information. There was a packet previously made available for FairPoint, which included a NECTA/CPNH Exhibit 6C.
A. I do not have it.
(Atty. McHugh handing document to the

witness.)

BY THE WITNESS:

A. Do you have Exhibit 6C?

BY MR. MANDL:

Q. Yes. I have just a couple of basic questions about this, so hopefully we can go quickly. With regard to the financial model discussed in your testimony, does Exhibit NECTA Exhibit 6C contain the financial projections that you reference in your testimony?

A. It appears to be so, yes, sir.

Q. And, am I correct that the financial projections in this exhibit are on a three-state basis?

A. They are on a consolidated basis representing all three states, the existing FairPoint operations today and all related corporate overhead.

Q. All right. Actually, there is a -- the documents are Bates stamped. So, I can refer you to Page "CFPNH 0007", which contain some stand-alone Spinco projections. Now, with regard to the stand-alone Spinco projections, you've included revenue projections in that portion of the document?

A. Correct.

Q. And, within the revenue projections for the stand-alone Spinco, if I could refer you to Page -- the Bates stamped page is "CFPNH 0013". Would the revenues listed on that page be what you consider the wholesale revenues for the stand-alone Spinco operation?

A. It certainly includes the -- what would appear to be the bulk of the wholesale revenues. I'm not sure if it's a perfect fit, but it represents the bulk of that, yes.

Q. I had a couple of questions for you on the types of revenues that are covered by certain line items. I don't want to get into any actual numbers, but there are types of services that are listed. And, I wanted to try to get an understanding of what services were included under a couple of those items. And, I just want to know if you would consider that confidential or if that would be all right to discuss on a public record?

A. I believe, without the numbers, it would be okay to discuss what's in the categories.

Q. One of the categories is listed as "interconnection". Can you tell us what services would be covered by that category?

A. I believe that's revenue generated by interconnection agreements with the wholesale customers.

Q. And, how does that compare to the line item described as "unbundling"?

A. The "unbundling" would, I believe, relate to the sale of unbundled elements to CLECs who are providing service to customers over the Verizon network.

Q. All right. Just a final area. Would you agree that FairPoint has not ruled out seeking an alternative form of regulation in New Hampshire during the five year -- the first five years of your financial model?

A. Would you repeat the question please?

Q. Would you agree that FairPoint has not ruled out seeking an alternative form of rate regulation in New Hampshire between 2008 and 2012?

A. We have not ruled that out.

MR. MANDL: Thank you. That completes my cross for Mr. Leach. Thank you.

CHAIRMAN GETZ: Thank you. I'm afraid I have to go back over this ground again, because I got a little lost the last time. That your recommendation, Ms. Hollenberg, was --

MS. HOLLENBERG: Well, the way I drafted my public questions, I have referred to some exhibits that are either confidential or highly confidential, but I do so, as Mr. Mandl did with that confidential exhibit, I don't ask about specific numbers. However, I do not know what the witness's answers are going to be. So, he may want to get into confidential information.

CHAIRMAN GETZ: But what's your proposal?

MS. HOLLENBERG: Okay. Public first, for the OCA.

CHAIRMAN GETZ: Okay. Let's do that.

MS. HOLLENBERG: Okay. Thanks. Sorry about that. Good morning.

WITNESS LEACH: Good morning.

MS. HOLLENBERG: I hope you had a better night's sleep last night than I did.

WITNESS LEACH: Sounds like I did.

MS. HOLLENBERG: Actually, the first issue that I would like to take up before starting questioning is Mr. Leach's testimony, his rebuttal testimony, referred to in two places to the testimony of a witness in Vermont. And, those places are Page 26, lines 19 to 23, and Page 75, lines 20 to 21. And, again, it goes into Page 76, lines 1 to 5 and lines 7 to 11. And, I would object to those statements being included in this record. This witness from Vermont is not available to me for cross-examination. And, therefore, I do not believe that it is appropriate to have his statements included in this record.

MR. McHUGH: It's the first -- I'm sorry, Mr. Chairman. It's the first we heard of the objection to this by the OCA. So, we don't agree to voluntarily remove it. It was part of Mr. Leach's explanation of his testimony for the statements made therein, and she can cross-examine Mr. Leach on why he made them.

MS. HOLLENBERG: The point is that I'm not able to cross-examine the witness he's quoting. And, that would be -- I think that FairPoint would take the same position if I inserted another person's testimony in one of my witness's testimony.

CHAIRMAN GETZ: Are you taking the position that you can't conduct your cross today without a ruling on that?

MS. HOLLENBERG: No, sir, I'm not. I'm just moving to strike those specific portions of his testimony.

CHAIRMAN GETZ: Okay.

(Chairman and Commissioners conferring.)

CHAIRMAN GETZ: All right. We'll handle that this way. We'll take the matter under advisement and give the opportunity for a response. I don't know if your preference is oral or written. But at least make sure, I think you've got most of the page and line numbers in the record, but let's make sure we have the -- we're clear about which exactly it is. It looks like it's Mr. Wheaton primarily --

MS. HOLLENBERG: Yes.

CHAIRMAN GETZ: -- that you're objecting to?

MS. HOLLENBERG: Yes.

CHAIRMAN GETZ: Okay. All right. Well, then, do you have a preference at this point, Mr. McHugh or Mr. Coolbroth, on how or when you can respond?

MR. McHUGH: We can do it orally, after talking with Mr. Leach and maybe after the direct examination of Mr. Leach, Mr. Chairman.

CHAIRMAN GETZ: Okay. We'll do that then.

MS. HOLLENBERG: Thank you.

CHAIRMAN GETZ: Please proceed.

MS. HOLLENBERG: Thank you. Good morning again.

CROSS-EXAMINATION

BY MS. HOLLENBERG:

Q. You responded to some data requests in this proceeding,

did you not?
A. Yes.
Q. And, are those responses up-to-date as of today's date?
A. They certainly were up-to-date as of the date we made the response. I'm not sure I can answer, in every single case, they're up to speed with today's date.
Q. So, it's possible that some of the responses are not -- have not been updated with -- if a circumstance has changed, that the response has not been updated or would you have updated if any change in circumstances occurred?

MR. COOLBROTH: Mr. Chairman, we understand fully the Commission's rule regarding updating data responses. We'd ask the Commission to have in mind that we've provided, the last count I had from my secretary, 2,346 data responses in this case. And, it has been our endeavor throughout this to follow the Commission's rule, and within the confines of that kind of a requirement in this case, to do the best we could. Just wanted to have that stated for the record.

MS. HOLLENBERG: And, I certainly appreciate the Company's activities in this case to answer the responses to data requests. But I am having to cross-examine a witness that may not have completely responded up-to-date with his data responses. And, my question is, am I starting with all the information that the Company needs to provide me at this point?

CHAIRMAN GETZ: And, your answer, Mr. Leach, is?

WITNESS LEACH: Would you repeat the question please?

MS. HOLLENBERG: Sure.

BY MS. HOLLENBERG:

Q. I'm just wondering, as Mr. Coolbroth mentioned, there is a rule that requires the responses to data requests to be updated as circumstances change. And, I do appreciate that there have been a number of data requests propounded on FairPoint. I'm wondering if your responses to those data requests that you supplied to the parties in this case are up-to-date?

A. And, my hesitancy was just based upon the absolute number of responses. In general, I would answer that question "yes". To the best of my knowledge, they're generally up-to-date.

Q. Thank you. Mr. Leach, I think you have a packet of information on the desk related to the OCA's exhibits. And, I would just like you to take a look at the first exhibit, which is Exhibit -- OCA Exhibit 40P, and that

is a response to -- FairPoint's response to OCA Rebuttal Data Request 26. Do you recognize that data response?
A. Yes.
Q. Okay. And, you're asked in that data response -- or, data request about rates basically. And, I think there -- and you're asked in Subsection (a) what your commitment is for capping existing basic rates. And, your response to that is -- I'm sorry, I'm referring to Subsection (b). You've made a commitment in your testimony to cap basic rates for a year, is that correct?
A. That's correct.
Q. And, when asked in Subsection (b) how that commitment compares to the commitments made in Vermont and Maine, you responded that the commitments are generally similar to those made in Vermont and Maine?
A. Correct.
Q. What are the commitments in Vermont and Maine?
A. There's probably a better subject matter expert to respond to that. But, at the time I answered this, it was basically the same across all three states, basically to keep rates unchanged for a year.
Q. But isn't it true, though, at the time that you -- oh,

at the time that you answered this you had already -- I understand there was, in Maine, you had stated that it was a three year rate cap, is that correct?
A. I don't recall the context for that particular response.
Q. Okay. All right. I'll have to go back to that. Who is the better subject matter witness that you mentioned?
A. Probably Mr. Lippold would be the best. But I think, in his absence, Mr. Nixon could probably answer the rate questions.
Q. Okay. Is the one-year rate cap still the commitment in the other two states, Vermont and Maine?
A. Again, we are in a time frame where there are substantial settlement discussions going on, both with intervenors, as well as staff members. So, I'd like to defer that question to a person who would have the latest information on where we are with those discussions in those specific states.

MR. McHUGH: Well, I would note for the record, Mr. Chairman, settlement discussions are not supposed to be part of the evidence in the case. So, I'm not expecting questions would be asked about that.

CHAIRMAN GETZ: Well, Ms. Hollenberg,

are you asking for what the public stance of the Company is?

MS. HOLLENBERG: Yes, I am.

BY MS. HOLLENBERG:

Q. Is it FairPoint's stance, in terms of the hearings that you've held in both of those states, that it is a one-year rate cap on basic services?

A. Again, I'd like to defer that to Mr. Nixon to give you a more accurate response.

Q. Okay. And, in your testimony, your rebuttal testimony, Page 105 to 106, you refer to "a mutual two to three year stay-out". Could you explain that please?

A. Yes. If I may get to my testimony. Page 105 and 106?

Q. Yes, please. It's right at the bottom of that. It starts at line 19, on Page 105.

A. If I might read the full answer, I think that would allow me to provide as clear an answer as possible. The answer is in response to a question about a recommendation about a potential condition. And, the answer is it's difficult to address Mr. Vickroy's recommendation, given it's high level of generality. However, FairPoint has stated on numerous occasions it has no intention of raising rates as a result of this transaction. We've been consistent on that from day one. FairPoint has also acknowledged it would consider a two or three year stay-out, whereby the Company commits to making no requests for price increases in conjunction with the New Hampshire PUC agreeing also not to require any rate case activity during the same period. So, it was -- the response was, as part of a global settlement, as part of a set of conditions to approve the transaction, FairPoint would certainly consider a two to three year stay-out, whereby we agree not to change rates, in tandem with the Commission, to the extent it controls such, doesn't also come in and cause us to revisit a lowering of rates.

Q. Thank you. So, with the one-year rate cap, do you agree that FairPoint could request a rate increase as early as February 2009?

A. In a vacuum of any other representations, if we agreed to a one-year rate cap, that certainly could be the case. But, again, we've laid out a position where we'd be agreeable to doing something longer than that.

Q. I understand that. But you're talking about a condition that the Commission might impose if they approve the transaction. And, what I'm asking is, if FairPoint's position is, in terms of your testimony, is a one-year rate cap, it's possible that you could come

in for a rate case as early as February 2009?
A. Again, in a vacuum of anything else happening, that would be correct.
Q. FairPoint sees New Hampshire as a competitive environment, does it not?
A. I'm sorry, what do you mean by "competitive environment"?
Q. Well, you refer to New Hampshire as a "competitive environment" in your direct testimony, at Page 10, line 9. And, I was asking if you agreed with that statement? If you see "in this competitive environment"? Do you agree that that's what it says?
A. I'm sorry, I still -- is it in the rebuttal testimony?
Q. No, it's in the direct, Page 10, line 9.
A. I'm sorry. Page 10.
Q. That's okay. Lots of paper.
A. I now see the sentence. Could you please ask the question again?
Q. Sure. Do you agree that it says "in this competitive environment"?
A. I agree.
Q. Okay. And, you're referring to New Hampshire, in terms of New Hampshire having a competitive environment, are you not?

A. That's correct.
Q. Thank you. And you would agree that FairPoint plans to offer services at competitive rates and prices?
A. We do intend to offer services at competitive rates and prices, yes.
Q. And, would you agree that generally competition causes prices to decrease?
A. I would agree generally that's true, yes.
Q. And, you mentioned earlier on cross-examination with Mr. Mandl that there are no rate increases assumed in the financial projections that FairPoint did for this case?
A. That's correct.
Q. Okay. And, that you would agree that FairPoint firmly believes that there is a possibility that the combined company could out-perform its expectations regarding revenues in the absence of any rate increases?
A. We could certainly out-perform our revenue projections with no rate increases, if unit volume was higher than the projections assumed, that's correct.
Q. Okay. In fact, you say that at Page 89 of your rebuttal, on lines 13 to 15. In response to Mr. Barber, you say -- I'm sorry, are you there yet?
A. I'm there.

Q. Okay. That he "completely ignored the possibility that the combined company could out-perform its expectations regarding revenues, in the absence of any rate increases"?
A. That's correct.
Q. And, you don't mention anything in there about unit volume projections?
A. I do not.
Q. And, FairPoint expects that it will out-perform its revenue projections?
A. We believe we're far more likely to do better than the projections than less, below the projections, yes.
Q. One moment please. And, you would agree that a cap on basic rates for longer than one, two, or three years does not conflict with FairPoint's financial projections?
A. Repeat the question again please.
Q. Sure. You mentioned earlier that the financial projections do not include a rate increase, and they cover until 2015, although there is a focus of five years, until 2012. And, what I'm asking you is, do you agree that a cap on basic rates for longer than one, two, or three years does not conflict with FairPoint's projections?

A. I would agree with that.

Q. Thank you. And, you would agree that a cap on basic rates for longer than one, two, or three years is consistent with your statement that you'll not increase Verizon's existing rates for retail customers as a result of the transaction?

A. That's correct.

Q. Thank you. Turning to our next, the OCA's next exhibit, Exhibit 40P. This is a response by FairPoint. And, again, we touched upon that earlier, with regard to rates. But I'm going to ask you to refer to Subsection (e) of that response, which asks "is it still FairPoint's position that in any rate case it would not be obligated to impute directory Yellow Pages revenues?" And, your response is "FairPoint's position continues to be that it should not be obligated to impute directory revenues in a future rate case because of the Merger Agreement, does not convey any part of the directory business with the assets transferred, and FairPoint never had anything to do with such business." Did I read that correctly?

A. Yes, you did.

Q. Thank you. If I could have you look at Page -- Exhibit 41P please. This is a response by Lee David

Newett to -- on behalf of FairPoint, to the OCA's Follow-up Data Request Group V-2, V-2. Mr. Newett isn't a witness in this case, is he?
A. He is not.
Q. Okay. And, would you -- do you sponsor this response in your position for FairPoint?
A. Yes.
Q. Excuse me one moment please. And, you would agree that this question also asked you about the 20 -- approximately 23 million imputation required by the PUC's order in the Verizon Yellow Pages case?
A. I agree.
Q. And, the reply is with respect to whether or not FairPoint, in its earnings statements that it would file post transaction with the PUC, if they intend to impute that amount, the answer is "no"?
A. That's correct.
Q. Thank you. FairPoint is entering an agreement or has it entered an agreement not to compete with IDR, in terms of paper publishing?
A. As part of the transaction, if the transaction closes, that is correct, yes.

MS. HOLLENBERG: Mr. Chairman, if I might ask at this time for the Commission to take administrative notice of the Yellow Pages docket, the orders, the two orders of the Commission, the final order and the Supreme Court's order affirming the Commission's order in that case.

CHAIRMAN GETZ: Response?

MR. COOLBROTH: Mr. Chairman, perhaps if we can have an understanding of what that is bringing into this record in this case? And, my understanding is that is a voluminous record, it --

CHAIRMAN GETZ: Well, excuse me, I want to make sure. "Record" -- You're asking for the final order of the Commission and the Supreme Court's decision?

MS. HOLLENBERG: Yes, sir.

MR. COOLBROTH: So, simply the order and the Supreme Court's decision?

MS. HOLLENBERG: Yes, sir.

MR. COOLBROTH: No objection.

MR. DEL VECCHIO: Solely related to the orders, which, of course, any parties could make reference to in the brief, Mr. Chairman, we would not object to that.

MS. HOLLENBERG: Thank you.

CHAIRMAN GETZ: All right. We'll take administrative order of the Commission -- or, administrative notice of the Commission's final order and the Supreme Court's decision in the Yellow Pages docket.

(Whereupon administrative notice was taken.)

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. Mr. Leach, if you could turn to Exhibit 42 please. This is a highly confidential exhibit, so I'd ask you not to refer to any numbers. And, if you do feel as though you need to refer to anything that's highly confidential, I can -- just indicate that and I can reserve it for my questioning later. And, the only thing I have to ask you is if you recognize this document as a response by FairPoint, by you on behalf of FairPoint, to OCA Rebuttal Question 28?

A. I do.

Q. Thank you. Turning next to OCA Exhibit 43, which is a public exhibit. Do you recognize this document as a response by you on behalf of FairPoint to the OCA Rebuttal Data Request R-29?

A. Yes, I do.

Q. Thank you. I'd like to ask you a couple of questions about cost allocation. FairPoint has not specified the details on how it will allocate costs between regulated

and unregulated operations in Northern New England, has it?
A. We have not.
Q. And, FairPoint has not specified any details of how it will allocate costs between FairPoint affiliates, including Northern New England?
A. Beyond the general description, we've not provided details.
Q. As a result of due diligence efforts, did FairPoint develop an understanding of the benefits and value associated with the costs allocated by Verizon to Northern New England?
A. Please repeat the question.
Q. Sure. FairPoint did due diligence in the case. And, as a result of those efforts, I'm wondering if FairPoint developed an understanding of the benefits and value associated with the costs allocated by Verizon to Northern New England?
A. The reason I need a clarification is, the "benefits of a cost" are -- I'm sorry, are confusing me. What do you actually mean the -- the "benefits of a cost" is typically not a benefit.
Q. Well, I guess I would ask it this way. Verizon allocated costs to Northern New England. And, I'm

wondering if FairPoint assessed those costs to determine what customers were receiving in return for those costs?

A. FairPoint clearly understands the amount of the costs allocated across all three states for Verizon providing back office services. That the cost information is in two big buckets, direct costs for, you know, on-the-ground costs, employees driving trucks, utilities, *etcetera*, and then allocated costs, which come from an allocation process, whereby Verizon provides services, like billing, like network operations, *etcetera*, and then allocates a cost to those -- to the three states. We have a very good sense of what the services are that it performs, and we have a good sense of what the costs are that come back and are allocated for those services. If the question is "do we think that was good value?" We did not attempt to determine what the benefits were, because we knew those costs were going away. And, what we cared about is what would the cost structure be for FairPoint following the transaction.

Q. So, you didn't assess whether or not each state received a dollar or more of value for each dollar charged by Verizon?

A. Again, I would answer it the same way. We know that each state was providing services. We know that the states were charged for those services. We know what it will cost us to provide such services. But we did not try to determine what the value was for the services based upon what Verizon charged.

Q. But you would agree that the services have value?

A. Absolutely.

Q. And, they're going to have value, the value shouldn't matter, regardless of who's performing a service, FairPoint or Verizon, would you agree with that?

A. If it was identical service, you would think it would have the same value.

Q. And, is it -- if the costs are going away, as you've mentioned, is it possible that the value is also going away?

A. No.

Q. How do you know that if you haven't assessed the value?

A. Oh, I know that because we believe that the services we provide will be comparable to, if not better, than the services that are provided today. And, we believe the costs to get allocated reflect our actual costs of providing those services. And, so, that's why I'm comfortable with the answer.

Q. Thank you. If you could turn to Exhibit -- OCA Exhibit Leach 44P. This is your response on behalf of FairPoint to OCA R-30. You would agree with that?

A. Yes.

Q. And, it indicates that, in response to the question "Please confirm that FairPoint does not plan to book DSL revenues as intrastate regulated revenues", your response is "FairPoint does not intend to book end user DSL revenues as intrastate regulated revenues"?

A. Correct.

Q. Will the DSL revenues flow to shareholders then?

A. Well, the DSL revenues will certainly flow to the benefit of the consolidated corporation. And, to the extent that creates a profitable revenue stream, then that clearly could benefit the shareholders of the corporation.

Q. Thank you. If you could turn to OCA Exhibit Leach 45P, you would agree that this is your response on behalf of FairPoint to OCA R-31?

A. Yes.

Q. And, it's asking you about how FairPoint plans to book the costs of the broadband plan?

A. Yes, it does.

Q. And, it asks if those costs will be booked as intrastate regulated costs. And, the response is that "FairPoint has not yet determined the portion of its broadband plan investment that will be assigned to New Hampshire intrastate regulated operations. FairPoint will comply with all FCC rules and New Hampshire guidelines when making such an assignment." Did I read that correctly?

A. Yes, you did.

Q. Thank you.

MR. McHUGH: Mr. Chairman, if I might just interrupt for a moment. Only to say we -- I believe what we agreed to yesterday was we would check on responses to data requests, just to verify if they have been supplemented or not, and wouldn't necessarily affect them coming into the record. So, with that being the case, I don't know that it's efficient to just have the witness or the attorney read these into the record. Just to move things along, we'd be happy to stipulate that they come in, subject to check that they have been supplemented, and then the supplement would come in as well.

MS. HOLLENBERG: I have some questions about this data response. And, I feel as though I need to make the record clear. But I appreciate that. And, I will take that under advisement.

CHAIRMAN GETZ: Well, I would just say, as a general practice, that we'll allow the inquiry to proceed. But, if a party would like to, as was noted in one of the earlier letters from Mr. Kreis in this proceeding, if a party seeks to introduce exhibits without following up and having them, to the extent they're data responses under oath or affirmation, then we'll try to move the proceedings along. But we'll give the opportunity for the counsel to inquire, if they would like.

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. Could you tell me what FCC rules you're referring to in your response?

A. I think there is a -- I can attempt to do that, but there's a much better witness who will follow me, since I'm not a regulatory expert, regulatory attorney in any form or fashion. There is a -- Mr. Skrivan will be able to provide much more detail and clarity on this issue than I could.

Q. Okay. And, I presume he would be the better witness to ask about the New Hampshire guidelines as well?

A. Yes, he would.

Q. What was your understanding, though, when you answered the question of those two things?
A. My understanding was, we would have to abide by whatever the FCC rules are, as they relate to interstate or intrastate jurisdiction issues.
Q. It's possible that FairPoint will assign costs of its broadband plan investment to intrastate regulated operations?
A. Is it possible?
Q. Yes.
A. Again, I would defer that question. I'm not the best witness to respond to that.
Q. Excuse me?
A. I would defer that to Mr. Skrivan.
Q. Speaking of Mr. Skrivan, he testified that, as a mid size ILEC, FairPoint will be entitled to some streamline treatment under the federal rules and be able to file fewer ARMIS reports. Are you familiar with that, that consequence of this transaction?
A. If there's a specific question, I might see if I could answer it.
Q. I guess his testimony was that FairPoint should not be required to file certain ARMIS reports, specifically 43-02, 43-03, and 43-04, and that FairPoint will only

be required to file the summary report and the service quality report. And, what my question is, does FairPoint intend to submit to the PUC any reporting regarding cost assignment?

A. I'm not qualified to answer that response. Mr. Skrivan would be.

Q. Okay. Thank you.

CHAIRMAN GETZ: Ms. Hollenberg?

MS. HOLLENBERG: Yes.

CHAIRMAN GETZ: Just for planning purposes, how much more to your public portion?

MS. HOLLENBERG: I have quite a bit. Probably another 30 minutes, maybe a little bit more than that.

CHAIRMAN GETZ: Then, this may be a good time to take about a ten-minute recess. I don't know if folks recall from discussion yesterday, we're going to break -- a short break now, and then come back for an hour or so, a short break to change reporters, and then go from noon to 1:00, and then we're going to take the lunch break from 1:00 to 2:00. So, let's take about ten minutes right now.

(Recess taken at 10:36 a.m. and the hearing reconvened at 10:53 a.m.)

CHAIRMAN GETZ: Okay. We're back on the record with examination of Mr. Leach by Ms. Hollenberg.

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. Mr. Leach, just to touch upon a couple of things we've already talked about, before I continue. We talked a little bit about the one-year rate commitment, rate cap commitment. And, if FairPoint has no intention of raising rates, why only a one-year rate commitment?

A. This is a quickly-changing industry. Who knows what will happen down the road. And, we just felt like, as a starting point, offering anything longer than that, and, again, in a vacuum of any other discussions or conditions or points, was not the prudent way to go.

Q. And, in terms of the rate cap commitments in Maine and Vermont, are you aware that both Vermont and Maine are regulated under an alternative form of regulation?

A. Yes, I am.

Q. And, would you accept subject to check that the Vermont alternative form of regulation controls or it basically controls rates until 2010?

A. I believe that's correct, yes.

Q. Are you familiar with what the -- when the AFOR in Maine expires?

A. That is a very hard question to answer, because of the way the -- there's actually a renewal process underway now, as I understand it. But, again, Mr. Skrivan would be a better person to answer that question.

Q. Are you familiar with, though, that the Vermont AFOR, at least the way it's -- the status of it at this point is that there has been a recommendation by a hearings examiner that there be a 35 -- I'm sorry, Maine AFOR, that there be an approximately $35 million rate decrease? Am I correct in that?

A. Well, I think it's close. I'm not sure it's a hearings examiner, but, clearly, there is an issue I believe that deals with a rate decrease. An item that's been under discussion for a number of years, as I understand it. So, I am familiar with the stipulation related to the status of that particular issue, yes.

Q. And, it's in millions of dollars, right?

A. That's correct.

Q. And, lastly, just to, in terms recapping, in terms of the cost allocation issue, I asked you whether or not you had valued the services that Verizon had allocated costs for. And, I was wondering if there were any function that Verizon is performing for Northern New England that FairPoint will not rec -- excuse me,

replicate?
A. Generally, all the services that are needed today across all three states that are provided by Verizon, we will have to replace and replicate and provide either on our own or in some combination with another vendor. So, yes. The answer is we do expect to provide the same services.
Q. Thank you. If you could turn to OCA Exhibit Leach 46HC, and this is a highly confidential exhibit. I'm not intending to ask you about any specific figures, but, to the extent that you would like to discuss anything on this, I can defer it, defer other questions to the confidential portion. You would agree that this is a detailed worksheet from your financial model?
A. Yes.
Q. And, if I could have you -- excuse me, one moment please. This didn't print out with lines, so now I'm trying to figure out where I need to direct you. It's actually halfway down. There is a -- the third bolded category, and the second line in that section.
A. I believe we are comfortable with you talking about the headings, as long as no dollar amounts are mentioned.
Q. Right.
A. Or numbers are mentioned.

Q. That's very helpful. Thank you. Is "COGS per DSL", which "COGS" is "cost of goods sold", is that correct?
A. That's correct.
Q. And you see the figure for the amounts for that from 2008 to 2015?
A. Yes.
Q. Is this a monthly or an annual figure?
A. That's a -- I believe a monthly per line figure.
Q. And, what does that figure represent?
A. That figure represents the costs that a nonregulated business needs to pay the regulated business for sharing a line to provide the service.
Q. And, will there actually be money that changes hands for that payment? Or, in other words, is there -- well, I guess, will there be money that changes hands?
A. There will be money that changes hands among two FairPoint, post closing, two FairPoint affiliates. On a consolidated basis, there's really no distinction.
Q. And, you would -- do you agree that there's no commitment that the DSL subsidiary will actually pay this amount per line to the telco?
A. Again, I think this may be more a regulated question that you should ask Mr. Skrivan. I'm not sure if we have the option or not. That's why I'm deferring it to

a regulatory expert.

Q. Okay. But you would agree that you answered earlier that FairPoint has not hammered out the details of cost allocation?

A. Yes. In my view, this is not considered -- what I would typically consider a cost allocation issue. This is a fairly well-defined, precisely defined element that typically would be passed between a reg and nonreg entity.

Q. Okay.

A. Versus an allocation number, where you have to decide what the right number is.

Q. Would you know how FairPoint would determine that figure?

A. Mr. Skrivan would be able to tell you.

Q. Will any of the investment in broadband support basic service?

A. It's possible. I can't think of a good example right now, but it's possible, as part of an exercise to provide broadband service to a customer, that may result in doing something to the local loop that could, in fact, benefit, you know, other services.

Q. But you have no specific examples in mind?

A. Beyond that, I don't have a specific example, no.

Q. Will any of the investment in broadband be part of the common telecommunications network?
A. When we talk about "investment in broadband", we're talking in terms of how much capital expenditures are you spending on various parts of the network. And, typically, when we talk about a broadband investment, that would be a classic nonreg part of the network.
Q. Who at FairPoint is responsible for assigning and allocating broadband costs?
A. That would be a combination of our controller function and our regulatory function. And, again, Mr. Skrivan will be the best witness to respond to any details. I'd be glad to take a shot at it.
Q. Well, I guess, who are those individuals?
A. Mr. Skrivan will be a witness on the regulatory side. Our corporate controller is Pat Hogan, who's not planning to be a witness.
Q. But it's your -- your response that he and Mr. Skrivan may have some -- may participate in that allocation or assignment process?
A. Absolutely. They will be the two. In fact, Mr. Skrivan reports to Mr. Hogan.
Q. And, is there any portion of the investment that FairPoint will be making to broadband would FairPoint

be willing to commit not to seek recovery for?
A. Again, I would have to refer that to Mr. Skrivan.
Q. And, does FairPoint expect revenues associated with the new investment on broadband to cover costs?
A. Well, we certainly expect the investment to generate an attractive rate of return over time. That may not mean first year revenues cover first year costs. But it does mean that we believe, over the life of the investment, in this case the life of the broadband asset, it would generate more than sufficient revenue to cover that cost, yes.
Q. Is it possible, until it covers its costs, that FairPoint could seek increases in rates?
A. My understanding is DSL is a nonreg service. My understanding also is it's a very competitive market. We compete against cable modems. Hard to say -- Hard to say whether we would or wouldn't. It kind of depends on the future environment. If you can be more specific, maybe I can try to be more specific.
Q. Well, what I heard you say, in response to my question about whether or not revenues would cover costs, was that you were not, you know, that they may not initially. And that, over the life of the investment, that they probably would overall, but they wouldn't

initially. And, so, my question was, in the initially part of time, is it possible that FairPoint could seek rate increases to cover those costs?
A. In terms of a typical rate case process?
Q. Yes.
A. Again, I would bounce this to Mr. Skrivan. But, again, I believe, since DSL and broadband is nonregulated, that that wouldn't make itself applicable to a typical rate case process. I could be wrong. But I would ask Mr. Skrivan that question.
Q. Okay. And, I will ask him. I guess, just to follow up on that response, what my question is, is it possible that FairPoint will seek -- we've talked a little bit about costs of broadband, and whether or not those costs, as opposed to revenues, will be assigned to intrastate regulated operations. And, my question is whether or not FairPoint will seek to increase, through a rate case, its intrastate costs, i.e. its regulated costs, in order to cover broadband?
A. Again, Mr. Skrivan would be the right person to ask that question.
Q. Thank you. Do you agree that the costs of broadband will be capitalized?
A. Well, there certainly is a part of building out a

broadband network that would get capitalized.

Q. Would you -- I'm sorry.

A. And there would a part that would get expensed.

Q. Would you say more -- more of the costs will be capitalized than expensed?

A. I would say, subject to check, the up-front cost, you know, as you expand into new markets to offer broadband to new customers, more of the up-front costs would tend to be capitalized. I would agree with that.

Q. And, is it possible that those costs could be included in rates, the rate base for future rate cases?

A. I'm sorry, again, Mr. Skrivan could answer that question.

MR. McHUGH: Mr. Chairman, maybe it would be appropriate to defer all of the rate case type questions to Mr. Skrivan, who will be appearing after Mr. Leach?

MS. HOLLENBERG: My response is, Mr. Leach is the sponsor of the model, he's also the primary financial witness for FairPoint, and that was the purpose of asking him financial questions about rates.

MR. McHUGH: Well, it's the regulatory/rate case type questions which I'm suggesting we defer, since all Mr. Leach is accomplishing here today is deferring them to Mr. Skrivan.

MS. HOLLENBERG: I beg to differ. Mr. Leach is actually accomplishing things today. And, I would appreciate it if I could continue with my cross-examination.

CHAIRMAN GETZ: Well, we'll see how far it goes. I mean, if it's obvious, if you already know that he's not the witness, then I presume you won't ask him questions. So, let's just continue.

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. Just to turn for a moment back to Exhibit 46, which is the highly confidential exhibit we discussed a little while ago.

A. Yes.

Q. And, the line "COGS per DSL", which is about halfway down the page. You mention that it would be appropriate to defer these questions to Mr. Skrivan. But I'm just asking, I wonder, from you, if you can tell me when Mr. Skrivan joined FairPoint?

A. Roughly sometime in the last six months or so.

Q. Okay. And, isn't this line -- this line is part of the -- or, this page is part of the model, and this line represents input into the model. You would agree with that?

A. I would agree with that.

Q. And, Mr. Skrivan was not -- wasn't working with FairPoint at the time that the model was put together, is that correct?

A. He was not. But he's very familiar with our business, having come from a company that looks just like us and that was very active in the DSL business. So, he, in our view, is an expert in terms of regulatory and cost allocation issues that relate to these kind of topics.

Q. How then, without him, was that input determined?

A. This -- in terms of this particular line item?

Q. Yes, please.

A. Subject to check, I believe this is the current cost that's being incurred today for this service.

Q. Thank you. Just to ask you a couple of questions about municipal deployment of wireless. Will FairPoint agree not to oppose municipalities' deployment of wireless?

A. On what basis? Can you be more specific?

Q. Well, I guess, under the plan, you would agree that FairPoint is not intending to serve 100 percent of New Hampshire?

A. FairPoint ultimately intends to serve 100 percent of the Verizon customers in New Hampshire.

Q. Okay. And, you would agree that, at least in the near future, say, till 2015, you will not be serving 100 percent of the Verizon customers. Do you agree with that?
A. I really don't. Are you talking about broadband?
Q. What do you mean by "broadband"?
A. Well, today, Verizon serves 100 percent of its customers, right? If they have a customer, it's because they provide them service, of some kind?
Q. I guess I'm asking the questions, but --
A. Okay.
Q. -- what I wanted to know from you, when will FairPoint serve 100 percent of the customers, in terms of broadband? Yes. Thank you.
A. Okay. That was the clarification I was looking for.
Q. Okay.
A. The honest answer is, I do not know. But the strategic view of the Company is to ultimately offer all of our customers, in this case, all of the Verizon customers, after the transaction closes, a broadband product. So, we ultimately would like to address 100 percent of the customers with some sort of broadband product.
Q. So, with that in mind, it's possible or you would object to anyone else attempting to deploy broadband

within your footprint then, such as a municipality?
A. I think we would certainly want the right to review each situation on a case-by-case basis. So, we would not categorically agree not to object.
Q. And, your concern is primarily that you would like to, if possible, you'd like the first option to address those customers' needs, as far as broadband?
A. Well, we want to try to provide all the services to our customers that our customers would like to have. You know, I'm not sure if we would even have -- on what basis we would have to object. You know, it's a free country. And, so, if someone wants to start a wireless endeavor in any of our markets, I'm not sure we have a legal recourse to object. I think, in order to provide our services the best possible -- excuse me, to provide our customers the best possible services, we would work hard to becoming their provider of choice, and regardless of what technology might be appropriate to provide them service. We do provide wireless to some of our customers today in different parts of the country. A wireless -- A fixed wireless alternative, in certain very rural settings, is the best way to serve customers. And, I can see us at some point doing that in New Hampshire in certain instances.

Q. Are there any circumstances that you could think of that FairPoint would not oppose the deployment by another entity of broadband within your service area?
A. Would you repeat the question please?
Q. I'm just wondering if there are any circumstances that you can think of that you would not oppose any other provider providing broadband within your service area?
A. I could think of one from a technology perspective, if it created a crowded spectrum and caused existing wireless services not to work. I mean, I can dream up a scenario where it may not make sense for another wireless operator to come into a market.

CHAIRMAN GETZ: Ms. Hollenberg, you're not talking just about municipal wireless at this point, you're talking more broadly?

MS. HOLLENBERG: I'm talking more broadly, but also about municipal.

BY MS. HOLLENBERG:
Q. So, there could be a circumstance that FairPoint would not object?
A. Well, again, I would start with the premise, I'm not sure what the basis in a competitive -- with competitive nonregulated services, what the basis would be for us to object in the first place. But our

business strategy would be to try to become the provider of choice to our customers, and that will include wireless at some point in the future for certain more rural markets.

Q. Do you -- Have you heard of the term "addressability"?

A. I have.

Q. And, how is -- what is "addressability"?

A. Well, it can be a couple of things. "Addressability", in our view, typically means, if you can address 90 percent of your customers with a broadband product, it means that those customers that make up that 90 percent can call in and order the service and get it. That it's basically available to them where they are addressed by the service.

Q. And, how is that different from "availability"?

A. To me, they're basically one in the same. Somehow, in this -- in the broadband discussions here, those have become a little confusing. But, to me, a customer is either addressable or available if you can get them the service. But I think Mr. Michael Brown has had a great deal of discussion on that, in that distinction between that, and it may have some relevance here that, you know, that's not my area of expertise.

Q. Okay. Thank you. Turning to capital expenditures, FairPoint has a commitment letter to obtain 2.08 billion in loans associated with this transaction, do you agree with that?

A. Yes.

Q. And, is there or will there be any provision of these loans or credit agreements that will place a limitation on FairPoint's capital expenditures?

A. There is a provision in the commitment letter that indicates there will be a limitation on the amount of capital expenditures. Most likely defined as a percent of EBITDA, earnings before interest depreciation taxes amortization, but that's a "to be determined" number. It's important to note that, as the bank group put the commitment letter together with that particular provision in it, there were some members of the bank group who didn't think it was even necessary. There were others who said "it was in your prior agreement, so let's go ahead and keep it in a future agreement, but give the Company whatever latitude it needs to make sure that that doesn't impact the ability to spend CapEx in the future. So, a long way of saying, we do expect that provision, but we don't expect it to have any practical limitation on our capital expenditure expectations.

Q. And, you testified in your rebuttal that FairPoint would be willing to redo a commitment for a reasonable amount of annual capital expenditures for a period of time until the PUC has evidence that it is meeting its service quality criteria? Do you recall that?

A. I'm sorry. Could you repeat that question?

Q. Sure. It's actually at your rebuttal testimony, Page 103. And, it just talks -- you mentioned that FairPoint would be willing to agree to a commitment for a certain amount of CapEx expenditures, and you tie that in with service quality?

A. I see the answer, yes.

Q. Okay. So, how does that -- but I guess, in light of the limit that might be placed in your financing paperwork, FairPoint wouldn't be able to agree to more than what it's agreed with the lenders, is that correct?

A. The short answer is "yes", but the "but" clause is, but we will have shown the, in fact, the bank group has already seen our financial projections, knows what our capital expenditures are, and we have every expectation that they will give us a comfortable amount of margin even over above that, such that we would not have any problem meeting the commitments that we're making to

all three states over a three-year time frame.
Q. Thank you. I notice you have some familiarity with both electric and telephone utilities in your background?
A. Yes.
Q. Would you agree that capital expenditures for public utilities are characterized as being "lumpy" in nature?
A. Yes.
Q. And, could you define what that means to be "lumpy"?
A. It means, from a telecommunications perspective, you may have to replace a switch in a central office once every -- pick a number, once every ten years, so that nine out of the ten years the capital expenditures would be a more modest number. In the tenth year, when you have to replace the switch, it could be a dramatically higher number, and that would be the lump, causing it to get lumpy over time.
Q. So, you might have to spend a lot of money to fix a small problem, because there's no other way to fix it?
A. I'm not sure I said that.
Q. As opposed to an efficient way to fix it?
A. No, I'm not sure I said that.
Q. Okay.
A. I think what I said is the infrastructure is such that

it lasts a long time. When it has to be replaced, it can be expensive.
Q. Okay. Thank you. I'd like to ask you to look at Exhibit 47HC. And, again, I don't have any intention of mentioning the highly confidential aspect of it. It's two pages. The source of the first -- or, the source of the two pages, if you can see it, where at Line 12 it says from your summary worksheet?
A. Yes, I have it.
Q. Okay. Of the financial model. You would agree that this exhibit contains data over multiple years?
A. Yes.
Q. And, it contains three years of actual Verizon capital investment data?
A. Yes.
Q. 2004 to 2006, correct?
A. That's correct.
Q. And, then, projected capital investment data for 2007 under Verizon and 2008 to 2015 under FairPoint?
A. Correct.
Q. The Verizon actual numbers include FiOS investment, is that correct?
A. That's correct.
Q. And, in fact, you can see -- and they could be seen on

a separate line for 2004 to 2005?
A. And 2006, yes.
Q. Okay. Yes. I'm sorry, 2004 to 2006. Thank you. And that investment stops at 2006, is that correct?
A. That's correct.
Q. FairPoint and Verizon have acknowledged that FairPoint does not intend to continue the FiOS program?
A. Certainly not immediately, that's correct.
Q. Okay. And, looking at the line labeled "recurring", in fact, FairPoint is spending less and less on capital investment than Verizon did in any one of those three years, 2004 to 2006, is that correct?
A. In just looking at the "recurring" line, during -- that's correct through 2004 through 2006, not correct for what we're spending this year, in '07.
Q. Thank you. Now, if you could turn to Exhibit -- OCA Exhibit 48HC. And, if you look at Line 23, it shows the source is from the FairPoint financial model, it's a summary of a CapEx worksheet, cells A-1:O21. You'd agree that this is a further detailed breakdown of capital investment numbers on the sheet that we just looked at?
A. It appears to be so, yes.
Q. And, on this information drawn from the financial

model, there is -- FiOS is shown on the "FTTP", is that correct?
A. Yes.
Q. Thank you. You mentioned in the hearing in Vermont an "advisory committee", you were crossed -- you were subjected to cross-examination by Ms. Tierney. And, in that discussion, she asked you if you -- if FairPoint would be willing to have an advisory committee for the Northern New England states. Do you recall that?
A. I do recall that.
Q. And, you indicated that "FairPoint would take that into serious consideration." Do you agree?
A. Yes.
Q. And, that would include representatives from each of the three Northern New England states?
A. That's correct.
Q. And, who would the Advisory Committee report to?
A. We have proposed, if we had it, it would report directly to the President, Mr. Peter Nixon.
Q. And, how would the members of the Advisory Committee be selected?
A. I would like to refer that to Mr. Nixon, who has given this much more thought than I have.
Q. Thank you. You were asked by Mr. Mandl on

cross-examination if FairPoint had not ruled out seeking an alternative form of regulation in New Hampshire. And, my question for you is, will FairPoint agree to undergo a full rate case before switching to an alternative form of regulation?
A. I'd like to refer that to Mr. Skrivan please.
Q. Thank you. You would agree that, if this deal is not approved in one of the three jurisdictions, that FairPoint will not go through with it?
A. That's much more likely to be the case than not, yes.
Q. Thank you. Excuse me please. You indicated or you asked to defer the question about whether or not FairPoint would be willing to undergo a full rate case before switching to an AFOR to Mr. Skrivan. And, who does Mr. Skrivan report to?
A. He reports to our Corporate Controller, Mr. Pat Hogan.
Q. And, does Mr. Skrivan have the authority to answer that question to determine that on behalf of FairPoint?
A. I believe he will be in the best position to provide the most accurate response to that question, yes.
Q. Thank you. The total size of this transaction is 2.7 billion?
A. Correct.
Q. And, FairPoint will invest another 200 million the

first year for systems development and integration, correct?

A. Not necessarily the first year, but that is the up-front, part of it to be before -- spent before the closing, part of it to be spent after the closing. But the $200 million number is correct, yes.

Q. Thank you. And, under the agreement with Verizon, the acquisition will be financed 37 percent common equity and 63 percent debt?

A. That's correct.

Q. In your last rate case in Maine, the Company advocated using an equity ratio of 68 percent as being reasonable, is that correct?

A. Subject to check, I believe that's correct.

Q. Why then is the 37 percent equity an appropriate ratio for this transaction, given the Company's prior position?

A. I think it's an apples and an oranges kind of comparison. The financing for this transaction is being done at the parent company in this case, not the operating telephone companies. And, we do believe, and I think most people think, if you're spending 37 percent in cash and 63 percent in debt, that's a reasonable financing structure for a business. So, in this case, we believe that that is the appropriate structure up at the parent company. And, we would not be at all surprised if, in a future rate case, down at the operating company levels, there would be an imputed debt-to-equity structure that the Commission deems appropriate in those specific states. So, our sense is, this is the parent company capital structure, and it doesn't represent our view of what the appropriate rate case capital structure ought to be on a state-by-state basis.

Q. You mention that it would be appropriate for a business. Do you also believe that it's an appropriate debt-to-equity ratio for a utility?

A. Yes.

Q. The proposed transaction, if approved, will increase FairPoint's size by four to six times. Do you agree with that?

A. I do.

Q. And, are you aware of any other telephone utility merger in recent years in which the acquiring company increased by that size?

A. Well, that certainly occurred in our case, when we acquired our first acquisition in New England, it was a very similar jump in size, albeit from a smaller starting point, but it was a similar increase in size. So, it's something that we've done before. And, I can't speak for the rest of the industry. But we've certainly seen it. And, it's not uncommon in this industry for a smaller company to acquire a bigger company.

Q. Do you know of any recent or do you know of any gas or electric utility mergers of this size?

A. I'm not in that industry. So, if they existed, I would have no way of knowing.

Q. FairPoint expects its share price of common stock to go down if dividends are reduced. Do you agree with that?

A. Can you refer me to that comment?

Q. Yes. I'm actually going to have to direct you to your testimony in Vermont.

MS. HOLLENBERG: Do you have the transcript for that, Pat?

MR. McHUGH: I do.

MS. HOLLENBERG: Okay. It's Page 102.

MR. McHUGH: September 5?

MS. HOLLENBERG: Yes, September 5th.

MR. McHUGH: If I can approach, Mr. Chairman?

(Atty. McHugh handing document to the

witness.)

MS. HOLLENBERG: It's actually multiple pages, 102 to 106 I have as my reference.

BY MS. HOLLENBERG:

Q. Let me just see if I can find a more specific -- I apologize. I have endeavored to get the line numbers, but I guess I didn't do it in this case. I have 102 to 106. And, I might have to -- I'll just go back to this. I'm sorry about that. I still want to refer to the Vermont transcript, though.

MR. McHUGH: Okay.

BY MS. HOLLENBERG:

Q. Page 144, lines 17 to 25. Do you agree that --

MS. KNOWLTON: Rorie, what is the date?

MS. HOLLENBERG: Sure. It's September 6. Sorry about that.

MR. McHUGH: September 6 is the transcript?

MS. HOLLENBERG: September 6. Yes. Sorry.

MR. McHUGH: Okay.

BY MS. HOLLENBERG:

Q. Do you have that?

A. And what was the page number?

Q. It's Page 144.
A. And begins with Chairman Volz?
Q. Yes, it does.
A. Okay. We have it.
Q. Okay. And, you -- the Chairman asks, if you had to use the cushion that you're projecting, in terms of the cash flow cushion, if you had to use that, what would be the ramifications going forward? And, on line 17, you indicate "beyond a doubt, if we cut our dividend, it would have repercussions on how our stock was trading. They wouldn't be positive, they would be negative." Did I read that correctly?
A. Yes, you did.
Q. And, then, you continue: "So that could create some impact on our ability to access equity." Did I read that correctly?
A. Yes, you did.
Q. Thank you. Is FairPoint willing to consider as a condition the restriction on dividends from the parent corporation, if excessive levels of debt were incurred?
A. Yes.
Q. That limit would have to be consistent with the line of credit with FairPoint's bank, though, wouldn't it?
A. It would have to -- well, it wouldn't have to be

consistent, but it certainly would make sense to be consistent with what the credit agreement stipulated, that's correct.

Q. It could go above -- It couldn't exceed a limit if a limit were set?

A. Well, you could certainly -- our bank agreement has a -- what we call a "dividend stopper", which, when the total leverage of the company, in this case leverage being total debt over total cash flow, and when that leverage exceeds 5.5 times, it creates what's called a "dividend stopper", which means the Company can't pay dividends if the leverage gets that high. You can certainly have an agreement with the states, where that could be six times, but it would be not very operative, because the bank agreement would be so much tighter, so it wouldn't accomplish anything. So, the answer is, you could be different than the bank agreement, you could be more lenient. In which case the bank agreement would be the governing document. Or, you could be tighter than the bank agreement, where the state agreement could be tighter.

Q. Are you willing to agree that FairPoint -- that FairPoint's share price of common stock could go down if the dividends were reduced?

A. That is not an absolute. There is a scenario, and it's actually -- it actually happened with a company very similar to us in the spin-off that was completed by Alltel, when they spun off their wireline business separate from their wireless business, they did it in a structure that looks just like this, they merged it into an existing company called "Valor". As part of the transaction, they actually cut the dividend. I believe they cut it, you know, 25 to 30 percent as part of the transaction. And, in that scenario, the price did not drop. So, I couldn't say across the board that a dividend cut by itself would result in a drop in the stock price. You referred me to pages earlier, which were tied -- that particular question was, if you use up part of the cushion, and after, as an operating business, and you cut your dividend accordingly, would that likely cause the stock to drop? And, I said "in that case it would". And, so, depending upon the circumstances, that dividend cut could result in a stock price drop or it might not, as proven by the Valor/Alltel merger.

Q. Thank you. You mention in your rebuttal testimony, on Page 37, at lines 2 to 4, you talked about, as of March 31st, 2007, approximately 50 percent of U.S. companies issuing debt had noninvestment grade credit ratings. What percentage of those companies are public utilities?

A. I do not know that answer.

Q. And, also on Page 37, on Lines 4 through 6, you state "Historically, noninvestment grade companies have a strong track record of not defaulting on their debt, with the 15 year average default rate, as of year end 2006, at approximately 4.6 percent." Did I read that correctly?

A. Yes, you did.

Q. What percentage of the total noninvestment grade companies upon which this statistic are based are public utilities?

A. I can't answer that question, but I have two comments that may be useful to the -- to the Commissioners. One is, we have a following witness, Mr. Balhoff, who is an expert in these topics, and will able to address that certainly in more detail than I can. And, he has also prepared a comparable group of companies that will look like us after the fact. And, of that comparable group of six or eight companies, the majority are not investment grade. So, I can't opine to public utilities as a whole. What I can tell you is companies that look like us by and large are not investment grade. And, that facts will be forthcoming from Mr. Balhoff on that.

Q. Thank you. FairPoint's credit reading is BB- from Standard & Poor's. Do you agree with that?

A. BB- and then a B1, I always get confused from Standard & Poor's and Moody's, but that's correct.

Q. Okay. And, this is below investment grade?

A. That's correct.

Q. The Company has never been an investment grade company?

A. That's correct.

Q. And, would you agree that FairPoint does not believe that becoming investment grade has to be or should be a driving objective of the Company?

A. Yes. I believe that the -- what's in the best interest of the interested parties here, and those being the ratepayers, the customers, the employees, and the shareholders, all the stakeholders, if you will, actually are better off, given the current environment, where the cost of debt is versus the cost of equity, that they are in a better position by us not attempting to become an investment grade company. Because, to become investment grade, means you have to use less debt, more equity on your balance sheet. In today's environment, the after-tax cost of debt is dramatically cheaper than the after-tax cost of equity. Therefore, our free cash flow is much better if we continue with these kind of -- with this relationship between debt and equity than it would be if we strive to become an investment grade company. So, yes, we believe, in the current environment, it's in the best interest of all stakeholders to optimally manage the balance sheet, and that's where we are today.

Q. I'd just like to turn your attention to, this is a transcript page from the Vermont hearings, and it's dated September 5th, Page 32. And, you were asked by Ms. Tierney a few questions about the Company's plans to become investment grade. And, if you look at Page -- I'm sorry, Line 22 -- oh, line 23 she says -- line 22, I apologize. "If FairPoint were to operate below investment grade for the next two years, that wouldn't disturb you either?" And, you say "Again, I think our objective is to manage the capital" -- excuse me, "the capital structure of the Company in the form that provides the greatest return to shareholders." Did I read that correctly?

A. Other than you said "two", when you meant "ten", yes.

Q. Okay.

A. That's right.
Q. But you don't mention "ratepayers" or any other constituencies there, do you?
A. Not in that instance.
Q. Thank you. In your Maine rebuttal testimony, do you recall mentioning that "FairPoint is mindful of the benefit of improved credit ratings and regularly assesses the relative benefits of such improvements in making capital allocation decisions"?
A. Yes.
Q. When did you perform such an assessment last?
A. I went onto further explain in that answer that there is no regular report required that says "Let's consider becoming investment grade or not." But, in routine board meetings, the question about capital structure would come up, and we would generally determine whether or not the capital structure that we had or were proposing for a particular deal continued to be the right capital structure. So, we have assessed it in normal course. But could I go back over the next two years and show you a report? No, I couldn't do that.
Q. Do you assess it in a decision or does any analysis take place?
A. Normally, just in a discussion mode.

Q. And, do you have -- you mention not having a report. Are there any documents that are generated related to those assessments?
A. Not that I'm aware.
Q. Do you agree that credit rating agencies focus on FairPoint's debt leverage levels as at least one important factor in establishing credit ratings?
A. Yes.
Q. If FairPoint post merger cut its dividend in half, a $71 million per year reduction, and used that cash to reduce its debt outstanding, this action would be viewed as positive by the credit rating agencies, would it not?
A. Maybe. And, the reason I say that is, in a vacuum of other instances, applying free cash flow to pay down debt versus pay dividends would probably be deemed positive from a credit perspective, yes.
Q. FairPoint has stated that "credit rating agencies' evaluations of FairPoint will be more favorable once the merger closes." Do you agree with that?
A. Would it be easy to refer me to the page? I just want to make sure of the context of the answer.
Q. I don't have a citation for that. It's something that I recall this being a statement that occurred over the

course of this proceeding. But I do not have -- I guess I was just wondering if you would agree with that.

A. Okay. Could you repeat the question please?

Q. Sure. That do you believe that credit rating agencies' evaluations of FairPoint will be more favorable once the merger closes?

A. I do. There have been certain comments from the rating agencies that indicate that, after a successful closing and integration of the business, in fact, one company has gone -- one rating agency has gone on record of saying "it would likely result in an improvement in the credit rating over where it is today." Yes.

Q. And, do you have -- do you know if there's a basis for that statement or for your agreement of that position? Are there any credit rating agencies that have said that?

A. Well, there clearly is one that has printed a report that says exactly that.

Q. And, when was that?

A. It was done after the transaction was announced. And, again, I'm sorry, I don't remember if it was Moody's or Standard & Poor's. But they basically issued a report, and that was one of several conclusions that they made, was that it could likely result in an improvement in the credit rating post merger.

Q. So that -- that would have been in January when the merger was announced?

A. Sometime in the first quarter, certainly, yes.

Q. Okay. And, is your recollection of that report -- do they emphasize the importance of successful integration and achieving the projected synergies?

A. They certainly refer to a successful integration. I'm not sure what the comments are, regarding savings or synergies. But I do recall them "upon successful", you know, "integration of the two businesses, that that could be a likely outcome."

Q. And, there's -- it's a possibility that the credit rating will be upgraded, but there's no guarantee?

A. That's a correct statement.

CMSR. MORRISON: Ms. Hollenberg, are you going to ask for a record request for that report?

MS. HOLLENBERG: Sure. If FairPoint would please produce that report for the Commission.

MR. COOLBROTH: We will do so.

MR. McHUGH: That's fine.

MS. HOLLENBERG: Thank you.

CHAIRMAN GETZ: That's Exhibit 19 that's

reserved, is that our next exhibit?

MR. McHUGH: Actually, I think, Mr. Chairman, if we could alter the number, because there's going to be some exhibits that I believe have already been marked and are in the process of being copied. So, if I could just find what current number we're on and go from there, if the Commission would so allow?

CHAIRMAN GETZ: And, then just get it to the Clerk.

MR. McHUGH: We will.

MR. BAUM: Forty-four, actually.

MR. McHUGH: Forty-four. Thank you.

(Exhibit 44 reserved)

BY MS. HOLLENBERG:

Q. Do agree that FairPoint plans to offer increased selections of bundles?

A. Yes.

Q. And, it's part of FairPoint's strategy to increase revenues?

A. Yes.

Q. Do you agree that generally the bundles will not be anything new, compared to what Verizon is offering now?

A. No, I can't say that.

Q. And, do you have the Vermont transcript in front of you?

MR. McHUGH: I took it away actually.

BY THE WITNESS:

A. No ma'am.

MS. HOLLENBERG: I need to refer to September 6th.

CHAIRMAN GETZ: Ms. Hollenberg?

MS. HOLLENBERG: Yes.

CHAIRMAN GETZ: How much more for your public section? I was just trying to -- we're going to need to change reporters here shortly.

MS. HOLLENBERG: Okay. And, I apologize, I want to get this over with as fast as everybody else does, believe me. Gosh. It's hard to say, I thought I had about 30 minutes, but I didn't anticipate the witness's answers to be as long as they are. So, I would say probably -- no offense.

WITNESS LEACH: I'll have more one-syllable answers then.

CHAIRMAN GETZ: Let's take about a ten-minute recess to change reporters. And, then, before we do take that recess, is there any preference among the parties, after Ms. Hollenberg completes her questioning, whether we go to Staff and their public portion, or do we go to the confidential portions?

MS. FABRIZIO: Staff would actually prefer to reserve its last place in line and go after the confidential, especially as we anticipate that our discussion will be entirely public.

CHAIRMAN GETZ: All right. Then, let's take a brief recess.

(Recess taken at 11:54 a.m.)

(Hearing reconvened at 12:10 p.m.)

CHAIRMAN GETZ: We're back on the record with Ms. Hollenberg's examination of Mr. Leach.

BY MS. HOLLENBERG:

Q. Mr. Leach, do you have the September 6th transcript from Vermont in front of you?

A. Yes.

Q. If you could just look at Page 133, there's a question that starts on Line 12. And if you could just look at that through to the end of the page and then flip it over to page, or turn to Page 134 and read your answer, and then I'll ask you a question, please.

(Witness reviews document.)

A. Okay. I've reviewed it.

Q. Thanks. Do you agree that initially the bundles that FairPoint will be offering will not be anything new compared to Verizon?

A. I think the bundles may be new, but there may be bundles of existing services that may not be new. But I believe there's an opportunity to bundle differently with the existing services, yes.

Q. Okay. The new service centers that FairPoint is proposing for the region, the cost of those service centers will be capitalized. Do you agree with that?

A. Part of it will be capitalized, yes.

MS. HOLLENBERG: I'm actually done with the Vermont transcript if you want to sit down.

MR.McHUGH: Thank you.

BY MS. HOLLENBERG:

Q. Would you agree that most of -- more than 50 percent will be capitalized?

A. I believe that's correct, yes.

Q. And those costs could be included in the rate base for future rate cases?

A. We believe that would be appropriate, yes.

Q. Eugene Johnson, he -- why hasn't he been involved in this proceeding?

A. Well, he's been very involved in the process. He just has not been involved as one of the witnesses. For a New York Stock Exchange company to not have the CEO here but have a number of his direct reports seems kind of normal.

Q. And he's planning on retiring in spring of 2008; is that correct?

A. That's not correct.

Q. Okay. Do you know anything about when he's planning on retiring?

A. I do not know when he's planning to retire. I know he has a contract that expires at the end of '08, but that does not mean he has decided to retire at the end of that time frame.

Q. Okay. Do you have any plans for retirement in the near future?

A. No.

Q. Me neither.

A. The joke around my house has always been, "When are you going to retire?" And the answer was always, "Three years from the time you asked it." That time frame now is probably shorter than that from when you asked it, but it's still a moving target.

Q. Okay. I'd like to turn next to Exhibit 49HC. And again, I'm not -- I'm actually not planning to ask you any questions, except to ask you to confirm that this is your response on behalf of FairPoint to OCA Group 1

1-114, and it is the financial model that was produced?
A. Yes, it is.
Q. Thank you. Turning to Exhibit OCA 50P, which is OCA -- I'm sorry -- Lee David Newitt's response on behalf of FairPoint to OCA FDR V-1, do you sponsor Mr. Newitt's response?
A. I'm sorry. Let me catch up with you.
Q. Sure.
A. 50P?
Q. 50P. Yes, please.
A. I do have it. And I do sponsor his response, yes.
Q. And it indicates that the model does not incorporate an imputation for the $23 million revenue -- I'm sorry -- the $23 million ordered in the Verizon Yellow Pages order?
A. Well, let me say it differently. There was certainly no action taken at all in response to this issue at all in the model. We assume that the rates that are in place today continue. To the extent the rates that are in place today have any implication to that, then the answer might be a little different. But we didn't make any special accommodation at all for this issue, in terms of modeling.
Q. So is Mr. Newitt's response incorrect then? 'Cause he

answers "No" to that question.
A. Well, he answers "No" because our model does not incorporate any imputation of anything. It doesn't take into account any rate issues at all. It just continues with the existing rates that are in place today.
Q. Okay. Thank you. Your testimony included an Exhibit WL-3 [sic], which I'm going to ask you a few questions about.
A. Do I have a copy of that up here?
Q. I believe it was attached to your rebuttal testimony. And it's --
A. Okay.
Q. I believe it's highly confidential, but I'm not intending to ask you content. Just let me --
A. I have it in front of me, yes.
Q. Thank you. And that provides -- this exhibit provides projections from your discovery model; is that correct?
A. That's correct.
Q. And it represents the company's current outlook for it's post-merger operations?
A. That's correct.
Q. I'll have some more questions about this when we go on the financial -- on the confidential record.

A. Okay.
Q. In terms of financing the deal, your testimony discussed the commitment letters pertaining to the issuance of FairPoint debt associated with the merger. Have there been any changes concerning those loan commitments since the filing of your direct testimony?
A. No.
Q. And the $800 million Spinco debt issuance that is a part of this merger, is there a loan commitment letter for that debt?
A. There is not for that piece yet.
Q. Would you agree that the markets today -- or the market in January was more favorable to borrowers than it is today?
A. I would certainly agree for certain borrowers that is true. I'm not sure that's specifically true for a cash-flow-based business, a steady-state business as the telephone company business is deemed by the credit markets. So I couldn't unequivocably say that. But generally that's a true statement, yes.
Q. Okay. Thank you. The entire financing commitment with the bank is subject to a variable interest rate. Do you agree with that?
A. Yes.

Q. And there are no caps on the floating rate?
A. There are no caps on the floating rate in the loan agreement itself. But we have effectively created some caps on part of that debt because we have put in place swaps, interest rate swap agreements that effectively do provide a cap. We have $500 million roughly of swaps in place today on our existing debt which will move and become part of the new credit facility. Those swaps will still be in place. And we have $400 million of contingent swaps that we've put in place, subject to the deal closing. So there will be over $900 million of effective debt that has effectively a cap on it through using swaps.
Q. And what is that cap?
A. That cap varies with the swap agreements. They have different lives and different caps. But they're all under a 7-percent all-in kind of number, a 7-percent interest rate kind of number.
Q. Would you agree that --
A. I'm sorry. They're all under an 8-percent interest rate kind of number. Something under 8 percent.
Q. And would you agree that approximately 60 to 65 percent of the total debt is protected by swaps?
A. Could you refer me to that quote?

Q. Sure.

A. Because there are two different ways of looking at this, and I want to make sure I'm correctly responding to this.

Q. Sure.

MS. HOLLENBERG: I need the Vermont transcript, please. I have a copy that I could probably give him if you prefer.

MR.McHUGH: September 5, 6?

MS. HOLLENBERG: September 5 and 6, actually. September 5, 79 to 81, and September 6. May I approach the witness?

MR.McHUGH: Sure.

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. September 5th.

A. Thank you.

Q. You're welcome. This is the September 6th --

MR.McHUGH: I'm sorry. What page?

MS. HOLLENBERG: 86 to 90.

BY MS. HOLLENBERG:

Q. And basically, I'm just trying to get a sense of the percentage of the debt that's protected by swaps at this point.

(Witness reviews documents.)

A. Can I have the question again?

Q. Sure. Could you tell me, estimate how much of a total debt is protected by swaps?

A. I think my best recollection is no additional swaps have been put in place since I answered this question. So the answer to the Vermont question was that between 60 and 65 percent of our floating rate debt are effectively fixed via swaps. But what it doesn't count is another $800 million of the bond financing that we will also put in place, will be fixed and not -- it will be a fixed rate and not subject to floating rates in the future as well. That's why I wanted to distinguish between the two.

Q. Thank you. Take those from you.

Would you agree that interest rate swaps will not help if there is a prolonged rising of interest rates over time?

A. Interest rate swaps will help in a environment where interest rates are going up, up through the expiration of the swap. So a four-year swap clearly provides protection over the next four years if interest rates rise. At the termination of that swap, then you would then have to move to prevailing floating rates, which would be higher in response to this question. Our model takes that into account. And as we forecast what the interest rate will be in our financial model, we look at the current yield curve, which takes into account what future rates are expected to do based upon everything that's known at the time that the yield curve is produced, and that's how we model future rate changes in our model going forward.

Q. If there is a prolonged rising of interest rates over time, the higher rates will get built into the baseline for future swaps and future arrangements. Do you agree with that?

A. If rates move higher over time, that would be a true statement.

Q. How much higher is 8 percent than the rate you modeled?

A. I believe, subject to check, I believe the all-in rate is right around 8 percent. Between 7-1/2 and 8 percent.

Q. And how long do swaps last?

A. Again, we have a layering of swaps. There are some that mature, you know, in one year, two years, three years, four years. So there's a different set of swaps that have different maturities. I don't have the detail on those beyond that.

Q. Does the commitment letter permit the assignment of debt to subsidiaries, including Spinco?

A. I'm sorry. Ask the question again?

Q. Sure. Does the commitment letter permit the assignment of debt to subsidiaries, including Spinco?

A. Short answer is yes. The fuller answer is: Because it's a commitment letter and not a credit agreement, there was still some uncertainty about how the final structure would hold. But it's very clear -- and I've had this discussion after these questions arose in Vermont. It's very clear that the bank group expects that the financing will be structured as we have talked about, which is all of the financing at the parent company, not at the operating state-level entities. And that's very important to ratepayers, very important to all stakeholders, because the financing at that level creates some dramatic benefits that otherwise wouldn't occur. For example, the New Hampshire operations would not have to guarantee that debt. Number two, the New Hampshire properties would not be encumbered by that debt. So it creates some very attractive features that we think benefit all stakeholders that would otherwise not occur if the financing was placed down at the operating or state operating level. And it's also consistent with how we have structured our financing in the past to get the lowest cost of capital available to the operations.

Q. I appreciate that that's FairPoint's intention at this point. But you agree that the company still has flexibility to do this?

A. I'm not sure I would agree with that. I'm not sure that the commitment would absolutely, positively stay in place if there was a shift in the expected structure of the financing.

Q. Other than its IPO in 2005, FairPoint has not accessed public equity markets to raise capital. Would you agree with that?

A. Yes, I would.

Q. Was there an attempt prior to the IPO to issue an equity-like offering?

A. Yes. There was financing that was available to companies that were cash-flow-oriented businesses, like telephone companies, that was very popular in 2004. It was called an IDS, Investment Depository Security, I believe, emanated out of Canada. And it was designed to basically create a structure where most of the cash flow of the company could be distributed out to its shareholders, not unlike an REIT approach. We, as well as at least four or five other companies, spent a lot of time looking at that as being the appropriate capital structure for FairPoint, and actually had several filings with the SEC on that particular kind of instrument; ultimately concluded it wasn't the right structure and then converted to a more traditional IPO. That was, in reference to your question, something we looked at in advance of doing the IPO.

Q. Okay. Thank you. Could I ask you to look at your rebuttal testimony, please. And the first I'd like you to look at is Page 2, Line 6 to 8.

A. Okay.

Q. At the end of Line 6, you mention a misconcept -- or you start a sentence, "the misconception that any risks from this transaction will be borne primarily by customers..." Do you see that?

A. Yes, I do.

Q. Okay. And if I could have you look at Page 5, please, Lines 11 to 14?

A. Yes.

Q. And you mention that FairPoint shareholders will first bear any financial risks from this transaction before any customers. Do you see that?

A. Yes, I do.

Q. Okay. And if I could have you look at page -- one moment, please -- Page 91, please, Lines 18, 19, 20. "...in the face of unforeseen financial stress, FairPoint will take actions primarily designed to protect its relationship with customers..." Do you see that?
A. Yes, I do.
Q. Do you notice in all of those places you use the qualifier "primarily" or "in the first instance"?
A. Yes.
Q. And would you agree that that indicates that it's possible that customers will bear some of the financial risks associated with this transaction?
A. I believe it's fair to say that the first line of defense would be the shareholders. And we say that because there's a substantial amount of cash-flow cushion -- i.e., cash flow generated after all operating expenses, including dividends, have been paid. Then, number two, there's still $142 million of dividends that are used in the model. They're discretionary. They're only paid on a quarterly basis if the board of directors deem that there is sufficient cash flow and it's prudent to make those investments. So our view is, if there was a very negative surprise

that happened, that both of those cushions would be available to protect ratepayers as a general rule, yes.

Q. And I believe, again, you qualified your response in saying that the shareholders would be the first line of defense. So I guess my question again is, it's possible that customers will bear some of the financial risks associated with this transaction?

A. It's possible. I would put that framework around this -- and this is public information asked for in one of the projections prepared by one of the banks. That is not the final, but it's very close. They basically show $80 million of cash flow generated after dividends in the first full year, another $142 million of dividends. So our belief is there's $220 million of cash flow generated that could be used for unexpected surprises before it would necessarily require any impact on the ratepayers. So our view is that's a substantial cushion. There would have to be something very, very unusual before we believe the operations, if you would, would be impacted, before all this cash flow was otherwise used.

Q. And you would agree, though, there is significant disagreement in this transaction as to those financial projections.

A. There certainly are different views of financial projections. That's fair, yes.
Q. Customers have an interest in adequate service at reasonable rates. Do you agree with that statement?
A. I do.
Q. Because that's what's required of public utilities under law.
Would you agree that lenders have no such interests?
A. Would you please repeat no such interest as and then correlate back to the --
Q. Adequate service at reasonable rates.
A. I would say they have no such interest, but they clearly want a viable cash-flow-generating business. And it is in their best interest that the company be operated in the best interest of its customers who will generate the cash flow. So the technical answer is no. I think the practical answer is, there's an awful lot of similarities in terms of those interests.
Q. Some of the costs allocated by Verizon which FairPoint is proposing will be eliminated. It's been mentioned that they're synergies. But their cost savings that FairPoint is projecting are analogous to direct cost to FairPoint; is that correct?

A. Would you repeat the question, please?
Q. Sure. Some of the costs that are allocated by Verizon are analogous to FairPoint's projected costs?
A. Correct.
Q. Assuming for the sake of argument that no synergies are realized, FairPoint will have less of a cushion of available cash flow over and above those amounts required to meet all operating expenses; correct?
A. Correct.
Q. And to meet capital expenditures? They'll have less of a cushion to meet capital expenditures as well?
A. Correct.
Q. And to meet their tax payments and debt service requirements?
A. That's only partially correct. To the extent we have less savings generated, that means we'll create less profit, which means we'll create less taxes. So there is a relationship, in terms of if your savings don't occur, your tax obligations go down. So with that one clarification, I'd say yes.
Q. Debt service remains the same?
A. Debt service remains the same.
Q. The result is a company which is less able to meet all of its commitments, especially if unexpected events

occur in the future?
A. In our case, that's not a true statement. And the reason I would say that is, certainly in the early years of the model, the free cash flow after everything has been paid, including dividends, is greater than the expected savings. So if we didn't get the expected savings, we'd still have some extra free cash flow, despite paying a hundred percent of the dividends. So that's not a true statement certainly during the early years of the model.
Q. If you could look at Exhibit 51HC, please.
A. Is that a separate handout, or is that part of --
Q. That's in the packet of OCA exhibits.
A. I have it.
Q. And you would agree that this is Lee David Newitt's response to Staff FDR Group 1-10?
A. Yes, I do.
Q. And this is basically the model, a model run that represents the impact of no cost savings or synergies are realized?
A. It's roughly analogous to that, yes.
Q. And you adopt or you sponsor this response?
A. I do, yes.
Q. Thank you. FairPoint does not intend by this

transaction to terminate or not continue to follow its corporate strategy of acquiring telecommunications companies; is that correct?

A. Longer term, that's correct. We have agreed that it makes sense to not do another transaction until we have closed this particular transaction and are comfortable that it's running well. But we are an acquisition-oriented company. Done more acquisitions than anybody else in the industry in the last 10 years. So it's where our skill sets are and how we would continue to grow the business, yes.

Q. And in fact, at your -- in your rebuttal -- I'm sorry. In your direct testimony at Page 42 and Page 83, Lines 2 to 4, and 6 to 9 -- let's look at Page 83 if you would. I'm sorry. It must be rebuttal, 83 of rebuttal. Sorry.

A. I've got it.

Q. Thank you. Lines 2 to 4 and 6 to 9.

(Witness reviews document.)

Q. You would agree that it says, "FairPoint executives have also made it clear that they will not consider additional transactions until they are comfortable that the northern New England operations are operating smoothly and as planned," and then 6 to 9, that you

will be laser-focused on executing the acquisition -- meaning this acquisition and transition -- "until we are a hundred percent confident that the operations are running efficiently and providing high-quality service to our customers"? Did I read that correctly?
A. Yes, you did.
Q. If the Commission were to approve this transaction, a condition that FairPoint refrain from additional acquisitions until these goals are achieved would not be inconsistent with the stated intention; is that correct?
A. I'm sorry. Ask the question again, please?
Q. Sure. My question is, that if the Commission were inclined to approve this transaction, it would not be inconsistent with this part of your testimony for it to condition your continued acquisitions on achieving efficient operations and high-quality service to your customers?
A. I believe that it would not be inconsistent with that objective. But the way you described it, it's tough to know exactly what that means. So I would be concerned about the devil in the details, in terms of what that actually means and could there be some unintended consequence related to that. But the short answer is:

it would not be inconsistent with what we're saying.
Q. Well, I guess that begs the question: What does that mean? This is your testimony. So what does it mean for the operations to be running efficiently or smoothly and providing high-quality service to your customers?
A. I do not specifically know how to give you a precise answer to that. Perhaps it's a little bit, you know, beauty is in the eye of the beholder. In terms of running efficiently and providing high-quality service, certainly it means not having any issues with quality-of-service metrics, for example.
Q. Such a condition, that FairPoint refrain from additional acquisitions until these goals are achieved, would also not be inconsistent with the statement that you make on Page 87 of your testimony, which is that FairPoint expects the to-be-acquired Verizon operation to form the core of its company in the foreseeable future. Do you agree with that?
A. Clearly, to the extent it represents more than 80 percent of the customers, 80 percent of the revenues, it clearly will represent the core part of the business going forward following the merger.
Q. And a condition that FairPoint refrain from additional

acquisitions until these goals are achieved would not be inconsistent with that goal of FairPoint. Do you agree with that?

A. Remind me again which goals you're referring to in this case?

Q. Sure. Running efficiently and providing high-quality service.

A. Those sound consistent to me. That's right.

Q. Okay. For the sake of argument, if such a condition was not required for approval, would FairPoint seek some sort of confirmation or approval from the PUC that these goals have been met before pursuing additional acquisitions?

A. I think that would be unusual to expect the Commission to get involved in that level of decision-making for an acquisition company.

Q. Thank you. Regarding the new back-office and operations systems, would you agree that a majority of the cost of these systems will be capitalized?

A. Yes.

Q. And they will be included in rate base and future rate cases?

A. We would expect that to be a legitimate expense for future rate cases, yes.

Q. Okay. Thank you. Regarding employees, what is the most current expectation of the number of employees that would come over to FairPoint in the event that the transaction is approved?

A. Approximately 2800. Between 2750 and 2800 employees would come with the transaction. On top of that, we would hire an additional 675 or so employees to perform these back-office functions that are currently provided by Verizon outside of the three-state area.

Q. Is it accurate that, or do you know anything about the fact that at the beginning of the month, employees of Verizon can notify Verizon of an intention to retire or otherwise leave employment?

A. I'm aware of that, yes.

Q. And when will FairPoint receive notice from Verizon of the number of employees that have provided such notice this month?

A. That would be a better question for Mr. Nixon, who's much closer to that process than I am.

Q. Okay. Thank you. What is the minimum number of employees that FairPoint needs to run Spinco?

A. We have not done an analysis to confirm the minimum number of employees to run the business.

Q. Can you at least estimate it?

A. I can. But not to avoid the question, our expectation is that the merger agreement with Verizon requires them to deliver to us a business that has a sufficient number of employees to run that business. So, to the extent there's any meaningful decline in head count that doesn't enable them to deliver that, then it's their responsibility to make sure that that happens.
Q. One moment, please. Do you disagree that FairPoint intends to focus on being a broadband company that offers voice services?
A. I would agree that we believe that. And in fact, I believe we publicly said that we will tend to run this more as a data business and broadband business that offers quality voice services versus a traditional voice business.
Q. One moment, please. If I could have you just look at your rebuttal testimony at Page 35. Are you there?
A. Yes, I am.
Q. Okay. Thank you. At Line 1 you say, "Simply stated, FairPoint intends to operate the business differently than Verizon in the future, parens, we will focus on being a broadband company that offers high-quality voice services, not primarily just a voice provider, end paren, which will produce far different results."

Did I read that correctly?
A. Yes.
Q. And then at Line 19, "We intend to transition the operating model to one based on broadband as compared to the historical... model which is based primarily on wireline voice services."
(No verbal response)
Q. Thank you.
Would you agree that this transaction is not comparable to any prior acquisitions that FairPoint has undertaken?
A. Again, I referred to a much earlier transaction where we grew the company by this percentage, again off a smaller base. But we certainly grew it five- or six-fold. Beyond that, I would agree there's not another transaction that we have done that is of this size. Although, it is important to note that the customer base that comes with this business is exactly the kind of customer base that we service today in 18 states and have been servicing since 1993. So, bigger? Yes. Dynamics a lot different than what we operate in our core business? No.
Q. Would you agree that your prior transitions -- excuse me -- your prior acquisitions were smaller acquisitions

related to Spinco?
A. Yes.
Q. And the transaction with Verizon represents a unique opportunity for FairPoint?
A. Yes.
Q. And your prior acquisitions were more rural?
A. Yes.
Q. And none required development of a complete back-office system?
A. No.
Q. No, you don't agree with that?
A. No, I don't agree with that.
Q. Okay. I guess if you could elaborate on that answer.
A. Okay. I'll try to keep with my short answers.
Q. Touché.
A. Again, the transaction I'm referring to where we grew the business five or six times did require putting in place a brand new infrastructure to take care of that business. This was the old Centel GTE properties in Maine and New Hampshire and Vermont that we acquired in '94. So that was exactly what we had to do, was put in place these kind of back-office systems.
Q. How many access lines are we talking about?
A. Twenty, 25,000.

Q. Do you agree it's possible that the regulators in New Hampshire, Maine and Vermont will impose different conditions upon approval --
A. It's possible.
Q. -- if they're inclined to approve?
A. I agree.
Q. And that it's possible that the conditions could conflict?
A. It's possible, yes.
Q. Such as those related to the financial terms of the agreement?
A. It's possible.
Q. Okay. I'm just going to ask you what will happen in case of a -- give you an example. Suppose the New Hampshire PUC conditions approval upon a certain level of state-specific capital expenditures, and Maine and Vermont do also. If the total of these three state-specific conditions exceed what FairPoint is able to spend on capital expenditures, FairPoint can't comply with these conditions in total. Do you agree with that?
A. Given the way you described it, yes.
Q. Okay. What will happen?
A. In this theoretical scenario, if we don't have

sufficient capital, we would have to come up with a plan to generate additional capital resources. Could mean raising outside equity, changing the loan agreements, working out something with our joint petitioner in the transaction. Could be a number of ways to deal with that.

Q. So all of the responses would involve -- would you at any point in time attempt to seek different conditions in the different states, or would they just involve reaction to the conditions that are set and trying to meet all those conditions?

A. Clearly depend on what alternatives were available to us in terms of interacting with the respective commissions to solve any conflicts. But clearly, that would be the first place to go if that was a viable option, to try to resolve any conflicts that way.

Q. Would FairPoint be willing to agree as a condition of approval, if the Commission is inclined to approve the transaction, that it does come back to the New Hampshire PUC to discuss any sorts of conflicts like that?

A. Please rephrase the question.

Q. Sure. Say we have the situation that I explained before, where each state imposes a certain amount of capital expenditures that's required; you can't meet them all in total under the transaction as it's proposed. Would you agree to a condition in a Commission approval that FairPoint would return to the New Hampshire PUC if that situation arose or a similar situation where you had conflicts arose?

A. I think we certainly would be interested in talking to all three state commissions and attempting to resolve that. I think the short answer is: We would agree to do what discussions would be necessary to iron out a conflict which kept the transaction from happening. The only reason I hesitate is, if everything worked in Vermont, but we had to go back to the other two states to get it to work there, I'm not sure that would require a revisit with New Hampshire legislators -- or excuse me -- New Hampshire Commissioners, if we met all the conditions that were in their order.

Q. I think you meant if everything worked in New Hampshire, you wouldn't have to come back.

A. I'm sorry. Yes. If everything worked in New Hampshire and satisfied the conditions, and it was just another state issue, I'm not sure it would require a conversation in New Hampshire.

Q. Okay. What if both Maine and Vermont adopt conditions that preclude FairPoint from increasing rates in those states? And I'll ask you to just be mindful in answering this question that they do both have AFOR, so it is possible that that will occur. What if New Hampshire does not, and FairPoint later decides it needs more money and is precluded from going to Vermont or Maine? Do you agree that that increases the likelihood and pressure for a rate increase in New Hampshire, all things being equal?

A. I would agree, all things being equal, we would have to abide by whatever the rate-of-return jurisdiction rules allowed us to do in New Hampshire, yes.

Q. Would FairPoint agree to a condition of approval that requires the three states to be treated equally overall?

A. Be treated equally in regards to what?

Q. Well, I guess I'm thinking maybe not having the exact same circumstances. What I'm thinking is their overall treatment would be equal. There wouldn't be one state that benefits more from this transaction than another.

A. I think that would -- that could lead to some very difficult, unintended consequences in terms of expecting all three states to see eye to eye on all issues. I think that could be tough to pull off. That doesn't mean we wouldn't do it. But I do believe that would be a very -- it could be a very difficult kind of negotiation to have, given all three states have different issues.

Q. I guess we colloquially -- I can't pronounce anything right now -- refer to it as a "most favored nations situation," where if you have a utility that operates in more than one jurisdiction and they're seeking approval for a transaction such as this one. I'm wondering if FairPoint is willing to agree that, if there are better conditions in another state, that it would meet those conditions in New Hampshire as well.

MR.McHUGH: I'm going to object to the form at this point Mr. Chairman. I don't know what we mean by "better conditions." Are we talking every single condition? I think it needs to be more refined in order to have an acceptable question to actually answer in any meaningful respect.

CHAIRMAN GETZ: Ms. Hollenberg.

MS. HOLLENBERG: Sure. I'm just going for an overall effect. I certainly understand. And I'm not trying to get the witness to agree that every single solitary condition in each state will be the same across the board. But where there's -- for instance, if there is a condition that FairPoint needs to spend a certain amount in CAPEX, and they set it at a higher rate in another state, I'm wondering if they're willing to agree to that for New Hampshire as well. I'm wondering if they're willing to agree to an overall equal treatment of the three states.

CHAIRMAN GETZ: Well, it does strike me that the definition of terms here is key. I think the witness, after hearing from both Mr. McHugh and from you at this point now, may be able to answer the question. But I think it is a very broad question.

But do you have an answer, Mr. Leach?

WITNESS LEACH: I do have an answer on that specific item. We clearly would be willing to agree to a capital expenditures amount per each state. And we provided that number to each state, in terms of our projected capital expenditures. And we're willing to commit to that so they understand what their share of the capital expenditures issue is relative to the other two states. So that's an easy one. We've already kind of put that out on the table. But I could tell you that all three states have such different issues, that it gets very difficult once you get beyond the easy ones, like CAPEX, to try to assume everyone will get exactly the same deal on each issue, because they are at such different points, whether it's broadband build-out issues, whether it's other commitments made as part of the AFOR.

Q. How about if Vermont or Maine says no rate increases for five years and the New Hampshire Commission says one year or two years? Would FairPoint be willing to agree to the five years for New Hampshire?

A. Again, the problem with that is we've had enough discussions to know you don't have that stay-out without a lot of implications related to it. What does it mean for the broadband commitment? What does it mean to other issues? So again, I'm not trying to dodge the question. It's a very difficult question to commit to, that we do exactly the same in three states, beyond a couple very clear examples like capital expenditures, for example.

Q. So you agree that you do not -- you would not agree -- or FairPoint would not agree to a condition that requires the three states to be treated equally?

MR.McHUGH: Again, I object to the form.

A. And I said it's difficult.

CHAIRMAN GETZ: Well, actually, at this point I think we need to take the lunch recess. And you still have some more --

MS. HOLLENBERG: I just have --

CHAIRMAN GETZ: -- public inquiry?

MS. HOLLENBERG: I'm sorry. I just have a few more questions for the public.

CHAIRMAN GETZ: Okay. Then we'll have to pick that up after the lunch recess. It's five of one now. We'll resume at 2:00.

(Lunch recess taken at 12:55 p.m.)

(Hearing reconvened at 2:05 p.m.)

CHAIRMAN GETZ: Good afternoon. We're back on the record in DT 07-011 and continuing with the examination of Mr. Leach by Ms. Hollenberg.

MS. HOLLENBERG: Thank you.

BY MS. HOLLENBERG:

Q. Good afternoon, Mr. Leach.

A. Good afternoon.

Q. Hope you had a good lunch.

A. Good.

Q. Good. You mentioned earlier that the price that FairPoint is paying to purchase the northern New England properties is $2.7 billion; is that correct?

A. Correct.

Q. And would you also agree that the net book value of the Verizon northern New England properties is

$1.6 billion?
A. Subject to check.
Q. So the difference would be about $1.1 billion between those two figures. Would that represent good will or an acquisition premium?
A. In a typical transaction, if FairPoint were the acquirer, that would be your typical transaction accounting. In this case, as a technical matter, FairPoint is being, in the merger, from an accounting perspective, is being treated as the acquired company, not the Verizon assets. So because of that, there's no, quote, mark-up to the Verizon assets that would create this difference in good will. What actually happens is there is to FairPoint. So kind of a rambling answer, but the response is: No impact on the good will account at Verizon. FairPoint gets kind of marked to market, if you will, where its equity value gets marked up to the presumed equity value based upon the market at the time of the merger.
Q. Would the $1.1 billion be on the books of Spinco or no? Is that what you're saying?
A. Subject to check. I think whatever is on the books of Spinco after it's created and spun off right before the merger would be the same number that would then get

added to the FairPoint number.
Q. And how will those be treated? Will they be subject to some kind of accounting treatment in the future?
A. "They," meaning?
Q. The $1.1 billion difference between the purchase price and the net book value.
A. I don't believe so. But we might want to take a verbal request to actually answer that accounting question.
Q. Thank you. I will take you up on that suggestion and ask that that be made a record request for FairPoint, please.

MR.McHUGH: What is it?

MS. HOLLENBERG: Basically, I'm just wondering whether or not the difference between the purchase price and the net book value, which we've agreed is $1.1 billion, will that be subject to some type of accounting treatment in the future?

MR.McHUGH: Okay.

CHAIRMAN GETZ: I believe we're reserving Exhibit No. 45?

MR.McHUGH: That's correct, Mr. Chairman.

MR. BAUM: 46.

MS. HOLLENBERG: And if possible, could

you also indicate how that would be handled or treated in a rate case, unless the witness is able to answer that?

A. Well, I can answer the question of would any good-will attempt to be recovered in a rate case. And we have steadfastly said that we would not attempt to recover any of the purchase-price premium or good will in a rate case.

BY MS. HOLLENBERG:

Q. Thank you.

Mr. Leach, if you could just quickly, for the record, scan Exhibits OCA Leach 52, 53 and 54, and just confirm for me that those are your responses on behalf of FairPoint to data requests propounded by the OCA.

MR. COOLBROTH: This is 53, 52?

MS. HOLLENBERG: Sorry. It's 52, 53 and 54.

A. I have reviewed them. And what is the question?

Q. Just if you could confirm for the record that those are your responses on behalf of FairPoint to those data requests propounded by the OCA?

A. I can so confirm, yes.

Q. Thank you. The memorandums of understanding, I think -- I don't know if you were here yesterday. But there was some discussion about those yesterday. And I believe there will be more discussion later in the week. What I'm wondering is whether or not any of the memorandums of understanding or settlement agreements that the company has reached with the parties in this case, if any of them contain any term that would impact FairPoint's financial projections.

A. In general, I do not believe on an ongoing basis that any of the agreements would differ or would impact our financial projections, because I believe the agreements basically have fixed in for various terms, fixed prices on the various services. And in our financial model we assume no prices would change going forward for all of those kinds of services. So as it relates to ongoing services, I don't believe there is any impact on the financial model. To the extent there may be some up-front cost related to a certain agreement -- and I'm trying to recall. There was one yesterday. I think there was up-front cost related to -- I don't know if it was putting a PAP in place or something. There may have been some one-time, up-front expense related to that that may not have been captured as such in the financial model. But as a general rule, ongoing expenses, I'm not aware that there's anything we have agreed to that differs from what's in the model.

Q. And without getting into any of the confidential nature of the agreements, I guess if you could just -- is there any way to generally quantify the extent of any up-front costs that could be -- that could impact the projections?

MR. COOLBROTH: Mr. Chairman, Attorney Hollenberg has not identified for the witness which agreements she's referring to, and I'm concerned that the answers that are being given don't reflect an understanding of what's being asked. If Attorney Hollenberg could go through specifically which memoranda she is referring to so the witness can understand the question, I think that would be much better.

CHAIRMAN GETZ: Well, I'm taking that you're asking the general question was the initial thrust: Did you undertake any obligations through any of these MOUs that affects the financial transaction? But now, it seems the last line of questions seems to have gotten more specific about whether there's any differentiation from the model. I don't know if that's where you intended it to go. But then we got into, I think, an answer that referred to one specific agreement and one possibility with some PAP up-front payments. So I think if you want to follow-up on that last issue with respect to the PAP, I guess, which agreement that is, as long as there is a meeting of the minds. And I don't know when we get into issues that are, I guess, allegedly confidential at this point. I thought that's where you were going, Mr. Coolbroth, but --

MR. COOLBROTH: I'm just trying to understand. There are three memoranda of understandings with the electric companies that were discussed yesterday. There is a memorandum of understanding with Irene Schmitt, and there's a memorandum of understanding with the CLEC coalition. And I'm not sure whether Attorney Hollenberg is referring to any others. But I want to make clear for the record which documents are being discussed.

MS. HOLLENBERG: Well, what I would say is, I'm not privy to all the settlement discussions that the company's been undertaking. I do understand that there are those memorandums that Mr. Coolbroth has just mentioned. I don't know if there are any others. But my question was to get at, are there any agreements that this company has made with regard to this case that have terms within them that would impact the financial projections. And so I don't have a specific --

CHAIRMAN GETZ: Well, then I guess it

comes down to impact meaning a dollar, or impact meaning materially impact.

MS. HOLLENBERG: Material impact I would accept.

CHAIRMAN GETZ: Can you answer that question, Mr. Leach?

WITNESS LEACH: I'd like to answer, subject to check. And I'd like at the break, if we could -- if I could be reminded by my team what the element is that I'm trying to think of that I can't recall right now that I thought might have been this one-time cost. But subject to check, I'm not aware of any that would create a material difference than what's in our financial model.

MR.McHUGH: Maybe if I could just clear that up now. I think what Mr. Leach was talking about is the CLEC settlement sheet calls for an OSS test review process in Section 3, which was the subject of cross-examination yesterday by some of the CLECs.

So with that refreshing your recollection, I hope --

WITNESS LEACH: That was the issue. And that is an item which I do not believe is material, but it is not one that we got to that granular detail and included in the financial model.

BY MS. HOLLENBERG:

Q. And just to be clear, when I'm saying material, if I were to say material equals $500,000 in terms of impact, would you assert again that that was not material?

MR.McHUGH: Well, I would object to the form. I mean, materiality is an accounting concept. And I don't think in an operation the size of northern New England, to say $500,000 is material -- if she wants to rephrase it some other way, that would be fine. But I don't agree that's material.

CHAIRMAN GETZ: I think it's fair to ask him what he thinks "material" is.

MR.McHUGH: Okay.

BY MS. HOLLENBERG:

Q. What do you think "material" is?

MS. HOLLENBERG: Thank you.

A. Well, "material" in the scope of a $2.7 billion transaction is, you know, a pretty big number. And I would say something over $500,000 probably would constitute "material" to me. I think maybe a better way to answer the question is, if you either give us a chance at the break or via a verbal data request come back with what the estimate might be for that, if it's over a half-million dollars, we can come back with a rough estimate of that. I just don't know enough about that topic to know what the cost might be.

Q. That would be great, if the company is willing to do that.

MS. HOLLENBERG: And that was the end of my public questions. I guess before going into any kind of confidential questions, I would just ask if the company has made a determination about the statements in Mr. Leach's prefiled rebuttal of Mr. Wheaton, whether or not they are going to oppose my motion to strike those statements from his testimony.

MR.McHUGH: We have made a determination, Mr. Chairman, and we do oppose the motion. There are -- without being able to go back over lunch and exhaustively go through all of the testimony, both direct and rebuttal filed in this case by the various intervenors, I do know there are a couple of quotes that are in Mr. Brevitz's testimony. May not be in statements of other witness. But nonetheless, they are quotes. There are other items that run throughout various expert witness testimony in terms of what they rely on for different things. Simply put, I think it should all go to the weight of the evidence and let it go. You know, to be any more detailed, I would have to have the opportunity to have somebody go through more of the testimony and see if there's -- everybody's testimony to see if there are quotes in there that would be stricken and be treated equally as what's being asked of us.

CHAIRMAN GETZ: Then we'll take the motion under advisement.

MR.McHUGH: Thank you, Mr. Chairman.

CHAIRMAN GETZ: There was one other outstanding open question. Labor Exhibit 4?

MR.McHUGH: Labor Exhibit 4?

CHAIRMAN GETZ: Let's see.

MR. RUBIN: Mr. Chairman, if I may. That concerned whether there was anything in FairPoint's commitment letter where the lenders indicated that they would require some kind of restriction on the payment of dividends from the subsidiaries to the parent company. And the company said they would get back to us after the break.

MR. COOLBROTH: At a minimum, Mr. Chairman, there is a provision. It's confidential, however. We could go over this during the confidential session.

CHAIRMAN GETZ: Okay. All right. Well, is there anything else before we transition into the confidential and then highly confidential?

MS. HOLLENBERG: The only comment I would make is, I believe -- I know I have confidential and highly confidential questions. I believe that Attorney Rubin also has confidential and highly confidential. And I understand that Staff only has public questions. So I don't know if you want me to do my confidential and then Mr. Rubin to do his confidential, and then me to do highly confidential and Mr. Rubin to do highly confidential, in terms of clearing the room.

CHAIRMAN GETZ: I think it's probably easier to do two sets of confidential, two sets of highly confidential. Whoever goes first is between the two of you. And with respect to confidential information, is there anyone that shouldn't be in the room?

(No verbal response)

And then when we turn -- just for administrative purposes, when we turn to highly confidential, is it Mr. Mandl and Mr. Price, or is that all that would...?

(No verbal response)

CHAIRMAN GETZ: Okay. All right.

Please proceed then.

(PUBLIC HEARING RESUMES ON PAGE 215)

(PUBLIC HEARING RESUMES FROM PAGE 150)

CHAIRMAN GETZ: Turning to Mr. Rubin, you had one question in follow-up with respect to attrition that you wanted to ask Mr. Leach. Is my recollection correct?

MR. RUBIN: Yes. Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. RUBIN:

Q. Mr. Leach, on the highly confidential record, we discussed the work-force attrition assumption as part of your financial model and we agreed that that could be made public.

Could you tell us what work-force attrition assumption FairPoint has included in its financial model?

A. Between 4 and 4-1/2 percent.

MR. RUBIN: Thank you. That's all I have for this witness, Mr. Chairman.

CHAIRMAN GETZ: Thank you.

Okay. Ms. Fabrizio?

MS. FABRIZIO: Thank you, Mr. Chairman. Good afternoon, Mr. Leach.

THE WITNESS: Good afternoon.

CROSS EXAMINATION

BY MS. FABRIZIO:

Q. I'd like to say, just up front, that the questions that I have for Mr. Leach relating to financial projections, I'll use FairPoint's discovery forecast, the results of which are included in Mr. Leach's rebuttal testimony. And we believe that sticking to the discovery forecast which is FairPoint's most-recent and currently the official forecast, we're attempting to add clarity by using one consistent set of information.

Mr. Leach, could you please define the term EBITDA and explain its use as a measure of the financial viability of a company?

A. Yes. EBITDA stands for earnings before interest -- I always get the letters out -- interest -- earnings before interest, taxes, depreciation and amortization. That's what the letters stand for.

It's become a very common metrics that's used in the financial communities, because what it basically says is people finance acquisitions and assets a lot of different ways, so let's ignore for a moment implications related to debt service, i.e., interest. Let's ignore for a moment implications related to taxes. Some deals have taxes, some don't.

So to come up with a core cash-flow generation number -- what's kind of common to everything -- and that's EBITDA. It's the base cash flow that's generated before you take into consideration things that may not have anything to do with the business, like amortization of transaction expenses or taxes or interest expense.

So it's kind of the primary measurement of cash-flow health. When you compare one business to another, you hear it commonly used to get a sense of how much cash flow is generated by a certain business.

Q. Great. Thank you. Now, please explain the importance of the total debt to EBITDA ratio as a measure of importance for debt holders and companies such as FairPoint and other wireline providers.

A. Sure. Debt to EBITDA is referred to as the leverage ratio. Again, in the financial community, what people are interested in is how much debt do you have, not in a vacuum, but relative to how much cash flow the business is generating. You know, a hundred million dollars of debt on this transaction would be -- you know, that comparison would be irrelevant if you didn't know how much cash flow was being generated.

So when you compare one company to the

next and you want to look at their leverage situation, you look at how much debt do they have relative to the cash flow generated for that business versus the same metrics for another company.

Q. Great. Thank you. Now, let's switch to the EBITDA to interest ratio. What is the key thing it tells debt holders and companies like FairPoint and other wireline providers?

A. Basically, it indicates how much cash flow is generated by the business relative to what your interest costs are on the debt related to the business. So it gives you a sense of you have cash flow generated, you have debt-service obligations in terms of interest, what's the relationship between your cash flow to your interest for a particular company.

Q. Thank you. And do financial analysts use these two measures as principal ways to provide quick, comparable and common measure of financial viability among companies?

A. Yes.

Q. And how are these ratios used in the covenants of FairPoint's proposed debt-financing instruments?

A. Lenders want to be assured that, over time, the leverage relative to the cash flow generated by the business does not get out of whack.

In our case, in our commitment letter, they have basically agreed that -- or concluded that the leverage should not exceed five and a half times the cash flow generated by the business. So again, as you go back to the leverage ratio, what is your total debt to your cash flow.

In our commitment letter, they basically said, "We're not comfortable if that total debt rose by more than five and a half times what your cash flow is. And so if it gets there, we want you to stop paying dividends and, therefore, you'll have cash available to pay down the debt. And, therefore, if you want to continue to pay dividends, you'll have to reduce the debt to a level that's below five and a half times debt to cash flow."

So it's a very common leverage metrics in our agreement. It also drives the dividends stopper covenant, at which point we can no longer pay dividends.

Q. So would exceeding a specified covenant limit result in a technical default?

A. It may or may not. In our current agreement, for example, there's a difference between where the dividend stopper is versus the technical default. I just don't recall, in this case, if that's a technical default or not. And it may not have been included yet in the -- since we don't have the final loan agreement.

Q. Thanks. Now, what are the consequences of not meeting the financial ratio limits to FairPoint's debt financings and the effect on the ability for FairPoint to raise additional capital?

A. The consequence of exceeding the leverage test would basically say we'd have to stop paying dividends. $142 million of cash flow that's projected to be paid out in dividend could not be. And the logical conclusion would be that we would use that to pay down debt such that we could get the leverage below five and a half times to the extent that we concluded paying dividends of some level was still important to our shareholders.

So the impact on us in the financial markets, in terms of access to capital, would be whatever the impact of a reduction in the dividend or cut in the dividend would be, which, if it was a result of fundemental changes in the business, it would probably result in a negative impact on the stock price. If it was a result, as I indicated earlier, of

a change up front, not necessarily indicative of a fundemental change in the business, then there might not be as much of an impact on the share price, as was exhibited by what happened with the Alltel spin-off when they cut their dividend right off the bat. It had no meaningful impact, in terms of the price of the stock to that transaction.
Q. Thank you. Now, you said that we could call the total debt to EBITDA ratio a leverage ratio, for shorthand; correct?
A. Correct.
Q. What are the limits on that leverage ratio in FairPoint's debt commitments?
A. Again, subject to check, I believe it's probably the same as the dividend stopper, I believe. But again, I don't know if that's a technical default or not. But I think, for these purposes, we should probably assume that it's one and the same.
Q. Would you agree that, subject to check, they're 5.75 times in year one and 5.5 thereafter?
A. That's a good point. We do have kind of a grace period in year one, because there are a number of one-time expenses, startup expenses, that are not a recurring cost. So the bank agreement gives us a little more

room in the first year to handle these one-time expenses, i.e., the 5.75 limitation, which then drops to 5.5 times in the subsequent years.

Q. And aren't the leverage ratio limits for Citizens and Windstream, two of the merged FairPoint peer companies, significantly lower than those numbers?

A. I do not know the answer to that. Mr. Balhoff may know. I know that they're lower than that, but I don't know the exact numbers.

Q. Okay. And would you agree, subject to check, that they're about 4.5 times each?

A. I honestly do not know.

Q. We'll actually go into some articles that will bring the numbers to the fore.

A. Okay.

Q. Now, doesn't FairPoint's higher allowed leverage ratio of 5.5 after the first year denote that lenders, as compared to lenders for Citizens and Windstream, for example, allow a higher level of debt per dollar of EBITDA generated?

A. Yes.

Q. And isn't it true that it was necessary for the lenders to allow FairPoint these comparatively higher debt levels because FairPoint would have been right at the

edge or over the Citizens and Windstream limits if FairPoint experienced a future worse than what its discovery base case financial outlook shows?
A. Again, I do not know what the comparable levels are for those two other companies. But it -- our -- we publicly stated our leverage is expected to be in the very low 4-times range, 4.1, 4.2 times leverage levels, after the first year.
Q. Okay. And assuming the numbers for Citizens and Windstream are 4.5, that would be true?
A. If that -- yes, if that's the case, then there would be less room compared to those numbers; that's correct.
Q. Okay. Thank you. Now, aren't FairPoint's corporate credit ratings double B minus at Standard & Poor's and B1 at Moody's?
A. I believe that's right, yes.
Q. And does FairPoint expect any significant improvement in its credit ratings in the next several years?
A. As we talked about earlier today, I believe there is a document out by one of the rating agencies that have indicated, after a successful completion of the merger and the integration of the business, that they would likely expect an improvement in the rating for the company. In fact, one of the two were on a "positive

watch," which is an indication that if things go as expected, that credit-rating agency would expect the rating to improve after the event -- in this case, the merger -- after the event is completed.

Q. So the key financial ratios relied upon by the rating agencies, the leverage ratio and the interest coverage ratio, don't improve over the forecast period all the way through 2015, do they?

A. I think they stay fairly constant over the life of the model.

Q. I will refer you to page 18 of your rebuttal. This is confidential -- I mean, not confidential. It's public, for ease of reference.

Does FairPoint have a goal of achieving investment-grade credit ratings in the future? And tell us why or why not.

A. FairPoint does not have a specific objective of achieving an investment-grade rating. I believe, as I indicated earlier today, in the current environment, the after-tax cost of debt is substantially cheaper for FairPoint than the after-tax cost of equity. Therefore, to try to achieve an investment rating would typically involve paying your debt down and raising more equity from where we are today. That would actually have a negative impact on the cash flows of the business, because the after-tax cost, again, is much higher, equity versus debt.

We think about that continually. And I would tell you, if the environment changed such that there were substantial benefits by moving towards becoming an investment-grade company, we'd certainly consider that. But we -- you know, we are the norm, not the exception. I think Mr. Balhoff will indicate, of all the companies in our comparable group, there are very few that are investment-grade companies.

Q. And it really wouldn't be possible to reach investment grade with the heavy debt load and financial metrics currently in the forecast; is that correct?

A. I think that's a matter of time. I think you could get there over time, if that were an important objective.

Q. Okay. Let's see. FairPoint has, at various times in this proceeding, identified Citizens, Windstream, Embarq and CenturyTel as comparable companies. Do you agree with this characterization?

A. I agree.

Q. I'd like you to turn to Staff Exhibit 27, page 2.

A. Is this a handout I should have?

Q. Yes, I'm sorry. This is, again, Staff Exhibit 27.

It's a Standard & Poor's commentary report entitled "U.S. Telecom and Cable Companies, Strongest to Weakest." If you take a look at page 2...
A. I see page 2.
Q. Yeah. Could you please read for us the long-term corporate credit ratings for Verizon?
A. A, slash, A-1.
Q. And for CenturyTel?
A. Triple B, A-3.
Q. And Embarq?
A. Triple B minus.
Q. And Citizens Communications?
A. Triple -- excuse me -- double B plus.
Q. And Windstream?
A. Double B plus.
Q. And FairPoint?
A. Double B minus.
Q. All right. Thank you. So for Standard & Poor's, the minimum investment-grade rating is triple B minus; is that correct?
A. I believe that's correct.
Q. So that means, according to this information, FairPoint is three levels below investment grade?
A. To the extent we'd have to go to a double B to double B

plus and then a triple B minus, that would be correct.

Q. Okay. Thanks. So to summarize, then, according to the Standard & Poor's report, FairPoint's current rating of double B minus is two rating levels below Citizens and Windstream, three below Embarq, four below CenturyTel, and seven below Verizon. Do you agree with that summary?

A. I would agree with that summary if I could add, but it also still puts us in the top third of the whole group.

Q. Okay. Fair enough. Now, I'd like you to turn to Staff Exhibit 31. And this is the S&P report on Windstream, dated August 2nd, 2007. Could you turn to page 5 of that document?

A. I'm there.

Q. And if you look at the chart at the top of the page, could you please read the debt to EBITDA or leverage ratios for 2006 for each of the peer-group companies in that chart? It's the second-to-last line of that chart. And, sorry, you have to turn back one page to get the company names. The first column refers to Windstream, the second to Embarq, and the third to Citizens.

A. Okay. I see that heading. And now you're asking me for the EBITDA -- the leverage ratios for those three

companies?
Q. Yes. As given here in the chart.
A. Okay. It looks like Citizens is a 4.1. That's about where we expect to be. Embarq is, again, the only investment grade. They're 2-1/2. And Windstream appears to be 3.4.
Q. Thank you. And just to close the circle here, if we go to page 3 of that document -- I'm sorry -- it's a different document. One minute, please.
Oh, here we go. If you turn to page 2, the paragraph entitled "Liquidity," could you read the last -- the next-to-last sentence in that paragraph, starting "Under covenants contained..."?
A. The sentence begins -- okay -- "Under covenants contained in the company's senior credit facilities debt to latest 12-month EBITDA cannot exceed 4-1/2 and interest coverage cannot go below 2.75 times."
Q. And you recall 4-1/2 was the number that we assumed in our earlier discussion?
A. Right. I now see the basis for your conclusion.
Q. Okay. Now, I'd now like to refer you to Staff Exhibit 28. This is an S&P full analysis of CenturyTel. Take a look at page 6.
A. Page 6?

Q. The chart on the upper portion of page 6, again, the line next -- the next-to-last line is called the "Debt to EBITDA" line. And the first column from the previous page is CenturyTel for 2006. And what is the leverage ratio for CenturyTel on that chart?
A. I see the 4.1 and 4.0. I'm trying to match headings.
Q. Yeah. CenturyTel is actually the very first column.
A. Okay. So those are the two -- two of the others. Okay. Looks like that is 2.3.
Q. Thanks. Okay. Now, we will turn to your rebuttal testimony, page 18.
What is the range for FairPoint's leverage ratio in the discovery base-case forecast presented here?
A. After the first year, which again has some one-time expenses in it, it's on a recurring basis. I would say, after the first year, the range is from 4.0 to 4.2.
Q. So what this tells us is that FairPoint, with its base-case forecast, will be very near the 2006 leverage ratio of Citizens, less favorable than that of Windstream, and far less favorable than those of CenturyTel and Embarq?
A. I don't think so. I thought there were two companies

listed right at 4 times. I have to look at that.
Q. So it will be close to Citizens, which we've determined is 4.1.
A. Yeah. I'm looking at -- again, at your document number, Staff No. 28. At the end of '06, Citizens was 4.1, right where we are. Windstream is 4.0, right where we are. So I would say two of those four are consistent with our numbers.
Q. And, actually, I would note that the date that you're reading here for Windstream, which is column 3, 4.0, that is dated April 27, 2007. And the Windstream document we took the 3.4 number from is dated August 2nd, 2007. So we are assuming that this is updated information and, hence, the difference in numbers.
A. Okay.
Q. So again, we're saying that you have said that the FairPoint number ranges from 4.0 to 4.1 in its forecast over time and which we now determine is pretty close to the 2006 ratio of Citizens, less favorable than that of Windstream at 3.4, and far less favorable than those of CenturyTel and Embarq at 2.3 and 2.5.
A. I think that's right. Again, I'm looking at '06 year-end information. And at that point, anyway, we were right on top of Citizens and Windstream, but above both

CenturyTel and Embarq, that's correct.
Q. Okay. Could you explain for us why a higher leverage ratio, which FairPoint has when compared to these four peers, is less favorable from a credit-rating and financial-viability standpoint?
A. I think credit-rating agencies, in general, deem more debt is less attractive than less debt. They're not concerned about shareholder value. They're not concerned about what's in it for all the stakeholders. What they care is less debt is better than more, so less debt creates a better credit rating.
Q. Okay. Thank you. Now, let's go back to Exhibit 31. This is the S&P August '07 report on Windstream and we're looking at page 5. And now we're looking at the line called "EBITDA Interest Coverage" in the top chart, under "Adjusted Ratios." And could you read these numbers for me? The first column is Windstream. What is that number?
A. I'm sorry. On page 5.
Q. Yes.
A. I can see...
Q. EBITDA interest coverage.
A. EBITDA to interest coverage.
Q. Mm-hmm.

A. Looks like it's four -- for Windstream, 4.4.
Q. Yes. Thank you. And the next column is Embarq?
A. Embarq at 5.7.
Q. And the third column, Citizens?
A. 3.3.
Q. Thanks. Now, back to 28, Exhibit 28, page 6, again, same line with respect to CenturyTel. And that's EBITDA interest coverage.
A. EBITDA interest coverage for CenturyTel...
Q. Sorry. The first column is CenturyTel.
A. Thank you. 6.0. I think I've got this lined up right, yes.
Q. Yes. Thank you. So in the case of interest coverage, a higher coverage ratio is favorable from a credit-rating and financial-viability standpoint; is that correct?
A. That's correct.
Q. So turning back again to page 18 of your rebuttal testimony, what is the range for FairPoint's EBITDA interest coverage ratio in the discovery base case forecast on that page?
A. On page 18, again ignoring the first year as a non-recurring year, it appears to be in the 3.4 range to 3.3 range.

Q. Thanks. So if I understand correctly, FairPoint, in its base-case forecast, will be very near the 2006 leverage ratio of Citizens, less favorable than Windstream, and far-less favorable than CenturyTel and Embarq. And, I'm sorry, this is the interest ratio. Is that correct, given the numbers we've just reviewed?
A. I believe that's right, yes.
Q. And CenturyTel and Embarq have been identified by both FairPoint and the rating agencies as peer companies that have similar business profiles to the merged FairPoint. Why do these companies earn investment-grade corporate credit ratings of triple B and triple B minus respectively from Standard & Poor's?
A. Again, are you -- I'm sorry. Did you imply that two of the companies have triple B ratings? Could you refer me to that?
Q. This was Staff 26, I think. Twenty-seven.
We had CenturyTel at triple B, Embarq at triple B minus. That's Exhibit 27.
A. I'm looking at 27.
Okay. I'm sorry. Your question now?
Q. Why do these companies earn investment-grade credit ratings from Standard & Poor's?
A. I think it's a function of the leverage amounts that

you just referenced, in terms of leverage test. It's a function of their EBITDA or their interest coverage.

It's also a function of size. The rating agencies find size to be helpful, in terms of stability. And these companies are larger than the proposed merger of FairPoint and Verizon. So when you wrap them all together, they concluded that they merit a higher credit rating than does FairPoint.

Q. Okay. Thanks. And on that same chart, would you agree that, in the "Financial Risk" column, CenturyTel and Embarq are both labeled as an intermediate risk versus FairPoint's aggressive?

A. Yes. I no longer have that chart in front of me, but I do recall that being the case, yes.

Q. Page 2, Staff 27.

A. I'll accept that while I'm looking for it, because I do remember that.

Q. We're going to go back again to page 18 of your rebuttal testimony.

A. Okay.

Q. And here, the discovery base case summarizes financial indicators for the forecast period of 2008 to 2015; correct?

A. Yes.

Q. We'd like to clarify a few of the assumptions that are included in the company's base case here. The discovery base case as presented by FairPoint includes the full amount of cost savings estimated by the company; is that correct?
A. That's correct.
Q. And what is the dollar amount of the cost savings included in each year and when do those cost savings begin in the base case?
A. We assume full-year cost savings are built up through 2008 and basically continue each and every year thereafter at approximately $71 million a year of savings.
Q. Great. Thanks. And what percentage of EBITDA do the cost savings represent on an annual basis?
A. The ratio of 71 million out of 575 million of EBITDA, that looks like it's about 15 percent, 14 percent, something in that ballpark.
Q. Thanks. And would you agree that the cost savings included in the discovery base case are very important to achieving the financial results presented here?
A. Certainly, they're -- to the extent they represent 14 percent or so of EBITDA, I would tell you that that is important. I would also ask you -- when Mr. Balhoff

makes his presentation, he compares the EBITDA margins of our business to the comparables. That's only important because it's another way of looking at how conservative or not are the FairPoint projections. And what you'll hear from that is that our projections have very low EBITDA margins relative to the rest of the comparable group and, therefore, far more upside than downside.

Q. Thank you. And another important assumption in the company's discovery base case is the timing of the system cutover from Verizon, as well as the cost of the TSA payments to Verizon, would you agree?

A. I would agree.

Q. What is the assumption of time needed for the system cutover?

A. I think it's important to understand that the timing of the cutover is virtually six quarters after the planning process started. And that gets lost in the comparison of the cutover to the closing date, but it's an important number.

One of the reasons we're spending so much money up front is related to the planning and integration exercise to be ready for the cutover. We picked our consultant in the third quarter of last year. We started working with our consultant in the fourth quarter of '06. So we had that quarter. We had four quarters of '07. We'll have the first and second quarter of '08, because our cutover's expected to occur at the end of May of '08.

So you virtually have, you know, anywhere from six to seven quarters of planning in place before we actually cut over, which seems like an enormous amount of time to get it right. But I think people lose the sight of that because they see a closing date of the end of January and then a cutover four months later. So it's important to recognize how much time has been spent on the cutover process.

Q. Thank you. I appreciate that.

Now, back to the base-case model. What are the TSA costs included here in your assumptions?

A. In this particular model, the costs were fourteen million two-fifty, roughly, for six months, plus a $30 million one-time charge. And I don't have in my -- I think that's close to $100 million. Fourteen times... What's that, 105 grand?

Q. Yeah.

A. 115 million. I'm sorry.

Q. You have about a hundred million stemming from a cost of 16.5 per month. And then, again, in the assumptions here, you're assuming how -- what period of time for the ---

A. And that's important, because at this time in the modeling process, we had a six-month TSA period because we were not using all of the available options made available to us under the TSA from Verizon.

As we got into the planning process with Verizon, we did two things: We agreed to exercise an additional option that was -- that was made available to us to allow Verizon to do more during the TSA period than we'd originally started -- than we'd originally contemplated. That took the fourteen two-fifty up to 16-1/2 million per month, because we now had Verizon doing more things that we thought we would do on our own, but that also enabled us to compress the period by four months from six months.

So in our current view, four-month TSA, 16-1/2 million plus the 34 million, because the one-time charge went from 30 to 34 when we exercised some additional options. The bottom line to all this is, at the current rate, we could effectively be on the TSA for about five months versus what's -- in terms of what's in the budget versus what we expect. So we have

an extra month kind of built in if we were to need it, from a cost perspective.
Q. Okay. And for purposes of the calculations here, we're looking at, beginning year one, 2008 -- we're talking about four months from closing to cutover and a hundred million assumption.
A. That's our -- that's in our current view, but that's not what's in the model that you're looking at. You're looking at the larger number in the model.
Q. Okay.
A. That said, since there was a reduction, we decided to leave it conservative and leave the full ---
Q. I see.
A. --- TSA money budgeted, even though we now expect to spend less than that.
Q. Okay.
A. We expect to spend -- we expect to be on the service four months, but we have enough money in the budget for five months, roughly.
Q. Okay. Great. Now, would you agree that the four-month cutover assumption -- five-month ---
A. Right.
Q. --- to be at the low end of the range of possibilities for cutover?

A. I really don't. When you think about a six- to seven-quarter process, you know, I don't believe that's on the low end. I think that's a reasonable assessment and where we could end up.
Q. How much more quickly do you think it could reasonably happen?
A. How much shorter than that?
Q. Mm-hmm.
A. I don't believe it could happen any shorter than that.
Q. Okay. So that's probably the low end of a reasonable estimate?
A. Clearly, if it were to change, we would likely give ourselves a little more breathing room. We'd not likely make it even shorter.
Q. Okay. And that would carry over to the TSA costs assumed here in this model are probably also at the low end?
A. Well, again, the TSA costs that are in the model today allow us to essentially cover five months of TSA expense.
Q. Okay. Let's see. Now, I'm going to turn to page 68 of your rebuttal.
Now, do the two tables presented on this page represent FairPoint's discovery MACC case?

A. I'm sorry. What's your question?
Q. Do these two tables represent FairPoint's discovery MACC case? I see a reference on line 3 on that page. And actually, beginning on the previous page, you begin to refer to the MACC case with respect to these two tables; is that correct?
A. Well, I'm trying to understand the difference between the two -- okay. It appears that both of these are the MACC case. They show different information. Okay.
Q. Okay. And how does the forecast represented here differ from the discovery base case that we've been looking at on page 18?
A. I believe the MACC case assumes a $64 million reduction in EBITDA, if I can find that number. So we just basically said, if we're off by $64 million, what would that do to the number? If the savings that we generated, which were expected to be 71 million -- if virtually almost all of those went away, what would the numbers look like.
Q. So the change here is really a removal of $71 million in cost savings that you mentioned earlier?
A. I think 64 of the 71, yes. Oh, is it 67? I'm sorry, 67 million.
Q. Sixty-seven?

A. I just couldn't put my finger on the number here.
Q. Okay. Now, looking at the second table on that same page, take a look, please, at the total net debt to adjusted EBITDA line toward the bottom of that table. Is this the same leverage ratio that we've discussed previously for both FairPoint and its peer-group companies?
A. Yes, it is.
Q. Could you please read this MACC case leverage ratio for FairPoint in 2008 to 2015?
A. In terms of reading that number?
Q. The numbers across the line here on that line.
A. Sure. And, again, it's important to know that these numbers assume we lost $67 million in cash flow and kept paying the same dividend that's in place -- that's in our model, the $142 million -- which may or may not be a reasonable assumption if you don't generate the savings that we expect. But given that, that's what this number assumes.
If that happens, the net debt to adjusted EBITDA, the leverage ratio we're talking about after the first year, floats from about 4.8 to about 5.3 times versus us expecting it to be right around 4 to 4.1 times. So lose 67 million of EBITDA, continue

to pay your dividend, and you end up with a leverage ratio that creeps up to 5 times and beyond.

Q. Okay. And for comparison purposes, I'd like to refer back to our previous discussion of the 2006 leverage ratios for some of the peer-group companies. CenturyTel at 2.3, Embarq at 2.5, Windstream at 3.4, and Citizens at 4.1. Would you agree that summarizes what we discussed earlier?

A. I'll assume that's right. It sounds right.

Q. So, with the removal of the cost savings from FairPoint's discovery base case, is the company's forecasted leverage ratio much higher than that experienced by those peer companies in 2006, including even Citizens?

A. If you make the assumption that we continue to pay the full dividend, despite not achieving the projected cost savings -- which again I would challenge whether that's a reasonable assumption or not. But if you made that assumption, then clearly these leverage levels would be higher than our nearest comp, which would be Citizens. And that's what I understand a sensitivity does. It indicates, kind of in a worst-case scenario, how does this -- how do the numbers compare. That's what it says.

Q. Okay. Thank you. And what is the assumption for system conversion cutover timing in the MACC case?
A. That we are on budget. That we meet the existing timeframe and existing budget.
Q. And is that the same for the five months that we discussed earlier?
A. Right.
Q. And a hundred million in TSA costs?
A. Yeah. A hundred and fifteen, I think. That's a five-month number.
Q. Okay. And how much would the total TSA charge increase for a six-month cutover versus four?
A. The monthly charge for the TSA is $16.5 million. If we know in advance when that -- when we are going to cut over, staying on the TSA doesn't cost you quite as much as if you're surprised.
And the reason I say that is, is right now we're assuming an end-of-May number when we ramp up our employee base to get ready to step in at the end of May and take over all those functions currently performed by Verizon. So you have to have a full, complete staffing done right when you come off the TSA. If you know the TSA's going to be moved back a couple months, you delay that staffing and now you staff up

later.

So if you know, in advance, that the TSA's going to be moved back, then you -- you can save some of the staffing that you would otherwise have incurred. And as a result of that, you end up -- the net effect of an additional month on the TSA is in the ten to $11 million range. We pay 16.5, but we continue -- there are some avoidable costs. The best example is postage. They pick up all the postage on sending bills to 1.4 million customers and that gets covered by the 16.5. There are other costs like that that, as long as we stay on the TSA, we avoid them and they get covered by the 16.5.

So kind of a rambling response to the question, it costs us about ten to $11 million a month for delaying the TSA.

Q. Great. Thank you. I'm actually turning back to page 18, back to the discovery base case. In these base-case results, how much does FairPoint pay down the total debt from 2008 through 2015? We covered this in -- with Ms. Hollenberg, but we're looking at slightly different years.

A. Okay. 2008, total debt just under 2.5 billion, down to 2.085. So about $400 million in this timeframe.

Q. Thanks. And why is FairPoint able to pay down this amount of debt in the base case?

A. It's able to do that because the model assumes the excess cash flow generated after meeting all of the obligations -- operating expenses, debt service, taxes, dividends -- is applied against the principal payment -- applied against the principal amount and reduces debt accordingly.

Q. Thank you. And is FairPoint required by any of its debt commitment letters or other commitments to pay down its debt by specific amounts or under specific circumstances?

A. I think the expectation is 2 percent a year -- 1 to 2 percent a year is a mandatory prepayment requirement, pretty insignificant relative to the amount that the model shows us paying.

Q. Thanks. Now, if the discovery base case assumes the paydown of almost 400 million in debt through 2015, why doesn't the crucial leverage ratio decline over time?

A. Because we have -- that's a very good question. And the answer to that is we have conservatively modeled this business to show declining revenues and declining EBITDA over time. We've not loaded in what we believe will be actual additional services like video services that we know we will be rolling out because we have a network that will accommodate that. So this is a bare-bones run-the-business-as-well-as-you-can, but it's still the base business.

And throughout the industry, access-line losses are causing the customer base to decline. We assume that that will continue here. The bottom line is we have declining EBITDA, so your leverage to EBITDA, as your leverage goes down -- but your EBITDA is going down as well, so you effectively stay at the four -- four -- four-to-one kind of relationships.

Q. Okay. Thanks. And so, the debt reduction in the base case is required to offset future EBITDA declines just to keep the leverage ratio steady at about FairPoint's model level in this case; is that correct?

A. That's correct. But it's also after continuing to pay $142 million a year in dividends. So, again, that's an important element, in terms of the flexibility of what the company can do going forward.

Q. Okay. And wouldn't credit and other financial analysts prefer to see the FairPoint debt paid down by greater amounts and the leverage ratio improve over time rather than stay flat, especially in its presentation or base case?

A. I would tell you a -- probably a credit rating agency analyst might, because they want to see less debt over time. I'm not sure a Wall Street analyst would actually tell you that. But from a credit-rating-agency perspective, yeah, I think they'd like to see debt go down over time.
Q. Especially in a business such as the wireline, where the future is uncertain, as you've noted?
A. That's probably fair.
Q. Could we go back to page 68? This is, again, back to the MACC case forecast. The total net debt declines by about how much from 2008 through 2015 in this case? That's the lower table.
A. The lower table.
Q. Total net debt.
A. Total net debt. It drops by about $80 million.
Q. Mm-hmm. That's compared to the 400 million in the discovery model.
A. That's compared to the 400 million, yes.
Q. And this lower amount of debt repayment is due to a lower cash flow from the removal of cost savings; is that correct?
A. Yes. From the assumption that the cost savings are not generated and, despite that, that we continue paying

$142 million annually in dividend payments.
Q. Okay. And does the MACC case leverage ratio rise over time with less debt repayment?
A. It does.
Q. And by how much?
A. It rises from about 5.1 to 5.3 over the -- over the life of the model.
Q. Okay. And just to repeat here, the assumption for the system cutover and TSA payments in this case was four months and 100 million; is that correct?
A. Well, no, it's actually the five-month.
Q. The five-month.
A. The five months, yeah.
Q. And you have actually referred to the MACC case as the worst-case projection; is that correct? That's on the previous page.
A. I may -- I may have.
Q. Page 67, beginning at line 6, "Far from being the most likely case, as Mr. Vickroy contends, we continue to view the MACC case as the worst-case scenario."
A. And I still believe that's a true statement.
Q. Okay. Thanks. I'm going to shift gears a little bit.
A. Okay.
Q. FairPoint currently serves, in large measure, in rural

areas; is that correct?
A. We do serve some reasonably -- you know, reasonably -- let me say it different. We serve some towns, but our largest towns are not more than, you know, 20,000 people or so. We do serve some communities in that range.
Q. Actually in your Exhibit WEL-2 to your rebuttal, which is public, you have a chart saying that more than 80 percent of local exchanges will serve 5,000 customers or less.
A. I think that's right, yeah.
Q. And do you agree that rural carriers receive some cost subsidies because of relatively higher costs?
A. Yes.
Q. And would you agree that rural carriers have higher operating costs than do urban carriers, as a general matter?
A. Yes.
Q. Could you summarize for us, please, all personnel-related cost changes that FairPoint's financial model assumes with respect to the work performed by Verizon employees that will go over to FairPoint after acquisition as opposed to those Verizon employees that FairPoint will need to replace because Verizon will

retain those employees to support continuing Verizon operations?

A. Please repeat the question.

Q. Sure. It's a little convoluted.

Summarize for us all personnel-related cost changes that FairPoint's financial model assumes with respect to work performed by the Verizon employees that will go to FairPoint and those that FairPoint will have to replace.

A. I don't believe we have that exact analysis. What I can tell you is we know the employees that will have to be put in place to perform the back-office infrastructure that again is currently performed by Verizon outside of the three states. We are going to move all that back-office infrastructure activity into the three states. You know, again, network operations centers, data centers, billing functions, et cetera. And that is the number that we talked about earlier: 675 employees are projected to -- have publicly been announced to do that work for us.

We expect, by and large, all the existing Verizon employees in the three states to generally stay in the three states, doing more or less the same thing that they are doing today. There may be some swapping of certain functions as Verizon moves from a five-state structure to a three-state structure. But by and large, we expect the basic business to be operated on the ground by the same employees that are in place today.

So no employees really go away. What goes away is the allocation that Verizon charges for these out-of-state functions to the three states. That allocation goes away and gets replaced by the cost of hiring and maintaining the 675 incremental employee work force.

Q. So if I understand correctly, there are no real cost changes related to personnel assumed in the model.

A. Well, there -- the cost changes or the cost savings ---

Q. For Verizon employees who come over.

A. All the Verizon employees that are represented in their allocated costs -- again, the allocation piece versus the direct -- we assume that goes away.

Q. Okay.

A. And so those personnel costs go away and get replaced by the cost of 675 new employees.

Q. Kind of netted out, though?

A. Well, the -- certainly, some of that is the basis for the projected savings. But it also has to do with putting in -- spending $200 million on new hardware, software systems, et cetera. It's a brand-new state-of-the-art back-office infrastructure replacing, you know, one that's hobbled by 75 years of having to keep the legacy systems in place.

Q. Okay. Thanks. Now, is it fair to say that, with respect to those Verizon employees that will go over to FairPoint, the financial model assumes that FairPoint won't lose any efficiency from those employees as compared with what Verizon has been getting; is that correct?

A. That's generally correct, yes.

Q. And, in fact, even during the first year or two after FairPoint takes over the business, the model assumes no productivity decline from those Verizon employees that come over to FairPoint; is that correct?

A. That's correct.

Q. So is it FairPoint's position that common costs Verizon has been allocating to northern New England offer the primary source of savings that FairPoint will be able to achieve?

A. Well, I am not sure the conclusions leading up to your last question tie together. I would tell you that we are -- we understand our cost structure and it was built from the ground-up, in terms of the back-office infrastructure. Again, we're keeping the same direct costs more or less in place, same employees, same buildings, same trucks, same utility expenses, et cetera. The only difference between our model and how Verizon has been operating the business is their allocation for those back-office services goes away, gets replaced by our cost structure. That creates a 65, $70 million savings, not all personnel-related. Again, we have the advantage of being able to build from scratch on a blank canvas the right systems, hardware, software, state of the art kind of technology by which to serve these customers. And we don't have the baggage that goes with having to have done this and updated, over several acquisitions over several decades, the back-office system. And I believe, when the witness for Verizon, Mr. Smith, gets on the stand, he would agree that that -- that's a great opportunity for a company to have, to kind of build from scratch what you need today versus having to keep in place what you've inherited.

So I wouldn't say it's all people. I would say that it's a part of being able to put in place a state-of-the-art function to replace something that has been there and had to operate differently for a long time.

Q. And thank you, Mr. Leach. I'm sorry. I probably should have paused between questions more. I didn't mean to imply that my question related to personnel costs. I'm trying to understand. It's the common costs that Verizon has thus far been allocating to northern New England that represent the primary source of cost savings in FairPoint's model; is that correct?

A. The difference in their allocation cost versus our back-office infrastructure cost is the predominant driver of the savings, yes.

Q. Okay. Thank you. Now, can you tell us year by year, through 2015, what FairPoint's most current estimate is of those savings? And I think we can turn back to page 18, again.

A. It's a -- let me explain why that's a tough question to answer. The question implies that, each year, we will be, in my view, comparing to what Verizon would have been operating in that year. And we have no way of knowing that.

What we do know is, in this last year of operations, what Verizon's total expenses were and we can certainly compare our cost structure to that last year going forward. And that's what creates the $71 million of savings. So we really don't have an ability to say, each year, how much would you have saved versus Verizon that year, because we don't know what their costs would have been that year.

So we are assuming, you know, the 71 million kind of gets carried forward in our cost structure.

Q. Okay. Now, are those savings coming from allocations of common costs that Verizon now assigns to northern New England, but that will not come to FairPoint after acquisition, then?

A. Predominantly, yes.

Q. Okay. And what source documents show what those Verizon allocations of costs are?

A. I do not know the exhibit number, but I believe there was -- one of the data responses included information which detailed the allocations from Verizon to these three states in, I believe, 2006.

Q. Okay. Actually, I think that was the highly confidential table that you included on page 57, which you discussed with Mr. Rubin. Does that sound right?

A. No, I don't believe so. No. That -- that's not exactly right. The table that we discussed with

Mr. Rubin, I was trying to explain, wasn't a precise allocation. It was our best estimate of comparable cost. But that is not really the table I'm referring to. They have an actual table that shows their exact costs not broken out exactly like this, but they show what their allocation was for -- actually, it may have been 2005 was the number we submitted that shows exactly what that allocation was.

Q. That was actually Labor Exhibit 11HC, I think.

A. Do I need to look at it?

Q. No, no. We're staying public here.

Now, in your savings assumptions, you aren't arguing that those costs represent totally wasted expenses by Verizon, are you?

A. No.

Q. And you aren't arguing that those costs represent any sort of deliberate cost shifting among jurisdictions by Verizon?

A. No.

Q. In fact, aren't those allocated costs the common corporate costs that Verizon spends to support the employees in the field, such as those employees that will come over to FairPoint after acquisition?

A. There may be a very little bit of that. But by and large, that's not the case. Again, think of direct costs that cover all 2800 employees that come with the business and all the on-the-ground costs -- again, trucks and maintaining buildings, et cetera -- that cost structure comes from the merger. That's been modeled in our financial model as continuing as it has in the past. The difference is corporate allocations from Verizon go away, get replaced by our -- the cost of our 675 new employees and the related facilities.

Q. Now, isn't the most central point about FairPoint's savings assumptions then that you believe that your costs of supporting the same employees who are coming from Verizon will be less than what Verizon's has been in the past?

A. No. The employees that come with the merger, we assume, come over at the -- in our model -- at the same costs as are incurred today. In fact, that's how we built our model. We took the existing employees' W-2 information, built it up position by position, and have continued those costs with the attrition and the comp-increase assumptions going forward.

Q. But given our discussions about cost savings, aren't you saying that it will cost FairPoint less to support those personnel than Verizon?

A. No. It will cost -- we're saying it will cost FairPoint less to provide the back-office services, billing, network operations, et cetera, data-center services, than the allocation from Verizon in a general fashion.

Q. Thank you. I apologize. Okay. Let's go back to your yearly savings of -- cost savings. What number did you give us?

A. 71 million.

Q. And what -- how much of a percentage savings per year does that equate to? You stated, just to refresh your memory, 14 to 15 percent of total EBITDA.

A. I think that's correct. Not of total expense, but total EBITDA.

Q. Okay.

A. It's a much smaller number compared to total expenses.

Q. And Verizon has how many land lines nationwide?

A. I do not know the answer to that.

Q. Would you accept, subject to check, 45 million or more?

A. I don't know. To allow us to continue, we'll accept that subject to check.

Q. And that Verizon is the second-largest local exchange provider in the U.S.?

A. That, I do understand, yes.

Q. Okay. And FairPoint has how many land lines currently?
A. We have access-line equivalents, both lines and DSL customers, of about 300,000.
Q. Okay. And so, basically, FairPoint is less than 1 percent of Verizon's size, in terms of access lines; is that correct?
A. That's probably right.
Q. Okay. Now, these allocations that you're saying that you won't have to pay once Verizon has left the region, those are for common people and resource costs that support a large portion of Verizon's access lines throughout Verizon's footprint; is that correct?
A. In some cases, that's correct. In some cases, it's more regionalized. But it's certainly costs incurred for services that are provided from a facility outside of the three-state region, in general.
Q. Okay. And Verizon is now operating very largely, very successfully, in many businesses besides local exchange service, isn't it?
A. That's correct.
Q. And do you have any reason to doubt that the support people and resources are serving some of Verizon's other businesses, as well, currently?
A. I'm sure that's -- for allocation purposes, I'm sure

that's true, yes. Or as a result of the allocation process, that implies that's what's happening, yes.

Q. So if I understand correctly, the numbers are showing that FairPoint believes it can provide the -- support people and resources more efficiently than a company that is a hundred times its size, probably closer to 200 times, if we count all Verizon's other businesses?

A. That's a true statement. And while maybe it's not intuitive, it's almost true in every single acquisition where the Bell companies spin off assets, access lines. And I would just ask you to defer part of that to Mr. Balhoff, who has -- is somewhat of an expert on that. So this assumption is no different than what typically happens when Bell companies spin off rural access lines.

Q. Mr. Leach, what do you know personally about these kinds of savings from other acquisitions?

A. Mostly, the information in Mr. Balhoff's testimony.

Q. Okay. Thanks. I'm going to shift gears again.

Now we're going to turn to Staff Exhibit 26. And here we have reproduced a copy of the State of Vermont Public Service Board initial brief in parallel proceedings, dated October 17, 2007.

MR. COOLBROTH: Mr. Chairman, just in

terms of the potential admissibility of this exhibit, this is a trial brief from another jurisdiction. I certainly don't have any objection to statements of law or policy that are in a brief, but my expectation is that there are factual record references from an entirely different proceeding that could well be in here. Those items should not be in the record for their truth.

CHAIRMAN GETZ: Let's see how you're planning to use this.

MS. FABRIZIO: Sure. If Mr. Coolbroth will indulge me, I do not actually plan to pull out factual material from the brief.

BY MS. FABRIZIO:

Q. I would like to cite from page 63, the first full paragraph beginning "These safeguards..."

MR. McHUGH: I'm sorry. Attorney Fabrizio, what page?

MS. FABRIZIO: I'm sorry. Sixty-three.

MR. McHUGH: Sixty-three. Thank you.

BY MS. FABRIZIO:

Q. In this brief, the Vermont Staff is proposing safeguards that include the following, and I quote, "One, requiring the establishment of a separate legal entity for FairPoint's Vermont operations; two, creating a mechanism to restrict the ability of FairPoint to move cash from its Vermont operation to the parent corporation should FairPoint be unable to demonstrate that it is meeting service quality standards and achieving broadband expansion milestones."

I have a number of questions about this particular proposal, Mr. Leach. Are you familiar with this position of the Vermont department through your participation in the Vermont proceedings?

A. Yes, I am.

Q. And Verizon does not have such a separate subsidiary currently in its operations in Maine, New Hampshire or Vermont, utility or non-utility, does it?

A. I believe that's correct for the local exchange carrier business, yes.

Q. Okay. In fact, Verizon does not even keep separate books of account for assets, liabilities, revenues or expenses for the operations in any of these three states, utility or non-utility, does it?

A. Beyond what's required for regulatory reporting, I believe that's the case, yes.

Q. FairPoint does not propose to have a separate state subsidiary for Vermont or any other state, either, does it?

A. We have steadfastly opposed the consideration of setting up a separate subsidiary in each state because we believe that, number one, it's not necessary. Number two, we can provide stand-alone state financial information, if that's the purpose of that financial entity.

But if the purpose is to somehow encumber the cash flow coming out of that entity up to the parent, then we have continually objected and said that that's not necessary and, in fact, would defeat the benefit of having the capital structure structured as we have proposed with all the debt at the parent company.

Q. Great. Thanks. And FairPoint does not propose separate books of account, either, does it?

A. Well, we -- I think, to the extent that the sole purpose of setting up a state corporation was to provide financial records, I think we would not object to doing that, but it would have to be clear that that would be, you know, the sole purpose for doing that; that we would continue to object to any encumbrance on the cash flows from the state operations up to the parent.

Q. Great. Thank you. In fact, won't FairPoint rely on a very significant level of both common assets and common expenses to provide services to the three states, whatever the corporate structure or accounting?

A. We'll rely on common back-office infrastructure for much of the service, yes.

Q. And you don't anticipate putting those common systems and people in a separate entity, do you?

A. We do not.

Q. It doesn't look to me like Vermont DPS here anticipates putting them into its proposed Vermont entity, either. Do you disagree?

A. In terms of the common infrastructure items?

Q. Yes.

A. No. That -- in the discussions we've had, that was not part of their to objective.

Q. Okay. And at the least, it's far from clear, according to what we have here in the brief, that they anticipate putting those common systems and people into a separate entity.

A. I would agree it's ---

Q. It's not really clear.

A. --- far, far from clear, yes.

Q. Does FairPoint propose to operate the business in the three states with equity and with debt that is not segregated between any of the three states?

A. Yes.

Q. And whether or not you would segregate only Vermont and leave Maine and New Hampshire combined, have you begun efforts to accomplish the required segregation and to address what to do about assets that serve the three states in common?

A. I'm sorry. Repeat the question?

Q. One second. So whether or not you would segregate only Vermont and leave Maine and New Hampshire combined, have you begun any efforts to accomplish that segregation and to address what to do with assets that serve the three states in common?

A. We certainly have been giving some thought to allocation processes, in terms of the appropriate way to allocate both among states as well as among reg versus non-reg activities. We know that we have to have a CAM in place. We know we also need an allocation process for allocating common costs across all three states. So we have given some thought to that.

Mr. Skrivan can provide a little more detail, in terms of how far along that thought process

has gone. But yes, we understand the need to do that. Beyond that thought process, we haven't put -- taken any firm steps, to answer your question, to segregate any of the assets in any form or fashion.
Q. Okay. Thanks. And whether this Commission does or does not see the wisdom of a separate one-state subsidiary, doesn't this Commission have at least an interest in making sure that carving Vermont out is done on the basis of proper and fair asset, liability, revenue and cost allocations?
A. I think that would be a legitimate concern, yes.
Q. And is it realistic to believe that there is a way to perform such allocations and submit them to this Commission in time for it to validate their fairness to New Hampshire prior to a scheduled close?
A. Oh, I think if we had do that, there would be time to do that. Our objective is not to have to do that.
Worst-case, the -- if Vermont insists on a stand-alone entity, then that would be the LEC assets in that state as versus anything beyond that, in terms of corporate back-office infrastructure.
Q. Okay. And Mr. Leach, could you just clarify your response for us? What are you basing your supposition on that this would not include the common costs?

A. It's based upon discussions we've had with the State, what their objectives are, in terms of having a Vermont operating entity. Basically, that's the asset, the customers, et cetera, in the state of Vermont.
Q. And that may or may not be consistent with what we have here in the brief. Is that ---
A. That certainly may or may not be consistent with that, yes.
Q. Now, let's talk about whether this Commission will be forced to carve out New Hampshire if the Vermont Department position is adopted. I'd like to turn to page 54.
A. Is that in the rebuttal?
Q. At page 54, the top of the page. I will begin reading in the second line. "The Department is not able to conclude that FairPoint has made an adequate commitment to deploy those resources to maintain an appropriate rate of capital investment in Vermont. The desire to ensure an enforceable commitment from FairPoint on this point is just one of the reasons why the Department has advocated for the establishment of a separate subsidiary and certain contingent cash flow transfers."
MR. McHUGH: Mr. Chairman. I mean, I object to some of this. Reading the Vermont brief and

what the Department believes has been demonstrated in the Vermont proceedings is not relevant. And I would ask that that be stricken. This is an advocacy brief filed after the close of the evidenciary record and for purposes of briefing under the Vermont procedure schedule.

MS. FABRIZIO: May I continue?

CHAIRMAN GETZ: Well, what is your response to.

MR. McHUGH: I would ask no, but that is the request.

MS. FABRIZIO: I haven't started asking any questions at this point.

CHAIRMAN GETZ: Well, part of this, I want to go back to the original issue raised by Mr. Coolbroth. And with respect to the -- I guess what would be considered an affiliate transaction control plan.

It seems to me that you're only asking that this be -- to that extent of the brief, you're only asking that this be used for the purposes of eliciting a response from Mr. Leach to what he thinks about applying those kinds of safeguards; that you're not asking that we admit this brief for any purpose of a conclusion of fact -- or conclusion of law, for that matter.

When we turn to this issue, I guess

you're setting it up as the Department's not able to make a conclusion about resources committed to Vermont. I guess, at this point, still, Mr. McHugh, I'm not seeing her using that for us to draw any conclusion of fact. I'll allow her to continue to see where this question goes. But I'm assuming you're going along the same lines of trying to get his reaction to various proposals made in Vermont. Is that the...

MS. FABRIZIO: And discussion of the potential impact of what might happen in one state to New Hampshire.

MR. McHUGH: Perhaps, as an accommodation, Mr. Chairman, we can not be reading the brief into the record here. In other words, the witness can be asked to read the section and then a general question can be asked without actually reading the paragraph into the record.

CHAIRMAN GETZ: I think there's a few ways of doing this. I don't think there's anything particularly objectionable about this. I guess she could ask a general question and then say, "Isn't that what they did in Vermont?"

Let's proceed and I want to see where this goes, but ---

MS. HOLLENBERG: Excuse me. If I could just make a comment, I can't help but observe that FairPoint's position, in terms of the Vermont brief, is opposite to what position they took, in terms of factual statements that are inserted into Mr. Leach's testimony. And so I think their positions are inconsistent. They're objecting now to factual information from the Vermont brief being included. And I objected to factual information from a Vermont Department witness being included in Mr. Leach's testimony.

Thank you.

CHAIRMAN GETZ: Okay. Let's continue with your questions, Ms. Fabrizio, and see where this goes.

BY MS. FABRIZIO:

Q. Okay. Referring back to the paragraph at the top of page 54, this paragraph tells me that the Department would like to have the ability to assure the dedication of a Vermont segregated portion of capital and cash flow to Vermont use. And if that's true, even if you aren't sure, I'd like you to answer this question regardless.

Do you agree that it was Vermont's apparent position here that it is appropriate for a single state to enforce such a priority without regard for how it ends up restricting the resources available to meet other northern New England obligations of FairPoint?

A. I do not agree.

Q. And won't those other obligations include debt used to support service in all three states and common expenditures for resources that provide common support to operations in all three states?

A. Yes.

Q. And won't revenues from all three states be needed to meet both individual state needs and the common FairPoint costs for serving them?

A. Could you repeat that question, please?

Q. Won't revenues from all three states be needed to meet both individual state needs and the common FairPoint costs for serving them all?

A. I'm not a hundred percent sure that's true. And the reason I answer that question that way is, again, we're projecting $200 million of excess cash flow after all of our operating expenses, all of our debt service, tax, et cetera. And there might be some combination of, you know, two of the three states being able to provide that, being able to provide everything except that, if you will.

So while, in general, it may be a true statement, there may be some scenarios where one state may not have to contribute to the greater good of all three once you get, you know, to the last dollar of free cash flow.

Q. And the common costs involved here, whether they're for servicing debt or paying expenses associated with systems and people whose work will support all three states, they're going to be actually quite substantial for FairPoint, aren't they?

A. The common costs will be quite substantial.

Q. And won't dividends or other cash distributions from the entity or entities serving northern New England be absolutely essential in serving debt held at the parent level?

A. That's an easy one. Yes, that's correct.

Q. And won't a separate Vermont entity mean that at least two separate entities at the northern New England operating level will result in three if New Hampshire and Maine take the same approach?

MR. RUBIN: Mr. Chairman, I'd object at this point. It seems like the last several questions have been asking the witness to rebut a proposal made in

Vermont, and I really don't see the relevance of that to this case. I mean, I understand that there may be some concerns about what would happen if the board of -- or the Public Service Board in Vermont adopted a certain proposal, but I think we've gone well beyond that.

MS. FABRIZIO: Mr. Chairman, I think that the fact that the Department in Vermont has raised this proposal to the level of their initial brief in the proceeding raises implications that are very relevant and important to New Hampshire's consideration of the overall transaction.

CHAIRMAN GETZ: Does this go to the earlier issue that was -- I forget at this point who raised this earlier in the day -- about what happens if we get conflicting conditions? Is that the concern?

MS. FABRIZIO: Yes.

CHAIRMAN GETZ: I guess, from a practical standpoint, I mean, how much more -- are there other conditions in this brief that we're going to be going through?

MS. FABRIZIO: No. This is it.

CHAIRMAN GETZ: Okay. So if that's the end of it, then could you move on to -- well, how much more do you have?

MS. FABRIZIO: About ten minutes.

CHAIRMAN GETZ: Well, let's finish your cross, then.

MS. FABRIZIO: Okay. Thanks.

CHAIRMAN GETZ: And then we need to regroup on where we are in the overall scheme of things.

BY MS. FABRIZIO:

Q. Okay. So go back to the first -- page 63, which talks about restricting the ability of FairPoint to move cash from Vermont to the parent. That movement really means not just to the parent, but also to the other New England entities or entities that will result from separating out Vermont, doesn't it?

A. It could ultimately mean that, yes.

Q. Okay. And moreover, the expenses it takes to provide common services will remain in the combined New Hampshire/Maine entity if, for example, Vermont is carved out; is that correct?

A. I'm sorry. Ask that question again.

Q. The expenses it takes to provide common services in northern New England will remain in the combined New Hampshire/Maine entity if Vermont is carved out as proposed; is that correct?

A. Well, I don't think this means that Vermont would not pay its fair share of allocated expenses. So I don't believe a state entity would cause us to do anything different from an allocation across all three states, if that's the purpose of the question.

Q. So to the extent that Vermont restricts cash distributions out of the sequestered Vermont entity, as proposed, if things aren't going well financially for northern New England operations as a whole, New Hampshire and Maine face the potential of having to pick up Vermont's share of those common expenses. Is that your understanding?

A. I would not expect that to be the case. I would expect common expenses to be allocated across all three states and in a -- an ensuing expense, I would not presume, would be a dividend or a distribution out of the Vermont operations. It would be paid like any other expense. And that, I do not believe, is the intention of having a separate Vermont corporation.

MS. FABRIZIO: That actually concludes my ten minutes on that subject.

CHAIRMAN GETZ: I thought you meant ten minutes overall.

MS. FABRIZIO: No. We have a few more.

CHAIRMAN GETZ: Okay.

Q. These are some --

CHAIRMAN GETZ: Mr. McHugh, I anticipate you'll have redirect? Is that ---

MR. McHUGH: Some. Sorry. Some, Mr. Chairman, yes.

CHAIRMAN GETZ: "Some" being five minutes, 15 minutes?

MR. McHUGH: Probably ten minutes. My hope and goal is ten minutes or less.

CHAIRMAN GETZ: Okay. Thank you.

BY MS. FABRIZIO:

Q. Okay. Mr. Leach, this series of questions goes back to a comment you made earlier about how conservative the TSA assumptions are, in fact.

You heard Mr. Kurtze yesterday say that the signing of an MSA is a better measure for the beginning of the work associated with system cutover, did you not?

A. Yes.

Q. And from how you described the cutover process in response to my earlier questions, I take it you would agree with that concept, that the signing of an MSA really represents the beginning of the start of work toward cutover.

A. Signing of the agreement between FairPoint and Capgemini in this case? Is that...?
When you say "the MSA," what are you actually referring to?
Q. Yes. Yeah.
A. No. In our case, we -- there was a substantial amount of work done by Capgemini in the fourth quarter of '06 before the transaction was announced. So there was a meaningful amount of work done, in terms of planning and coming out of the chute, in advance of the MSA being signed. It was signed in early January, so -- and it's a pretty in-depth agreement. So I think it's pretty obvious there was time and effort spent on this in advance of the signing of that agreement.
Q. What was the value of that work performed?
A. Roughly $200 million.
Q. The work before the MSA was signed?
A. No. The total of the MSA.
Q. Okay. And how much of that value was actually performed prior to the signing of the MSA?
A. It's hard to say, because the -- Capgemini clearly invested a lot of time and effort in a, what I call a business-development mode, hoping to win the business. So they -- while they would not have billed for that

time and effort, they would have expected, ultimately, to recoup that, in terms of the ultimate contract. So while there were substantial hours spent, there was no billing for that, because it was subject to a contract being signed. So I could not quantify that for you.

Q. Okay. How many months are you talking?

A. We're talking about having started discussions in the third quarter of '06 and then having selected them before the end of the third quarter and working with them pretty diligently in the fourth quarter of '06 and then signing the contract, you know, early January.

Q. Okay. So the MSA was signed in January '07 with Capgemini; right?

A. Correct.

Q. And if we were to start from that date, that means a total duration of about 16 months from the signing of that agreement to your projected cutover in May of '08; is that correct?

A. Actually, it would be, you know, 12 months of '07 and the cutover at the end of May is five months; right? Seventeen months.

Q. Seventeen. And Mr. Kurtze talked about work in Hawaii beginning in February of '05; is that correct?

A. I wasn't ---

Q. To your recollection?
A. I wasn't paying enough attention to answer that question.
Q. And that would add up to a duration of about 14 months to the Hawaiian Telecom cutover of April of '06, according to the dates that Mr. Kurtze gave us yesterday.
A. Okay. I'll trust that your numbers are correct.
I would suggest that Mr. Smith would be the better witness to compare timetables, as he was personally involved with both of those relationships.
Q. Okay. In the meantime, before we get to Mr. Smith, I'd like to pick up this page from the Hawaiian Telecom S-4 form. And in fact, this was cited by Mr. Kurtze yesterday. Do you see the highlighted sentence? Is that visible on your monitor?
A. Yes, I do.
Q. Could you read that for us, please?
A. "During the period from inception to May 21, 2004 to December 31, 2004, the company incurred fees, under this agreement, amounting to six million four ninety-five."
Q. So this suggests that there was work done in Hawaii before February of '05; is that correct?

It strikes me as quite similar to what you've been saying with regard to Capgemini and FairPoint.
A. I presume. I guess...
Q. Some work ---
A. Some work.
Q. --- obviously was initiated.
A. That's fair.
Q. And even if there were not the difference in duration between Hawaii and northern New England, it's only -- we're talking 14 months to 17 months here; right?
A. Again, I think ---
Q. For comparison?
A. I believe Mr. Smith can describe a dramatic difference between the amount of work done in the early months of our arrangement versus that arrangement, so I do not believe it's an apples-to-apples comparison. It's only three or four months' difference, whatever the conclusion is you're trying to reach here.
Q. Okay. And just to sort of repeat what we discussed yesterday, Hawaii experienced major systems-related problems after cutover; isn't that correct?
A. That's my understanding, yes.
Q. Okay. Actually, I'm going to finish up with that line.

One minute, please.

Two questions. Mr. Leach, you discussed with Mr. Rubin earlier today the issue of capital expenditure limits in the final debt agreement. Could you please turn to page 97, I believe, of your rebuttal.

Are you at page 97?

A. Yes, I am.

Q. Could you please read the first sentence of the answer beginning on line 10?

A. Line 10. "FairPoint believes it is unnecessary for the Commission to approve the final debt agreements..." Am I at the right spot?

Q. Yes.

A. "...the final debt agreements prior to their signing."

Q. And do you still find that the Commission review of final debt agreements prior to signing is unnecessary in light of the potential for those agreements to constrain FairPoint's capital expenditures on utility and service?

A. My answer to that is yes, because the assumption is that the drafts of the agreement that you do look at will -- to the extent there's no material change, you'll be satisfied with that number and have a chance to see what that restriction looks like at that time.

MS. FABRIZIO: That concludes my questions. I thank you very much, Mr. Leach.

THE WITNESS: Thank you.

CHAIRMAN GETZ: Commissioner Morrison?

EXAMINATION BY CMSR. MORRISON

BY CMSR. MORRISON:

Q. Good evening. In your prefiled testimony at the top of page 18, you talk about the composition of the board of directors of Spinco. My question is: What was the -- what was the rationale behind Verizon getting six of the board -- of the nine board seats?

A. The rationale -- first of all, this is a one-time right, and only one time, by Verizon to nominate board members. After that nomination occurs, then there's no continuing right or -- and no continuing affiliation at all.

My understanding is they feel that, since Verizon's shareholders will be owning approximately 60 percent of the new company, and that the result of actions that they are taking as a management team, that they have a fiduciary responsibility to have some influence on the board of directors of the newly merged company.

Q. Well, actually, it's more than some. They have the controlling number of board directors, don't they?

A. That would be true. They have already used one of those to elect an existing board member. So the practical reaction now is there will be five newly appointed board members from their six, to the extent they've already elected -- already nominated. And that resulted in the election of one of our existing board members.

And the theory was, their shareholders will own a majority of the shares so, therefore, they ought to have a majority of the votes of the initial board members, all of us understanding they have to be independent board members with no affiliation to Verizon in any form or fashion.

Q. What's the term of a board member?

A. We have a rolling -- that's not the right term -- but a rolling period. And I do not know off the top of my head, so we will have to provide a verbal data response to the specific terms.

Q. Please do. It appears, since Verizon owns 60 percent of the new company, of Spinco, that for quite some foreseeable time, because shareholders vote on board members, that basically Spinco could be run by Verizon board members or at their will. Is that not true?

A. The reason we don't believe that's the case is because of the requirement that they, in fact, be very independent board members. Again, they have used two of their six nomination rights. Again, one of those, they reelected one of our existing board members. With another one, they nominated Ms. Bonnie Newman from this great state, who we believe clearly will not act as a Verizon board member, but will act as an independent business person in her role on the board. And we understand and would expect the other nominees to fit that same category: Northern New England ties, independent from Verizon, and not have any affiliation thereafter.

Q. How are those board members compensated?

A. They're compensated with a combination of director fees for attending director -- board of director meetings, and grants of stock for likewise performing board of director responsibilities.

Q. And the director fees amount to what?

A. I do not have that information. Andy, again, will be glad to provide a data response -- verbal data response.

Q. I would also like to know how many shares of the company they get and how often that occurs.

MR. McHUGH: I'm sorry, Mr. Commissioner, shares of Verizon stock?

BY CMSR. MORRISON:

Q. Shares of Spinco or Verizon stock. How are they compensated as far as shares are concerned? And is that on an annual basis, is it a one-time grant? I'd like to understand that.

A. Those -- we can respond to that information as it relates to the FairPoint board of director policy. And these will not be board members of Spinco, merely board members of FairPoint. So we will not be able to respond to any Spinco board-member issues, as they will not be board members of Spinco.

Q. How many -- when you were doing your modeling, how many residential telephone lines were you modeling on.

A. Well, we basically knew the most-recent number that Verizon had. That number, in terms of total switched access lines, was 1.47 million, just under one and a half million lines. And that was, I believe, end of '06. Then we have received quarterly information thereafter.

But the model was based upon end of '06 customer accounts, and then we trended that forward and assumed, in most instances, continuing access-line losses for the different categories of access lines. I would have to look at the information to give you the precise stand-alone residential number versus the total.

Q. I'd like to see your modeling for the declining number of switched access lines over the next five years. I'm sure you have that somewhere, but I'd like that as a record request.

A. Yes, sir.

CHAIRMAN GETZ: Why don't we separate the board questions into one request and then the switched access lines into a separate request.

BY CMSR. MORRISON:

Q. My last question is: What is FairPoint's position on net neutrality?

A. I would like to defer that to Mr. Nixon, who can talk in much greater clarity about that.

CMSR. MORRISON: Great. Thank you. That's all I have.

CHAIRMAN GETZ: Commissioner Below?

CMSR. BELOW: I have a few questions. Thank you.

EXAMINATION BY CMSR. BELOW

BY CMSR. BELOW:
Q. On page 18 of your original testimony, line 19, there's a reference to an Internal Revenue Service tax ruling. What's the status of that?
A. We've been informed by Verizon that that tax ruling has been issued and in a satisfactory form to them.
Q. Okay. And the clearance under Hart, Scott, Rodino Antitrust?
A. Subject to check, I do believe we have the Hart, Scott, Rodino approval in hand, as well.
Q. Okay. On page 15, lines 16 and 17, there's a reference to Verizon's stockholders who have fractional shares would be paid cash. Could you just elaborate slightly on that? What does that mean, exactly?
A. My understanding is, if -- the rough exchange ratio is, for every 55 shares of Verizon stock, that shareholder will get one share of FairPoint stock. To the extent they end up having a number like seventy shares, so they qualify for one and a half shares of FairPoint stock, then they would get the one and then they would get cash for the difference, for the partial share.
Q. So you won't be issuing fractional shares?
A. No, sir. We will not be issuing fractional shares.
Q. On page 13 at lines 10 through 12, you reference the

South China, Maine, East Coast call center, which is expected to remain a key operational asset, will not be affected by the merger. And I understand that's because you're keeping existing operations, initially, entirely separate from the new Spinco operations. But later on in your testimony, pages 39 to 41, you talk about that you might -- once the transition is complete, you would look at potential synergies or efficiencies by combining operations.

Is this statement with regard to saying it won't be affected by the merger simply in the initial stages? Might it be affected at some point subsequent to the merger?

A. Clearly, the first is true. There will be no immediate impact. And you described it correctly, because we will keep the operations separate.

Our intention is that there will continue to be a role for that call center, going forward, even after we combine systems. But I ought to refer that on to Mr. Nixon, who is closer to that. But in general, we do intend to continue with that call center going forward, even after we integrate the two operations together.

Q. But, initially, it wouldn't be used to support current

Verizon customers?
A. It would not. It would not be the -- there would be no near-term intention to use that for current Verizon customers.
Q. So you'll have a separate call center that you're setting up somewhere in the three states?
A. That's correct, yes.
CMSR. BELOW: Okay. Thank you. That's all.
CHAIRMAN GETZ: We're this close, Mr. McHugh. Redirect?
MR. McHUGH: No pressure, Mr. Chairman. Yes, thank you.
CMSR. BELOW: Three minutes.
CHAIRMAN GETZ: Is it from me or is it from your client?
MR. McHUGH: Both. I have a couple, if I could.

REDIRECT EXAMINATION

BY MR. McHUGH:
Q. Mr. Leach, do you recall, when we were in highly confidential session, Attorney Hollenberg reading some or several lines of the Hart, Scott, Rodino filing into the record?

A. Yes.
Q. All right. In terms of what Attorney Hollenberg read, was that a fair characterization of why FairPoint is pursuing the acquisition of Verizon's northern New England properties?
A. I would -- I would need to look at that again. But it's the -- it's not a -- the -- I'd answer that as no. The Verizon situation created a very unique opportunity for us that was something we believed we were uniquely qualified to take advantage of. And it was for that reason that we have -- that we entered into the merger agreement. We had several other alternatives, in terms of acquisitions, we could have looked at -- in fact, were looking at at the same time. And some were very far along, in terms of the discussion process.
So this was one option that we had that, on its merits, we believed was the best alternative for us versus just the reasons that were mentioned in the Hart, Scott, Rodino piece.
Q. Okay. Thank you. In terms of the board of directors of FairPoint on a post-closing basis, after closing and with Verizon's nominations, will Verizon, as a corporation, or any of its officers have any control over what the FairPoint board of directors -- what they

might take, in terms of corporate actions?
A. They will not. And, by design, they cannot elect a board member who would not meet the independence standards of being truly independent from Verizon or any of its affiliates. So the answer to that is we would not expect that to occur at all.
Q. In terms of questions about synergies that you receive due to savings, can you tell me, have -- excuse me -- did you have an opportunity to learn about savings from the various acquisitions that FairPoint accomplished in the past?
A. Absolutely have. Again, we've done over 33 acquisitions, in our history, across 18 states. And that's a very common part of our due-diligence process, to look at the savings opportunities from each acquisition that we looked at in the past. So it's a normal part of the acquisition process.
MR. McHUGH: I don't have anything else, Mr. Chairman.
CHAIRMAN GETZ: All right, then. Thank you, Mr. Leach. You're excused.
MS. HOLLENBERG: Excuse me. I'm sorry. Do I get a chance to do re-recross or...?
CHAIRMAN GETZ: Well, I'm sure you're

well aware that our common practice is we allow redirect as a matter of -- as a matter of practice. Do you have some extraordinary basis for pursuing recross based on this limited redirect?

MS. HOLLENBERG: I was going to ask about the one question related to the HSR document that Mr. McHugh referred to.

MR. McHUGH: I don't see any reason to deviate from the practice, but that's fine.

CHAIRMAN GETZ: Well, if there's a single question in follow-up regarding Hart, Scott, Rodino, you may ask, recognizing that then we will allow Mr. McHugh to pursue it, depending on what your question is. So please proceed.

RECROSS EXAMINATION

BY MS. HOLLENBERG:

Q. Okay. You were asked, by Mr. McHugh, about the page that -- the Hart, Scott, Rodino document that I referred to. Would you like -- I can show it to you.
A. I would like to see the document again, please.
Q. Sure. Excuse me.
A. Thank you.
Q. Would you agree that the response that you gave on the record just a moment ago is not reflected on that

document as a reason for this transaction?
A. I'm sorry. Ask the question again, please.
Q. Sure. I was just asking if what you just said on the record here, in response to Mr. McHugh's question, if that's reflected on that document as a reason for this transaction.
A. Well, it actually is. There's -- there's the alternative of get bigger. Actually, the notes refer to this transaction -- actually, the notes refer to, you know, bigger is better; in a war of attrition, the fat guy wins.
MR. McHUGH: Mr. Chairman, this is highly confidential. The general description is fine. But before, again, he starts going through all of the reasons, we're going to have to go back on the highly confidential record.
MS. HOLLENBERG: I'm not seeking to do that.
A. Sorry. I guess it's not clear to me what the question is. Clearly, we have -- one of our alternatives was to continue to grow via acquisitions, and that the Verizon acquisition met that condition. So, I'm sorry, I'm just not getting the actual question.
MS. HOLLENBERG: I'll withdraw the

question. I'm sorry.

MR. McHUGH: If it's withdrawn, then we have no further questions.

CHAIRMAN GETZ: Okay. That completes the examination. Thank you, Mr. Leach.

Okay. For tomorrow, looks like we start tomorrow morning with Mr. King; is that correct? And then we have Mr. Balhoff and Mr. Smith on deck after that.

I think, consistent with what, I think, we closed out yesterday, I'd like to work through the -- through Mr. King, Balhoff, Smith, Barber, Brevitz, Antonuk and Vickroy over Wednesday and Thursday, with the goal of completing those examinations. And, at this point, I'd like to keep open Friday. We can be available from 10:00 to 2:00, 2:30. We can get a couple of sessions in, at this point.

It's looking to me like the -- and my understanding from Mr. Kreis is that the Electrics may not be available on Friday and I'm very pessimistic that we're going to reach them on Thursday. So we may need to move them off until the 31st. It seems to be a logical way of handling that. I know the Electrics aren't here. But of the folks that are here, is there any problem with that approach?

And I guess my thinking was -- my understanding is Mr. Skrivan's available on Friday?

MR. McHUGH: Mr. Skrivan would be available on Friday. And I received confirmation early this afternoon that the panel for purposes of, perhaps, NHTA and FairPoint, that Attorney Phillips -- Attorney Phillips and the NHTA representative would be available on Friday, as well.

CHAIRMAN GETZ: Okay. Well, let's hold off on making that call, I guess. It looks like the safe call is that we're not going to reach the Electric panel and we need to finish with what had been the Tuesday, Wednesday witnesses. And I guess we'll figure out those details as we move along and we'll begin the morning with Mr. King.

Is there anything we should address before we close for the day?

MS. HOLLENBERG: No, thank you.

CHAIRMAN GETZ: Hearing nothing, we'll recess until tomorrow morning. Thank you.

(Hearing adjourned at 6:06 p.m.)