State of New Hampshire

BEFORE THE

PUBLIC UTILITIES COMMISSION

DOCKET NO. DT 10 - 025

Direct Public Testimony of

John Lisciandro

On Behalf of

The Public Utilities Commission

of New Hampshire

And

The State of New Hampshire

March 5, 2010

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Qualifications

Q. Please state your full name, business address and position.

A. My name is John Lisciandro, I am a Director at Deloitte Financial Advisory Services LLP ("Deloitte FAS") and my address is 1919 N. Lynn Street, Arlington, VA 22209-1742.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Staff Advocates of the New Hampshire Public Utilities Commission.

Q. Please describe your experience and educational background.

A. I am a Director in the National Technology, Media and Telecommunications ("TMT") practice in the Southeast Region of Deloitte FAS. I am the Valuation Telecom leader for the Southeast Region, and serve as the primary fair value specialist for the majority of Deloitte & Touche LLP's TMT audit teams in the region.

My experience includes one year as the Director of Finance of a satellite Internet content delivery company, as well as nearly twenty years of telecommunications/technology consulting primarily in the finance field. My areas of specialization include valuation, due diligence, merger integration, strategic advisory, business planning, financial analysis, financial modeling, project management, benchmarking studies, internal controls assessments and litigation damage quantification. I obtained an undergraduate degree in Finance from American University in Washington, D.C. in 1990. I am also a 2005 graduate of the Advanced Management Program in Telecom offered by the University of Southern California, Marshall School of Business.

Specific experience includes serving as the business advisor and interim CFO for an international private equity firm during their acquisition of a $700 million Incumbent Local Exchange Carrier ("ILEC"). My responsibilities included supervising a team of consultants in establishing the accounting, finance and treasury functions for the new entity, researching and compiling regulatory reporting requirements, and leading efforts with the client's regulatory attorneys to draft affiliate agreements. I have also been qualified as a valuation expert in the United States Federal Bankruptcy Court during my representation of the creditors of a bankrupt telecommunications equipment manufacturer. The process involved extensive monitoring and due diligence of the debtor company, its customers and the industry, development of three valuations over the course of nine months utilizing multiple valuation approaches, the critique of valuations performed by other parties in the case, and deposition testimony.

I have served as the Engagement Director for the FairPoint engagement working on the behalf of the State of New Hampshire in this matter. All of the professionals from Deloitte LLP[1] and its subsidiaries working on this engagement have been under my direction and control.

Purpose of Testimony

[1] As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Q. Please summarize the purpose of your testimony.

A. The purpose of my testimony is to explain the analysis I performed on the assumptions supporting FairPoint Communications, Inc.'s ("FairPoint," "Company") business plan from 2010 to 2013. The services provided by Deloitte FAS were performed under the Standards for Consulting Services of the American Institute of Certified Public Accountants ("AICPA"). Services performed by Deloitte FAS in this engagement do not constitute an audit, compilation, review or attestation as described in the pronouncements on professional standards issued by the AICPA.

Description of Reorganized FairPoint Communications, Inc., et al

Q. Please briefly summarize FairPoint's proposed reorganization.

A. FairPoint's Plan of Reorganization (the "Plan") filed on February 8, 2010, and amended on February 12, 2010, reflects a settlement among FairPoint and the Lender Steering Committee regarding the allocation of assets of FairPoint among the holders of allowed claims. FairPoint's reorganization is premised upon effecting a substantial deleveraging and strengthening of the balance sheet of FairPoint through the conversion of a substantial portion of FairPoint's prepetition indebtedness into New Common Stock on the Effective Date. In its Plan, FairPoint states that it is confident that the completion of its restructuring efforts will allow it to focus its resources on the operation of the businesses, will result in an appropriate capital structure for FairPoint that will significantly strengthen its financial condition and liquidity and position FairPoint to compete more effectively in the marketplace.

The Plan calls for senior lenders to receive 92% of the reorganized equity. General unsecured claims will be part of four different classes as defined by the Plan: Classes 5, 6, 7, or 8. Three of the classes (5, 6 and 8) are unimpaired and claimholders in those classes will receive 100% of their claims in cash. Class 7 will share 8% of the equity, as defined by the Plan, on a pro rata basis with the other members of that class, which include the bondholders and other general unsecured creditors. The Plan also states that if the Company's full enterprise value reaches the $2.3 to $2.4 billion range, in-the-money warrants could allow for the junior bond holders to receive a total 17% recovery value for their current investment. The reorganized equity could be further diluted in the future by additional equity issuances that would allow management to have a 10% stake. The Company will emerge from bankruptcy with a $1 billion senior secured term loan (the "New Term Loan") and a $75 million secured revolving line of credit facility.

Q. What are the New Term Loan financial covenants?

A. FairPoint's key financial covenants for the New Term Loan are a leverage ratio, a senior debt leverage ratio[2] and an EBITDAR interest coverage ratio. EBITDAR is defined in the Plan, for purposes of calculating the financial covenants, as

[2] Senior debt excludes capital lease obligations, which are classified as debt for purposes of the calculation of the leverage ratio covenant.

EBITDA + Restructuring Cost + OPEB[3] + Pension + KEIP[4] Stock based incentive +SQI + other non-cash charges. These financial covenants are included in the New Term Loan Financial Covenants, included in the Plan. The leverage ratio covenant limits the total debt divided by EBITDAR to no more than 4.25 times in FY 2010. The leverage ratio covenant is gradually reduced to 3.0 times by FY 2013. The senior debt leverage ratio covenant limits senior debt divided by EBITDAR to no more than 3.75 times in FY 2010. The senior debt leverage ratio covenant is gradually reduced to 2.5 times by FY 2013. The interest coverage covenant limits EBITDAR divided by interest expense to no less than 3.75 times in FY 2010. The EBITDAR interest coverage covenant is gradually increased to 4.5 times by FY 2013.

Q: Is there anything noteworthy about the nature of the covenants?

A: Per discussion with the lenders and FairPoint, these covenants were established to provide FairPoint with sufficient flexibility to implement its Plan.

FairPoint's Business Plan – as Presented by FairPoint

Q: What are the primary drivers and assumptions in the business plan?

A: FairPoint's business plan (see Attachment 1) as presented in the Plan includes the following primary drivers and assumptions:

Revenue:

[3] Other post-employment benefits.
[4] Key employee incentive plan.

FairPoint's revenue is comprised of local revenue, access revenue, long distance, data services and ancillary revenue. FairPoint has projected to achieve a compounded annual growth in revenue ("CAGR") of **Begin Confidential End Confidential** over the forecast period, as declining local revenue (**Begin Confidential End Confidential** CAGR) is expected to be offset by increasing access revenue (**Begin Confidential** CAGR **End Confidential**) and data services revenue (**Begin Confidential** CAGR **End Confidential**). These growth projections are higher than the industry projections which will make them difficult to achieve. Please refer to Attachment 2 for a summary of key forecast drivers. The revenue streams below, Local Revenue, Access Revenue and Data Services Revenue, were identified as primary drivers as they represent the major components of FairPoint's overall revenue.

1) **Local Revenue**: The primary drivers of local revenue are local access lines and voice average revenue per user "(Voice ARPU"). The Plan shows local revenue is projected to decline at a CAGR of **Begin Confidential End Confidential** as increases in voice average revenue per user ("ARPU") are expected to be offset by losses of local access lines.

   - **NNE Local Access Lines** are expected to decline at a CAGR of **Begin Confidential End Confidential**. The percentage line loss **Begin Confidential End Confidential** over the forecast period, after significant erosion in 2008 and 2009. Industry line loss is estimated at 5.8% annually through 2014, with NNE line loss **Begin**

Confidential **End Confidential**, and **Begin Confidential** **End Confidential** the industry forecasted level in 2013 of -5.8%.

- **NNE Voice ARPU** is projected to grow at a CAGR of **Begin Confidential** **End Confidential**. Voice ARPU increases steadily over the period, with a **Begin Confidential** **End Confidential** increase in 2011, attributed by FairPoint primarily to product bundling. Given that the primary component of voice revenue is regulated and thus pricing is dictated by the State PUC's, industry expectations are for local pricing to remain steady.

2) **Access Revenue**: Access revenue is projected to grow at a CAGR of **Begin Confidential** **End Confidential**.

- **NNE Interstate Special Access Revenue:** The projected increase in access revenue is primarily driven by NNE Interstate Special Access revenue. NNE Interstate Special Access revenue is **Begin Confidential** **End Confidential** of total access revenue and is forecasted to increase at an annual rate of **Begin Confidential** **End Confidential**.

  - **Begin Confidential**

End Confidential.

- ➢ The projections assume that availability of new services to business customers from FairPoint's Next Generation Network ("NGN") will drive customer demand.
- ➢ Access revenue is forecasted by FairPoint based on a percentage growth rate over the previous period rather than based on a more rigorous customer specific approach.

3) **Data Services Revenue**: Data Services Revenue is projected to increase at a CAGR of **Begin Confidential** **End Confidential**, driven primarily by increasing NNE High Speed Internet ("HSI") lines and ARPU. However, significant data services revenue growth in 2010 (**Begin Confidential** **End Confidential**) and 2011 (**Begin Confidential** **End Confidential**) is predicated on an untested in-house sales force.

- o **NNE HSI Lines:** Residential HSI lines are expected to increase **Begin Confidential** **End Confidential** annually, while business HSI lines are expected to increase **Begin Confidential** **End Confidential** annually.
- o **NNE Data Services ARPU:** Data Service ARPU is projected to increase by approximately **Begin Confidential** **End**

Confidential annually between 2009 and 2011, and then is projected **Begin Confidential** **End Confidential**.

Operating Expenses:

Operating expense as a percentage of net revenue is expected to decline from **Begin Confidential** **End Confidential** due primarily to a **Begin Confidential** **End Confidential**. From 2011 through 2013, operating expense is projected to remain constant. The projected cost reductions are primarily related to **Begin Confidential** **End Confidential**. The projected cost reductions are goals and there is some risk associated with achieving these reductions. Please refer to Attachments 3 and 4 for operating expense data for both FairPoint as well as industry peers.

Capital Expenditures:

FairPoint's business plan includes total company capital expenditures that are projected to decline from $208 million in 2009 to $151 million in 2013. Per discussion with FairPoint, the declines in capital expenditures **Begin Confidential** **End Confidential**.

Q: What is the projected cumulative cash generated by the business plan put forth by FairPoint?

A: FairPoint's business plan results in approximately **Begin Confidential** **End Confidential** of excess cash generated between emergence and the end of 2013. This amount is after the payment of approximately $145.0 million of scheduled principal amortization and approximately **Begin Confidential** **End Confidential** of cash flow sweep per the New Term Loan.

Q: What are the financial covenant calculations in the business plan?

A: FairPoint's business plan covenant calculations indicate compliance with the three financial covenants of the New Term Loan in each year of the forecast. The positive differences between the forecasted ratios and covenant ratios range from **Begin Confidential** **End Confidential** in the first year, to **Begin Confidential** **End Confidential** in the final year of the projections. Please refer to Attachment 5.

Q: What is the implied capital structure at exit from bankruptcy, and how does this compare to those of the comparable public companies?

A: The capital structure implied by the Plan consists of approximately **Begin Confidential** **End Confidential** debt and **Begin Confidential** **End Confidential** equity. This capital structure is in line with the average and median capital structures indicated by the comparable companies, as calculated by Deloitte FAS. Please refer to Attachment 6.

Q: **How does the implied capital structure at exit compare to that of FairPoint at the time of the merger with Verizon Northern New England ("Verizon NNE")?**

A: When FairPoint merged with the Verizon NNE business in March of 2008, FairPoint's capital structure consisted of approximately 87 percent debt and 13 percent equity (per market data available as of March 31, 2008). The capital structure following the merger was significantly more levered than the capital structure implied by the Plan of approximately **Begin Confidential End Confidential** debt and **Begin Confidential End Confidential** equity. Please refer to Attachment 7.

Q. **What did FairPoint estimate its hypothetical implied credit ratings to be over the Plan projection period?**

A. FairPoint used the following methodology to estimate its hypothetical implied credit rating: it calculated three select ratios for its business over the Plan projection period (EBITDAR/Interest, Free Operating Cash Flow/Debt, and Total Committed Debt/EBITDAR), and compared these ratios to the 5-year averages of these ratios per the Standard & Poor's (S&P) Ratings direct "2008 Industrial Comparative Ratio Analysis, Long Term Debt – US," dated August 24, 2009. As a result of this analysis, FairPoint estimated its hypothetical implied credit ratings over the projection period to range from **Begin Confidential End Confidential**. I analyzed FairPoint's methodology for estimating a hypothetical implied credit rating and modified the analysis to include the following four additional ratios: EBIT/Interest, Free Operating Cash Flow/Total Debt, Discounted Cash Flow/Debt and EBITDA/Sales. The modified methodology is discussed further below.

Q. How does FairPoint's projected hypothetical implied credit rating as of December 31, 2010 compare to its actual credit rating at the time of the merger with Verizon NNE?

A. FairPoint's credit rating as of February 27, 2008, just prior to the merger, was BB per Standard & Poor's. However, its credit rating deteriorated continuously for the next nineteen months to D as of October 1, 2009. The modified methodology I used to estimate FairPoint's hypothetical implied credit rating as of December 31, 2010, resulted in a rating of approximately **Begin Confidential** **End Confidential**. According to Standard & Poor's, a **Begin Confidential** **End Confidential** rating category indicates a company that is **Begin Confidential** **End Confidential**. Please refer to Attachment 8.

Q. What are FairPoint's projected credit ratios compared to the projected ratios of its peers?

A. Based on FairPoint's projected financial information for 2010, I compared FairPoint's leverage ratio (Total Debt to EBITDAR) and free cash flow ("FCF") coverage ratio (EBITDAR less Capex divided by Interest Expense, which demonstrates a company's ability to satisfy its interest obligation) to that of its peers. I observed FairPoint's leverage ratio to be **Begin Confidential** **End Confidential** than the peer's average leverage ratio of 4.1x. For the FCF coverage ratio, I observed FairPoint's ratio to be **Begin Confidential** **End Confidential** than the peer's average FCF coverage ratio of 3.0x. **Begin Confidential** **End Confidential**. Please refer to Attachment 9.

Q. What are FairPoint's hypothetical implied credit ratings over the Plan projection period?

A. I estimated the hypothetical implied credit rating by modifying FairPoint's credit rating methodology to include four additional ratios as previously noted. I compared select 2010 through 2013 pro-forma financial ratios of FairPoint as projected in the Plan to the S&P 2008 Adjusted Key U.S. Industrial Financial Ratios[5]. The S&P industrial financial ratios incorporate the 2006 – 2008 median credit ratios by rating category for U.S. industrial companies based on reported financial information. These medians reflect credit quality measures that most closely resemble the data used by S&P credit analysts in their quantitative assessments of companies' financial performance.

A credit rating was selected for each of the financial ratios based on pro-forma financial information for 2010 through 2013. In order to develop an overall

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[5] Source - "S&P CreditStats: 2008 Adjusted Key U.S. And European Industrial and Utility Financial Ratios", August 24, 2009.

creditworthiness rating, a rating scale was used which assigns a value to each selected credit rating based on the rating derived from each financial ratio. The simple average value of seven financial ratio ratings was compared to the rating scale in order to estimate the credit ratings for FairPoint. Please refer to Attachment 10.

The projected hypothetical implied credit ratings for the forecast period based on the projections in the Plan are calculated as follows: **Begin Confidential** **End Confidential**. According to Standard & Poor's, these credit ratings indicate a **Begin Confidential** **End Confidential** entity in 2010, an entity with **Begin Confidential** **End Confidential** in 2011, and an entity with **Begin Confidential** **End Confidential** in 2012 and 2013.

FairPoint's Business Plan – Sensitivity Analysis

Q: What adjustments to FairPoint's assumptions were made in order to perform a sensitivity analysis to the Plan's assumptions?

A: A sensitivity analysis (see Attachment 11) was performed based on peer benchmarking in order to assess how FairPoint's results may look under different revenue growth assumptions. In accordance with this analysis, revenue growth assumptions in certain areas were reduced to be more in line with the projections of FairPoint's peers. In this sensitivity analysis many of the other assumptions remained unchanged. It is worth noting that while I only adjusted revenue and did not modify operating expenses, if revenue did come down, one might expect management to take steps to reduce operating expenses. It should be noted that this is just one potential sensitivity analysis and there are many other analyses that could be conducted by combining the increase or decrease of revenue and expenses (i.e. reducing both revenue and expenses as a whole or by individual line items, etc.).

Revenue:

Overall revenue grows at a CAGR of **Begin Confidential**

End Confidential as projected by FairPoint in its Plan. A review of revenue growth projections over the same period for a group of industry comparable companies shows a median CAGR of negative 0.3%, thus indicating that FairPoint's revenue projections may be somewhat optimistic.

1) **Local Revenue:** within this sensitivity analysis, local revenue projections were not changed and are expected to decline at the same CAGR as FairPoint's business plan (**Begin Confidential End Confidential**). This declining growth rate appears reasonable given FairPoint's forecast of significant local line losses as compared to industry expectations. Local revenue was approximately 35% of revenue in 2009.

2) **Access Revenue:** within this sensitivity analysis, access revenue growth was reduced from FairPoint's CAGR of **Begin Confidential End Confidential**, to **Begin Confidential End Confidential**

growth over the projection period. Access revenue within the FairPoint Plan is a key driver of the overall revenue CAGR of **Begin Confidential** **End Confidential** versus an industry median CAGR over that same period of *negative* 0.3%. Specifically, Interstate Special Access revenue within NNE is projected to grow **Begin Confidential** **End Confidential** annually in the Plan. Special Access revenue growth is based on the assumption that **Begin Confidential**

End Confidential As such, a reduction from **Begin Confidential** **End Confidential** access revenue growth to 0.0% growth was used in the sensitivity analysis. Access revenue was approximately 36% of revenue in 2009. See Attachment 12.

3) **Data Services Revenue:** within this sensitivity analysis, data services revenue was reduced from FairPoint's CAGR of **Begin Confidential** **End Confidential** through 2013, to an annual growth rate of **Begin Confidential** **End Confidential**. Data services revenue within the FairPoint Plan is the other key driver of the overall revenue CAGR of **Begin Confidential** **End Confidential** versus an

industry median CAGR over that same period of *negative* 0.3%. Specifically, FairPoint projects HSI lines within NNE to grow at a CAGR of **Begin Confidential** **End Confidential**, while it projects data services ARPU to **Begin Confidential** **End Confidential**. Industry research from a number of sources projects high speed data line growth in the low single digits to near flat over the projection period. See Attachments 13, 14 and 15. In addition to these industry forecasts, FairPoint has shown an inability to grow high speed data lines over the past two years (HSI lines were approximately 290,000 at YE ’07, YE ’08 and YE ’09). Given the combination of these two factors, a reduction in the projected line CAGR from **Begin Confidential** **End Confidential** to **Begin Confidential** **End Confidential** was used in the sensitivity analysis In addition, ARPU growth was reduced from the projected CAGR of **Begin Confidential** **End Confidential** to **Begin Confidential** **End Confidential** given the pricing pressures that the industry is seeing overall. Data services revenue was approximately **Begin Confidential** **End Confidential** of revenue in 2009.

Operating Expenses:

In this sensitivity analysis, operating expenses were not changed from the levels projected in the Plan. As such, operating and EBITDA margins are lower given the decline in revenue I used in the sensitivity analysis. As mentioned earlier, however, if revenue did come down, one might expect management to take steps to reduce operating expenses.

Capital Expenditures:

In this sensitivity analysis, capital expenditures were not changed from the levels projected by FairPoint in its Plan. Per FairPoint, amounts agreed to in the states' settlements are included in its Plan. Historically, FairPoint's capital expenditures have exceeded the spending levels of its peers as a percentage of revenue. In addition, during the forecast period, its capital expenditure level continues to exceed the average spending levels of FairPoint's peers as a percentage of revenue. See Attachments 16 and 17. However, similar to the point noted above relating to operating expenses, if revenue did come down, one might expect management to take steps to reduce discretionary capital expenditures above any settlement commitments.

Q: What is the projected cumulative cash generated in the sensitivity analysis?

A: The sensitivity analysis projects that FairPoint will generate approximately **Begin Confidential** **End Confidential** million of excess cash by the end of 2013, versus **Begin Confidential** **End Confidential** million in the Plan. This amount is after the payment of approximately $145.0 million of scheduled principal amortization and approximately **Begin Confidential** **End Confidential** million of cash flow sweep per the New Term Loan.

Q: What are the financial covenant calculations produced by your sensitivity analysis?

A: In the sensitivity analysis I performed, the three financial covenants of the New Term Loan are in compliance in each year of the forecast, albeit with smaller differences than those calculated in FairPoint's business plan. The leverage ratio and senior debt leverage ratio improve over the forecast period, although the difference continues to shrink. The EBITDAR interest coverage ratio in FY 2013 is at the same level as FY 2010. Please refer to Attachment 18.

Q: What is FairPoint's implied capital structure at exit from bankruptcy under the sensitivity analysis, and how does this compare to those of the comparable public companies?

A: I used the valuation information provided in the Plan and, assuming this information to be accurate, performed some additional analyses to estimate what the approximate capital structure of FairPoint might be under a sensitivity analysis of the Plan. The implied capital structure would consist of approximately **Begin Confidential** **End Confidential** debt and **Begin Confidential** **End Confidential** equity, which is slightly higher than the "high" capital structure indicated by the comparable companies. Please refer to Attachment 19.

Q. What are FairPoint's projected credit ratios under the sensitivity analysis when compared to the projected ratios of its peers?

A. Based on projected financial information for 2010, I compared FairPoint's leverage ratio and free cash flow ("FCF") coverage ratio to that of its peers. I observed FairPoint's leverage ratio (Total Debt to EBITDAR) to be **Begin Confidential** **End Confidential** than the peer's average leverage ratio of 4.1x. For the FCF coverage ratio (EBITDAR less Capex divided by Interest Expense), I observed FairPoint's ratio to be **Begin Confidential** **End Confidential** than the peer's average FCF coverage ratio of 3.0x. Please refer to Attachment 20.

Q. What are FairPoint's hypothetical implied credit ratings over the Plan's projection period under the sensitivity analysis?

A. I modified FairPoint's methodology to include four additional ratios. Using this modified methodology I compared select 2010 through 2013 pro-forma financial ratios of FairPoint to the S&P 2008 Adjusted Key U.S. Industrial Financial Ratios[6]. The S&P industrial financial ratios incorporate the 2006 – 2008 median credit ratios by rating category for U.S. industrial companies based on reported financial information. These medians reflect credit quality measures that most closely resemble the data used by S&P credit analysts in their quantitative assessments of companies' financial performance.

A credit rating was selected for each of the financial ratios based on FairPoint's pro-forma financial information for 2010 through 2013. In order to develop an overall creditworthiness rating, a rating scale was used which assigns a value to each selected credit rating based on the rating derived from each financial ratio. The simple average value of seven financial ratio ratings was compared to the

[6] Source - "S&P CreditStats: 2008 Adjusted Key U.S. And European Industrial and Utility Financial Ratios", August 24, 2009.

rating scale in order to estimate the credit ratings for FairPoint. Please refer to Attachment 21.

The projected hypothetical implied credit ratings for the forecast period, using the assumptions in the sensitivity analysis, are calculated as follows: **Begin Confidential** **End Confidential** According to Standard & Poor's, these credit ratings indicate a **Begin Confidential**

End Confidential

The following table presents the hypothetical implied credit ratings under both the business plan as presented by FairPoint and the sensitivity analysis.

	Business Plan as Presented by FairPoint	Sensitivity Analysis
12/31/10	**Begin Confidential** **End Confidential**	**Begin Confidential** **End Confidential**
12/31/11	**Begin Confidential** **End Confidential**	**Begin Confidential** **End Confidential**
12/31/12	**Begin Confidential** **End Confidential**	**Begin Confidential** **End Confidential**
12/31/13	**Begin Confidential** **End Confidential**	**Begin Confidential** **End Confidential**

Covenant Violation Threshold

Q: At what point of revenue decline might FairPoint violate the New Term Loan financial covenants?

A: As discussed earlier, the New Term Loan financial covenants are in compliance with FairPoint's business plan and the sensitivity analysis. **Begin Confidential**

End Confidential

Summary

FairPoint's business plan provides for growth in revenue and profit margin over the projection period which would result in an entity with favorable projected credit ratings, significant excess cash, reduced debt levels and large differences between projected financial ratios and debt covenants. However, given historical trends in operations and industry projections, the business plan appears somewhat optimistic when compared to other potential scenarios that are in line with industry trends. Under a sensitivity analysis where revenue is projected to decline year over year and profit margins are projected to remain fairly stable, projected credit ratings would indicate a company potentially more vulnerable to adverse business, financial and economic conditions; an entity that has a capital structure with higher than average leverage; and a company with much smaller differences between financial ratios and debt covenants. However, under that sensitivity analysis, debt levels are still projected to be reduced by nearly **Begin Confidential** **End Confidential** million by the end of 2013, and excess cash generated over the same period would approach **Begin Confidential** **End Confidential** million. In addition, in the sensitivity analysis, capital expenditures as projected by FairPoint and which include settlement amounts as agreed to with the states, remain unchanged and are spent as projected. Assuming scheduled amortization payments are made, additional revenue declines of between **Begin Confidential** **End Confidential** and **Begin Confidential** **End Confidential** from the sensitivity analysis would need to occur for the Company to be in default of covenants and receive a credit rating similar to those in existence in the middle of 2009 of “vulnerable” or “highly vulnerable”. Please note that there are many other potential fluctuations in the business financials that were not included in this analysis but could result in a default of a covenant. I reserve the right to conduct additional research and analyses at a later date should additional information become available or to correct inadvertent errors. This report may be modified or amended if additional information comes to my attention after the date of issuance of this testimony.