EXHIBIT
#8
DT 16-872

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DT 16-872
Consolidated Communications Holdings, Inc.

Joint Petition for Findings in Furtherance of the Acquisition of FairPoint Communications, Inc. and its New Hampshire Operating Subsidiaries by Consolidated Communications Holdings, Inc.

PRE-FILED DIRECT TESTIMONY OF RANDY BARBER

ON BEHALF OF LABOR INTERVENORS

PUBLIC VERSION (REDACTS ALLEGEDLY CONFIDENTIAL INFORMATION)

April 10, 2017

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Randy Barber. My office address is: Suite 204, 6935 Laurel Avenue, Takoma Park, Maryland 20912.

Q. By whom are you employed and in what capacity?

A. I am employed by the Center for Economic Organizing and serve as its president.

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

A. I am testifying on behalf of the Communications Workers of America (CWA) Local 1400 and International Brotherhood of Electrical Workers (IBEW) Locals 2320, 2326, and 2327, that form the IBEW System Council T-9 (collectively Labor Intervenors).

Q. Why are Labor Intervenors interested in this case?

A. The Labor Intervenors represent approximately 1,300 employees of FairPoint Communications, Inc. (FairPoint) in Northern New England (NNE). Since the 2008 acquisition by FairPoint of the Verizon NNE properties, they have witnessed a tumultuous FairPoint regime, including a bankruptcy, a 134 day strike and significant layoffs, all while the company's customer service has deteriorated. The Labor Intervenors hope that the proposed Consolidated Communications, Inc. (CNSL or Consolidated) acquisition will usher in a more stable, professional era for the FairPoint customers, communities and employees. However, as I relate below, the Labor

Intervenors have deep concerns about CNSL's plans, knowledge, and intentions with respect to FairPoint NNE.

Q. What is the purpose of your testimony?

A. I have been asked to evaluate the proposed transaction under which FairPoint is proposing to merge with Consolidated with the result that FairPoint would become a wholly owned subsidiary of Consolidated. Labor Intervenors have asked me to review the proposed transaction from a financial perspective and to provide expert analysis and testimony, based on my financial experience as well as my knowledge of other telecommunications transactions. In particular, counsel has asked me to provide analyses and other information that might be useful to the Public Utilities Commission (Commission) in determining whether Consolidated is "technically, managerially, and financially capable of maintaining the obligations of an incumbent local exchange carrier" as required by New Hampshire law (R.S.A. 374:30, II).

Q. Have you been engaged to offer expert analysis and testimony on the proposed FairPoint-Consolidated transaction in other regulatory proceedings?

A. Yes. I also have been retained by CWA and IBEW to provide analyses and testimony concerning this proposed transaction before the utility regulatory commissions in Maine and Vermont.

QUALIFICATIONS

Q. Do you have experience in rendering opinions as an expert witness?

A. Yes. While I do not specialize in being an expert witness, I have performed that function on several occasions, and I have assisted experts and attorneys in the financial and analytical aspects of judicial, quasi-judicial and regulatory proceedings. Most relevantly, I served as the financial expert for the CWA and/or IBEW in several other telecommunications transactions, including FairPoint's acquisition of Verizon's NNE landline business, the merger of Embarq and CenturyTel that formed CenturyLink, the acquisition of Qwest Communications by CenturyLink, Frontier Communications' acquisition of Verizon landline businesses in fourteen states, Frontier's acquisition of AT&T's landline business in Connecticut, and an investigation into Verizon New York's financial dealings and capabilities.

In addition, I have testified as an expert witness (either at trial or by deposition) in several judicial proceedings, arbitrations, and regulatory matters. These have included, for example, a class action law suit involving A.P. Moller-Maersk/BTT, a National Mediation Board Single Carrier proceeding, the Big Sky Airlines Bankruptcy, and an Examiner's Investigation into the Bankruptcy of Eastern Air Lines. I have also served as an expert consultant in various proceedings where it was not necessary for me to testify, such as an airline fitness investigation involving ATX, a cross-border airline merger investigation (American Airlines-Canadian Airlines), and a major CWA/AT&T arbitration.

Q. What in your educational and employment background has qualified you to provide an expert opinion on issues such as those presented in this case?

A. After attending Dartmouth College, I have worked as a financial consultant for more than 30 years. I specialize in complex financial and operational analyses of companies and industries, sometimes in the context of collective bargaining, other times in support of clients' strategic or policy interests. Among the companies that I have analyzed are Alcatel, Avaya, AT&T, Boeing, Catholic Healthcare West, Celestica, CenturyTel (now CenturyLink), Columbia/HCA, Eastern Air Lines, Edison Schools, Embarq, FairPoint Communications, FirstTransit, Frontier Communications, Keolis, Multicare Health System, Genesys Healthcare, Idearc, Lucent Technologies, multiple Pennsylvania health-care providers (Chambersburg Hospital, Pocono Medical Center, Schuykill Medical Center, West Penn Allegheny Health System, University of Pittsburgh Medical Center), MCI, National Express, Oregon Steel, Qwest, RH Donnelley, Sprint, Swedish Medical Center, Sylvan Learning Systems, T-Mobile, Texas Air Corporation, TIAA-CREF, Transdev-Veolia, United Air Lines, the United States Postal Service, Verizon, Wal-Mart, and the Washington (DC) Hospital Center. More broadly, I have provided clients with various analyses of such industries as aerospace manufacturing, air transport, for-profit education, newspaper publishing, off-road vehicle manufacturers, and telecommunications and internet access and content providers.

In addition, I have performed a wide range of analyses of private sector pension plans and public employee retirement systems across the country. These include investigations into factors associated with under-funding, integration of two or more benefit plans, efforts to improve the operations of benefit plans, evaluations of proposed investment and funding mechanisms, and proposals to convert defined benefit plans into defined contribution plans. A number of the activities mentioned above have taken the form of joint labor-management initiatives in which I served as the union expert, paired with one or more management experts. Some of these projects included work with AT&T, Lucent Technologies, and the League of Voluntary Hospitals and Nursing Homes (New York City and environs).

I also have been serving as an advisor to FairPoint's labor unions after FairPoint acquired Verizon's NNE operations in 2008. I have closely observed FairPoint since that time. I have participated in scores of joint labor-management task force meetings during at least four distinct phases since the transaction closed:

- Initially these meetings were designed to develop a cooperative relationship in the wake of the unions' opposition to the transaction;
- Subsequently, they evolved into problem-solving sessions in attempts to grapple with what can only be described as a systems meltdown as the company struggled to convert and integrate the legacy Verizon operations to new platforms;

- During the period leading up to FairPoint's Chapter 11 bankruptcy filing in October 2009 and for several months thereafter, these meetings were used to keep the union leadership informed about the company's status and plans, and they provided important background for successfully negotiated amendments to the FairPoint collective bargaining agreements;

- After FairPoint was forced to file for protection from the bankruptcy court, I served as an advisor to the union-designated member of the FairPoint Unsecured Creditors Committee.

- Subsequently, I have continued to monitor closely FairPoint's operational and financial results.

Q. What is the scope of your testimony?

A. I will evaluate the financial capability of Consolidated to own and operate FairPoint in New Hampshire. In order to evaluate Consolidated’s financial capability, I will analyze key financial risks associated with this transaction, which, of necessity, requires some assessment of the potential operational risks associated with the proposed transaction (as well as Consolidated’s ability to manage those risks). In conducting this evaluation, I will draw on my discussions with Steve Soule (a union official in New Hampshire who will be filing testimony later in this proceeding), as well as statements from equity and ratings agency analysts, industry participants, and others. I also rely heavily on the representations of the Joint Petitioners themselves, both through their filings with the Securities and Exchange Commission and their public replies to interrogatories. I also have analyzed and will discuss Consolidated's confidential internal financial, transaction and planning documents and render an opinion about the reasonableness of those projections, the risks evident from those analyses, and other opinions and conclusions.

Q. In order to render an opinion, what information do you need to review?

A. Ideally, I should be able review all relevant information that was available to the FairPoint and Consolidated Boards of Directors, management, and advisors, as well as subsequently developed data regarding either of the companies, the transaction, and refined projections regarding the post-closing combined companies.

Q. Have you been able to review all of the information you require?

A. No. I have been able to review the publicly available data submitted by the Joint Petitioners in this and other state proceedings, along with their submissions to the Federal Communications Commission and the Securities and Exchange Commission. I also have been provided with access to most, but not all, of the internal financial projections and analyses performed by the Petitioners and their financial advisors. I would note that many of the public and confidential replies that I have reviewed contain a remarkable lack of detail regarding Consolidated's post-transaction operational plans and intentions as they might impact New Hampshire customers, communities and employees. Because of my on-going relationship with CWA and IBEW, the Petitioners have not provided me with any detailed information about projected synergies from the proposed transaction, though they have provided some higher-level synergies information.

Q. Please summarize the types of documents that you were able to review in this case.

A. I have reviewed documents that fall into a number of categories:

- Press reports;
- Filings with the Securities and Exchange Commission;
- Documents from various public utility regulatory agencies;
- Documents derived from on-line databases;
- Proprietary analyses produced by a number of investment advisory firms;
- Pre-filed testimony from the Petitioners; and
- Responses to numerous interrogatories and requests for production of documents in this case.

Q. Based on your review and analysis, are you able to render an opinion about the reasonableness of the companies' financial assumptions and analyses, and Consolidated's financial capability to own and operate FairPoint's operations in New Hampshire?

A. Yes. I address these issues throughout my testimony.

SUMMARY OF ANALYSES, CONCLUSIONS, AND RECOMMENDATIONS

Q. Please provide a broad summary of your analysis.

A. From a financial perspective, this transaction appears to be a one-way street. Despite the Petitioners' many representations to the contrary, they identify very few verifiable benefits for FairPoint customers, communities, or employees in New Hampshire.

As I describe in greater detail below, FairPoint is in essence contributing cash flows and synergy-related expense reductions, in addition to a number of its superior credit metrics which Consolidated uses to tout the benefits of this transaction. In return, FairPoint "receives" a refinancing of its debt at a much lower interest rate, but it also is expected to contribute essentially all of the savings so Consolidated can pay a dividend to FairPoint's stockholders. In addition, the Petitioners agreed to add $18 million to FairPoint debt. As I discuss below, FairPoint could probably refinance its own debt at a much lower rate than its current 7.9% and without needing to increase the debt by $18 million.

Moreover, the Petitioners have provided very little in the way of concrete details regarding the impact of the transaction on New Hampshire. Other than agreeing to follow the law they have failed to provide any tangible commitments.

Of course, FairPoint's shareholders will begin to receive a dividend, the sole verifiable "benefit" flowing from the transaction. Needless to say, this is not a benefit to FairPoint's customers.

Consolidated, on the other hand, will have access to better cash flows and an improved dividend payout ratio. Importantly, Consolidated explicitly hopes that this will bolster its stock price and permit it to pursue its long-term strategy of growing through acquisitions.

Q. Please provide a summary of your overall conclusions

A. My basic conclusions, upon which I elaborate below, are:

- Consolidated is unprepared to acquire FairPoint and manage its operations.
- This transaction is all about Consolidated, not FairPoint.
- Consolidated's projected Synergies pose significant risks to FairPoint New Hampshire customers, communities, and employees.
- The Petitioners have failed to demonstrate reasonably projected financial benefits to FairPoint and its stakeholders, other than to its shareholders.

Q. Please provide a summary of your overall recommendations.

A. At this point, I have a single overarching recommendation, along with suggestions regarding information that I recommend that the Commission should seek:

My fundamental recommendation is that the Commission defer ruling on this transaction at this point. As I demonstrate in my testimony, the Petitioners have simply not provided enough detailed information upon which an informed judgment can be reached. Very little of the Petitioners' Petition, Testimony, and Data Replies relates specifically to FairPoint New Hampshire.

The Commission should require the Petitioners to provide significantly more New Hampshire-specific data, covering the next five years, for projected or planned:

- capital expenditures,
- operating expenditures,
- cash flows,
- integration plans,

- closing or relocating to other states New Hampshire-based operations,
- relocations of any FairPoint or Consolidated operations into New Hampshire,
- plans to improve service quality, and
- projected employment levels.

EVALUATING CONSOLIDATED'S FINANCIAL CLAIMS

Q. Please summarize your understanding of Consolidated's claims about the financial benefits and effects of the proposed transaction and how those affect Consolidated's financial capabilities.

A. Distilled to their basics, the Petitioners argue that the resulting company will be larger, financially more stable, and better-equipped to pursue strategic opportunities. These statements all appear to be based on improvements in *Consolidated's* financial condition. As I discuss below, there are essentially no benefits to FairPoint's financial condition and, depending on decisions Consolidated's management makes, FairPoint and its customers could be harmed by the transaction. In addition, there are risks associated with the transaction that could jeopardize Consolidated's financial condition.

Q. Based on your analyses, do you agree with Consolidated's claims about the financial benefits and effects of the proposed transaction?

A. For the most part, no. While the resulting company will certainly be larger, whether it will be financially stronger depends on which financial metric one cites. Assuming that

Consolidated financial projections are realized, it may well be in a better position to pursue ever-larger transactions in the future. I question, however, the combined companies' ability to achieve projected synergies without undermining FairPoint operations. There is a real possibility that the Petitioners cannot achieve both the level of synergies they project and at the same time maintain or improve FairPoint's operations. This can be seen in Consolidated's failures to meet various service quality requirements in other states. Counsel has advised me that Consolidated's telephone operations have been fined in Texas and Kansas for service quality deficiencies.[1] I also learned in the course of the parallel proceeding in Maine that Consolidated has paid nearly $40,000 to customers in Illinois during the past two years because of its failure to restore service outages within 30 hours.[2] Consolidated also stated during the Maine proceeding that it

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[1] See *Agreed Settlement And Proposed Order Relating To Consolidated Communications' Violation Of PURA § 55.001 AND 16 TAC § 26.54, Concerning Service Objectives and Performance Benchmarks*, 2016 Tex. PUC LEXIS 1679 (Tex. Pub. Util. Comm'n June 13, 2016); *In the Matter of the Investigation of Consolidated Communications, Inc., of Lenexa, Kansas, Regarding Violation(s) of the Kansas Underground Utility Damage Prevention Act (KUUDPA) (K.S.A. 66-1801, et seq., and K.A.R. 82-14-1 through 82-14-5), and the Commission's Authority to Impose Penalties and/or Sanctions (K.S.A. 66-1, 151)*, 2015 Kan. PUC LEXIS 2336 (Kan. Corp. Comm'n Aug. 20, 2015); and *In the Matter of the Investigation of Consolidated Communications, Inc., of Lenexa, Kansas, Regarding Violation(s) of the Kansas Underground Utility Damage Prevention Act (KUUDPA) (K.S.A. 66-1801, et seq., and K.A.R. 82-14-1 through 82-14-5), and the Commission's Authority to Impose Penalties and/or Sanctions (K.S.A. 66-1, 151)*, 2016 Kan. PUC LEXIS 1397 (Kan. Corp. Comm'n May 17, 2016).

[2] Maine PUC Docket No. 2016-00307, Consolidated response to data request ODR-002-013, a copy of which is attached as Schedule RB-1.

"missed the 95% benchmark for out of service reports cleared in 30 hours metric [in Illinois] for 5 out of the 12 months (January 2016 through May 2016)" in 2016.[3]

These failures to meet service quality requirements call into question Consolidated's capability to manage a utility the size of FairPoint. Indeed, I find its failures in smaller service territories to be very disturbing for a company which is looking to cut what looks to be more than **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** of the FairPoint workforce over approximately two years, even after FairPoint's December 2016 reductions (which in themselves represent **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** of Consolidated's projected "Labor" headcount cuts).[4]

In addition, the Petitioners have simply not provided information, plans or commitments demonstrating their financial and managerial capabilities to absorb and manage an operation of the size and diversity of FairPoint.

CONSOLIDATED IS UNPREPARED TO ACQUIRE FAIRPOINT

Q. You say that Consolidated is unprepared to acquire FairPoint and manage its operations. Please explain.

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[3] Maine PUC Docket No. 2016-00307, Consolidated response to data request ODR 002-012, a copy of which is attached as Schedule RB-2.

[4] I discuss the source of these figures below.

A. Consolidated witnesses evinced a startling lack of knowledge about FairPoint's varied operations, not to mention a lack of concrete plans, actions, or even intentions with respect to the company they propose to acquire.

According to testimony from two of Consolidated's officers, Steven Childers (Chief Financial Officer) and Michael Shultz (Vice President - Regulatory and Public Policy), at a Technical Hearing in Maine on February 21, 2017, as of that date Consolidated management had yet to interact with any FairPoint personnel below the top management level (direct reports to FairPoint CEO Paul Sunu).[5] That is, almost three months after entering into the agreement to acquire FairPoint -- and just four months before Consolidated hopes to close the transaction -- Consolidated had failed to delve into the intricacies of the company's operations through direct discussions with the personnel who are charged with carrying them out.

Subsequently, on March 24, 2017, Consolidated stated in response to Staff data requests in this case that it would not even begin the transition process until after closing. Specifically, CNSL states that it will not establish transition teams or evaluate staffing levels until after closing.[6]

[5] Maine PUC Docket No. 2016-00307, transcript of Technical Hearing, p. 91. Excerpts from that transcript are attached as Schedule RB-3.
[6] Consolidated responses to Staff 1-120 and 1-129, attached as Schedule RB-4.

Consolidated has provided a wealth of confidential financial projections for the combined companies, but none of this data is at a New Hampshire level, and very little of it is operational in nature.

Moreover, Consolidated has repeatedly rebuffed the FairPoint unions' request to engage in substantive discussions regarding FairPoint's operations and the administration of its collective bargaining agreements. Unions throughout the FairPoint system represent approximately 1,500, or 60%, of the company's 2,500 employees, according to the FairPoint 2016 10K, as can be seen in Table 1.

Table 1
Represented Employees As % of Total
FairPoint Employment

	Total	**NNE**
Represented	1,500	1,300
Total FairPoint	2,500	2,500
	60%	52%

Source: FairPoint 2016 10K, pp. 10 and 28

While Consolidated's standoffishness to the unions with which it will need to interact seems inexplicable, the company's professed ignorance regarding virtually any non-financial detail about FairPoint's projected future operations, and none at a New Hampshire-specific level, is truly disturbing.

Redacted

THE TRANSACTION IS ALL ABOUT CONSOLIDATED

Q. You say that this transaction is all about Consolidated, not FairPoint. Please explain.

A. There are multiple elements to this part of my analysis:

- The transaction improves key Consolidated metrics, which the company makes clear is its overriding goal.
- By strengthening these financial metrics, the transaction is designed to enable future acquisitions, which appears to be Consolidated's underlying motivation.
- Consolidated intends to take the expense reduction benefits from FairPoint's December layoffs as a "bonus" without bothering to analyze the significance of these cuts.

Q. Please explain how the transaction improves key Consolidated metrics in pursuit of Consolidated's goals.

A. As demonstrated in its public and confidential filings and replies, Consolidated is entering into this transaction to help Consolidated, not FairPoint customers, communities, or employees.

{BEGIN CONFIDENTIAL [redacted]

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[7] Also known as LFCF, or Levered Free Cash Flow, which represents cash available after all outflows are accounted for, including operating and capital expenditures, dividends, taxes and a range of other payments.

[redacted][8] **END CONFIDENTIAL}**

This is obviously a key reason that Consolidated needs the FairPoint transaction, and has nothing to do with any benefits to FairPoint stakeholders, other than perhaps to the company's stockholders.

Q. Please describe which key Consolidated financial metrics are improved immediately upon closing.

A. The transaction will ***improve*** three key Consolidated financial metrics on day one, its ***Leverage Ratio*** (EBITDA-to-Net Debt) and its ***Interest Coverage Ratios*** (EBIT and EBITDA-to-Interest-Expense).[9]

In its final Prospectus, Consolidated notes that the transaction will immediately improve the company's ***dividend pay-out ratio***,[10] which investors look to for assurance that a firm can continue to pay dividends or increase them:

> [T]he expectation that the Merger would provide Consolidated stockholders with highly compelling financial benefits, including the expectations that the Merger would (i) allow the combined companies to

[8] Excel file provided as a Confidential attachment to data request Staff 1-7, Tab CNSL SA Model, Line 119 (hereafter "CNSL Model").
[9] EBITDA is an acronym for "Earnings Before Interest Taxes Depreciation and Amortization." It is often referred to as "Operating Cash Flow." EBIT is an acronym for "Earnings before Interest and Taxes" and is a somewhat less-often employed metric because it includes non-cash depreciation and amortization charges, and thus under-reports operating cash flows.
[10] The ratio of dividends paid to free cash flow.

> realize annual, operating synergies, (ii) be accretive to free cash flow per share, (iii) provide Consolidated with the ability to improve its leverage and dividend payout ratio over time, with expected pro forma total net leverage ratio under Consolidated's credit agreement to be ***3.80:1.00 as of the closing*** of the Merger (***including run- rate synergies***), which would represent a reduction from the total net leverage ratio of ***4.38:1.00*** as of September 30, 2016, and (iv) provide Consolidated with ***greater strategic and financial flexibility in the future***.[11]

In his testimony, Consolidated witness Steven Childers pointed to a key "benefit" of the proposed transaction: a safer dividend. Mr. Childers characterized this as "**significant improvement** in our dividend payout ratio" which he expects to be "significantly lower than our current target of 65-70% of free cash flow (as defined in our credit agreement)."[12] In his testimony before the Maine PUC, Mr. Childers made the same statement, but then touted this as a benefit to Consolidated because it could boost the Company's share price which in turn could be used as currency in future transactions. In his Maine testimony, Childers elaborated on the benefits to Consolidated of improving its dividend payout ratio:

> Dividend payout ratio is a key metric which help[s] equity investors judge the attractiveness and safety of the returns on investment. We believe having a strong dividend payout ratio makes it more likely for [Consolidated] to access the equity markets to help fund future strategic initiatives of Consolidated.[13]

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[11] Definitive Proxy Statement of Consolidated and FairPoint dated February 24, 2017, available at: <https://www.sec.gov/Archives/edgar/data/1304421/000104746917000963/a2231082z424b3.htm >, p. 74 (emphasis added) (hereafter "Definitive Proxy Statement").
[12] Childers Direct, p. 10 (emphasis added).
[13] Childers Direct Testimony in Maine PUC Docket 2016-00307, pp. 12-13, excerpts of which are attached as Schedule RB-5.

Redacted

Q. Why do you believe that the transaction is designed to enable future Consolidated acquisitions?

A. In both public and confidential documents, the record is clear that Consolidated's true motive in this transaction is that by providing improved scale, financial metrics and cash flows, it will be able to pursue future acquisitions. Among the material factors that Consolidated's board weighed were:

> [T]he expectation that the Merger would provide a material increase in scale, including by (i) expanding Consolidated's network reach and scale, (ii) providing an opportunity to leverage Consolidated's enhanced product suite and consultative sales approach across FairPoint's markets, and (iii) doubling the revenue base and adjusted EBITDA (including synergies), ***all of which would be expected to improve Consolidated's platform for acquisition of other targets in the future***.

. . .

> [T]he expectation that the Merger would ***create a platform for future growth through acquisitions*** to fill in Consolidated's national footprint, and organically through investments in the combined company's existing markets.[14]

Q. Did Consolidated's financial advisor address the potential of the proposed transaction to improve the company's dividend payout ratio and ways it would help Consolidated pursue its longer-term strategic aims?

A. Yes. The Consolidated Board’s financial advisor, Morgan Stanley, was explicit.

{**BEGIN CONFIDENTIAL** [redacted]

[14] Definitive Proxy Statement, p. 74 (emphasis added).

Redacted

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[15] Morgan Stanley presentation to Consolidated's Commission of Directors, October 31, 2016, provided in response to data request Labor 1-9.1, p. 10 (emphasis added).

[16] Id.

[17] CNSL Model, Tab CNSL SA Model, Line 138

[18] Including projected synergies. CNSL Model, Tab CNSL+FRP PF Model, Line 175

[redacted] **END CONFIDENTIAL}**

CONSOLIDATED'S SYNERGY PROJECTIONS ARE UNREASONABLE

Q. Why do you argue that your analysis leads you to believe that Consolidated intends to use the savings from FairPoint's December 2016 headcount reductions as a "bonus" without reference to Consolidated's previously stated synergy projections?

A. Consolidated appears to view the significant reductions that FairPoint made in December 2016 as something of an extra-added bonus. As I explain below, the union-represented reductions are equivalent to **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** of the total projected "Labor" headcount cuts in Consolidated's synergy plans.[19] Consolidated's officers Schultz and Childers repeatedly maintained in the Maine Technical Hearing, however, that FairPoint's December 2016 cuts had nothing to do with Consolidated's planned reductions in FairPoint's costs. They maintained this position even after being forced to acknowledge that the FairPoint operating expenses and headcount totals available to Consolidated when it announced its plans were based on FairPoint's 3rd Quarter 2016 results, ***before the end-of-year reductions were announced***

[19] Calculation based on information provided by IBEW and CWA and Consolidated’s statement that it expects to reduce unionized workforce costs by $24.4 million within two years (Consolidated response to data request Staff 3-12 (attached as Schedule RB-6).

or implemented by FairPoint, as demonstrated in this exchange at the Technical Hearing:

> MR. RUBIN: All right, now, for example -- and I'm going to use completely hypothetical numbers without any detail -- let's assume that your synergies projection included a reduction of ten people in a certain function and in December 2016, FairPoint eliminated four people from that same function. Would that mean that Consolidated would only need to eliminate six more people to achieve its synergies target?
>
> MR. SCHULTZ: No, you're linking two things that are separate calculations altogether. When -- when we sat down and -- and evaluated the -- the synergy level, it was done on a percent of OPEX, separate from what -- what FairPoint's transaction was in December of '16.
>
> MR. RUBIN: Okay, what was the starting number you were working with? Was it before the December '16 layoffs or after the December '16 layoffs.
>
> MR. SCHULTZ: It would have been before. Before, yeah.[20]

The exchange continues with Consolidated's witness acknowledging that all of its projections were based on FairPoint's 3rd Quarter 2016 results, before the December headcount reductions were either announced or implemented.

> RUBIN: I'm just going to guess here, in the -- in the third quarter of 2016, since the deal was signed in early December or -- is that -- I mean, is that assumption right or were the -- the numbers even --
>
> MR. CHILDERS: No, I think that -- I think that's a fair way to look at it. We were looking at a point in time, right, that their -- their OPEX was at a -- at the end of third quarter was at a certain level. We based our observations or preliminary estimates kind of what that run rate is, but

[20] Maine Technical Hearing, p. 120, attached as part of Schedule RB-3.

> Mike's correct also. The action that they took in the fourth quarter had nothing to do with Consolidated and doesn't really impact our view of synergies going forward.
>
> RUBIN: The numbers that we have seen publicly are -- is a synergies estimate of $55 million. Is that a $55 million reduction from FairPoint's operating expenses as of the third quarter of 2016 or is it a $55 million reduction in FairPoint's operating expenses as of the date of closing?
>
> MR. CHILDERS: The estimate was based off third-quarter numbers, right? [21]

Then Mr. Childers reiterated that Consolidated employed a metric in projecting synergies from the transaction and that material reductions in FairPoint's pre-closing expenses will not be taken into consideration. Rather, Consolidated is applying a pre-conceived metric, regardless of changes at FairPoint.

> CHILDERS: . . . the way I'd look at it, if you look at our -- that $55 million is basically nine or ten percent of their OPEX, and if you look at transactions that we've done before or you look at any comparable telecom (INAUDIBLE), the numbers are probably in the eight -- the targets are probably in the 18 to 20 plus range. So even with that action that was taken in -- in the fourth quarter by FairPoint, we still think our numbers are reasonable and achievable.
>
> MR. RUBIN: . . . has FairPoint's action to reduce its workforce already gotten Consolidated partway to achieving its synergies.
>
> MR. CHILDERS: And so I thought we answered your question. No, we're not counting that in the $55 million . . .[22]

Q. Is there other information related to CNSL's synergy projections that leads you to question its financial and operating capabilities?

[21] Maine Technical Hearing, p. 121, attached as part of Schedule RB-3.
[22] Maine Technical Hearing, p. 122, attached part of Schedule RB-3.

A. Yes. In response to New Hampshire Staff data request 3-13, Mr. Childers disclosed that Consolidated expected FairPoint to end the year 2016 with 139 more employees than the company actually had.[23] Put another way, FairPoint's year-end employee count was 5.6% below what Consolidated anticipated. While FairPoint has not disclosed the total employee reductions as a result of the December 2016 cuts, 105 union-represented people lost their jobs in December.

As Consolidated witnesses have testified, the projected synergies were derived without reference to FairPoint's December reductions. What these witnesses have not said is that Consolidated seems to have believed that FairPoint would end the year with 139 more employees than it actually had. Specifically, when Consolidated signed the deal, FairPoint said it would have 2,639 employees at year-end 2016.[24] Apparently based on that projection, Consolidated believed it could cut the FairPoint workforce by **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** people, resulting in an estimated headcount of **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}**.[25] Yet at year-end 2016, FairPoint's actual headcount was only 2,500.[26] So one would think that Consolidated would now be projecting that it would be planning to cut an additional **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** people to achieve its synergies target. But, inexplicably, Consolidated has said that FairPoint's layoffs in

[23] Consolidated response to Staff 3-13, attached as Schedule RB-7.
[24] Schedule RB-7.
[25] See Table 5, below.
[26] FairPoint SEC Form 10K, March 6, 2017, p. 10.

December 2016 have absolutely no effect on Consolidated's synergies projections – Consolidated apparently still plans to cut another **{BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL}** people on top of the 105 FairPoint cut in December. This makes no sense – especially without a real synergies study and transition plan showing that such drastic job cuts can be achieved with devastating effects on public safety and service reliability. Consolidated's stance leads me to seriously questions Consolidated's capability to manage an operation the size and complexity of FairPoint. Moreover, because Consolidated's synergies projections are a critical part of its financial future, an unrealistic synergies target also calls into question Consolidated's financial capabilities over the next several years.

Q. You say that Consolidated's projected synergies pose significant risks to FairPoint New Hampshire customers, communities and employees. Please explain.

A. As I discussed above, Consolidated does not appear to have any detailed understanding of FairPoint's actual operations, other than as reflected in many ***financial*** analyses in Consolidated's transaction model.

The problem with this is that the financial results are the ***output*** from operations and not the reverse.

Because of the way Consolidated has approached this transaction, its projected $55 million in synergies, including its $24.4 million cut in the unionized workforce, are effectively the tail wagging the dog.

The headcount reductions FairPoint engineered in December of 2016 will certainly have consequences, as Labor witness Steven Soule will explain in his testimony. These reductions were effectively a "test drive" for Consolidated's planned synergy actions, except Consolidated maintains that its cost cutting will be ***completely without reference*** to what FairPoint has already done.

While FairPoint has not disclosed the cost savings it expects to achieve from the December 2016 reductions, the IBEW and CWA obviously know how many of their members have been lost. Table 2 presents these total lay-offs of union-represented employees throughout FairPoint NNE[27] and then applies three different conservative estimated savings in compensation costs alone. These are presented to enable readers of non-confidential portions of my testimony to gain an understanding of the order of magnitude of FairPoint's savings from this action.

[27] FairPoint has not independently provided data on the December 2016 headcount reductions.

TABLE 2
ESTIMATE FOR RANGE OF SAVINGS FROM
FAIRPOINT DECEMBER 2016 HEADCOUNT REDUCTIONS

CWA	9
IBEW	96
Total Headcount Reductions:	105

If Total Cost per Employee is:	***Total FairPoint Savings Would be:***
If $80K	$8,400,000
If $100K	$10,500,000
If $120K	$12,600,000

Sources: CWA and IBEW. Conservative range estimates for total cost per employee. Excludes any management headcount reductions.

In their confidential replies, the Petitioners have provided the analyses that both of their financial advisors prepared and presented to their respective Commissions of directors. **{BEGIN CONFIDENTIAL** [redacted]

[28] Evercore Dec. 3 Presentation, p. 31 of 49 (page labeled 23).

Redacted

Table 3
Average Reported Cost Savings Per Head

[redacted]	[redacted]
Reported "Labor" Synergy Savings ($Millions)	$24.4
[redacted]	[redacted]

Source: Schedule RB-6 and Evercore Dec. 3 Presentation, p. 31 of 49 (page labeled 23)

END CONFIDENTIAL}. Table 4 identifies the "Labor" savings proportion of total projected synergy savings (44.4%). It also identifies the proportion of total projected synergy headcount reductions represented by the December 2016 cuts, even though Consolidated maintains that these reductions will in no way affect subsequent synergy-related reductions. Finally, the table calculates the proportion of the total projected $55 million synergy savings represented by the December 2016 reductions.

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Table 4
"Labor" Reduction Savings as % of Total Savings, December 2016 Savings

"Labor" % total synergy savings	44.4%
December 2016 Headcount Reductions % of Total Projected Reductions	[redacted]
December 2016 Reduction Savings % of $55mm Synergies Savings	[redacted]

Source: Schedule RB-6 and Evercore Dec. 3 Presentation, p. 31 of 49 (page labeled 23)

[redacted]

END CONFIDENTIAL}

Beyond the risks inherent in such sweeping reductions in operating personnel, the fact that FairPoint has already instituted significant reductions that Consolidated doesn't consider is concerning. For example, without evaluating the December 2016 reductions Consolidated cannot possibly know whether its mechanistic plans are feasible, much less achievable.

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[29] Confidential Presentation by Morgan Stanley to Consolidated's Commission of Directors, December 3, 2016, provided in response to data request Staff 1-9, p. 12 (hereafter "Morgan Stanley Dec. 3 Presentation").

Table 5 provides additional detail about total headcount reductions associated with Consolidated's synergy-related headcount actions. **{BEGIN CONFIDENTIAL** [redacted]

Table 5
"Synergies" Headcount Reductions

	"Labor"	"Management"	Total
FairPoint Total	1,500	1,000	2,500
Projected Headcount Reductions	[redacted]	[redacted]	[redacted]
% Headcount Reduction	[redacted]	[redacted]	[redacted]

Source: FairPoint SEC Form 10K, March 6, 2017, p. 10; Evercore Dec. 3 Presentation, p. 31 of 49 (page labeled 23)

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In its most recent SEC Form 10K filing, Consolidated reports that 20% of its workforce is covered by collective bargaining agreements in Texas, Pennsylvania, Minnesota and

Illinois, and claims that its "relations with the unions representing these employees are good . . ."[30]

For a company claiming to have "good" relations and extensive experience with a union-represented workforce, Consolidated's plans can only raise more suspicions. Enough is known in the public record that employees, customers, and public officials are already leery of the impact of this transaction. Consolidated's failure to publicly disclose its plans or to meet with union officials can only heighten their concerns.

I would remind the Commission that when FairPoint acquired the NNE operations, it projected an employment increase of nearly 600 people. While all of those jobs did not materialize, FairPoint's drastic job cuts did not occur as a result of the transaction, but as a result of FairPoint's mismanagement after the transaction closed. The fact that Consolidated plans significant cuts in the workforce from the beginning, and fails to disclose any details about those plans, is very troubling and sends the wrong message about its commitment to the people of New Hampshire.

Q. Have you seen any other information that leads you to question Consolidated's synergy plans?

A. Yes. Consolidated was asked in a staff interrogatory in Vermont to explain an earlier reply stating that Consolidated "does not intend to reduce 'customer facing personnel' as

[30] Consolidated Communications, Inc. SEC Form 10K, March 1, 2007, p. 23.

part of its post-merger closure plans."[31] Consolidated replied that "the closer a position is to the customer, the less chance of a reduction." Referring to its earlier reply, Consolidated elaborated: "'customer facing jobs' would not be impacted, but that does not mean it is zero impacting for perpetuity."

Then Consolidated defined categories of "customer facing personnel" which the company does not intend to reduce: "Broadband Technical Support, Call Centers, Field Operations — I&R, Repair, Sales, and Wholesale Services."

This is both stunning and literally incredible. Consolidated intends to achieve $24.4 million in synergy reductions from "Labor" alone, but FairPoint NNE union-represented employees overwhelmingly fall into one of the categories the company says it does not intend to reduce.

THERE IS NO FINANCIAL BENEFIT TO FAIRPOINT

Q. You say that the Petitioners have failed to demonstrate any financial benefit to FairPoint and its stakeholders, other than to its shareholders. Please explain.

A. As I describe elsewhere, the financial benefits of this transaction appear to be a one-way street, with the exception that FairPoint shareholders will be receiving a dividend, something that they haven't seen the 2009 bankruptcy.

[31] Vermont DPS.CC.3-6, attached as Schedule RB -8.

The extent of investments that Consolidated will re-deploy into New Hampshire and other FairPoint operations is one of many unknowns. One thing that *is* known can be derived from Consolidated's detailed financial model. **{BEGIN CONFIDENTIAL** [redacted]

TABLE 6
Consolidated and FairPoint Capital Intensity (CapEx as % of Revenues), 2016-2024 <u>Projections</u>

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Consolidated	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
FairPoint	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Combined	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Consolidated vs FairPoint	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CNSL Model, Tab CNSL+FRP PF Model, Lines 105-110

END CONFIDENTIAL}

The closest Petitioners get to identifying a material benefit to FairPoint is that FairPoint's board will be able to select one Consolidated board member to protect FairPoint shareholders' newly achieved dividend:

> The right granted in the Merger Agreement for the FairPoint board to select a member of the Consolidated board . . . which would provide assurance that legacy

[32] CNSL Model, Tab CNSL+FRP PF Model, Lines 105-110.

> FairPoint stockholders would have a continuing voice to influence achieving the benefits of the Merger and ***continuing Consolidated's current dividend practices;***[33]

Q. Consolidated is refinancing FairPoint's debt at a much lower interest rate. Isn't that a benefit to FairPoint?

A. It is true that Consolidated is refinancing FairPoint's debt at a lower interest rate, but that does not tell the entire story. Consolidated secured financing to replace (and add $18 million to) FairPoint's current debt at an interest rate of approximately 4%, replacing debt that carries an interest rate of about 7.9%. Obviously, this is a much better rate.

However, today's interest rate environment is lower than it was when FairPoint secured its credit facilities, not too long after it emerged from bankruptcy. If FairPoint had sought to refinance its debt on its own, making it fully secured on similar terms to those obtained by Consolidated (with the exception that the interest rate would be somewhat higher),[34] it certainly would have been able to obtain a much lower rate.[35] Also, recall that while FairPoint has a slightly lower credit rating, its Leverage and Interest Coverage Ratios are materially superior to that of Consolidated. There is no way to know what rate FairPoint would be able to obtain without actually testing the market, but it is clear that

[33] Definitive Proxy Statement, p. 58 (emphasis added).

[34] "Another factor in the rate differential is that Consolidated has explicitly pledged the regulated and non-regulated assets of operating companies as collateral while FairPoint did not explicitly provide a pledge as part of its collateral package.." Joint Petition, December 29, 2016, p. 12.

[35] This was also acknowledged by Consolidated in its reply to data request Labor 1-19: "The significant difference in rates is due, in part, to pledging the assets."

the rate would be far lower than the current 7.9%. For example, the spread between Standard & Poor's B and B+ rated credits is about 0.75%. Of course, other factors play a role in determining interest rates. Nevertheless, it is reasonable to believe that FairPoint could have obtained a much lower rate, perhaps no more than 0.75% to 1.5% higher than Consolidated obtained.

Q. If FairPoint's financial metrics have significantly improved since it last re-financed its debt about 4 years ago, do you know why it didn't do so earlier?

A. No. I do not.

Q. If FairPoint, hypothetically, refinanced its debt around the beginning of this year on a standalone basis, what in your opinion, could it have achieved in terms of savings on interest expense compared to its current costs?

A. Of course this is something of a "counterfactual" exercise, but I believe that it is possible to develop an order of magnitude estimate.

While such debt would still cost more than the 4% rate negotiated by Consolidated, it probably would have resulted in cost savings to FairPoint of between $25 million and $30 million annually (compared to the $35 million savings Consolidated achieved).[36]

[36] This assumes that there would be no need for the additional $18 million in debt associated with financing the costs of the transaction, and that FairPoint would have only needed to refinance its current $917 million rather than $935 million which Consolidated has arranged.

Q. Can you be certain that FairPoint could have saved $25 million to $30 million on its own?

A. No, the only way to be certain is for FairPoint to test the market. Every financing has its own specific considerations by both lenders and borrowers. In my experience, however, I am confident that the projected savings presented above are a reasonable estimate given FairPoint's current financial status.

Indeed, FairPoint's Board dismissed a stand-alone strategy based on the likely comparative value this would provide the company's shareholders, without reference to how a potential standalone refinancing might have benefited FairPoint's customers and employees:

> [T]he strategic and other alternatives reasonably available to FairPoint as determined through FairPoint's strategic alternatives review process, including the alternative of remaining a stand-alone public company, in light of a number of factors and the potential risks and uncertainties associated with those alternatives, ***none of which other alternatives was deemed likely to result in value to FairPoint's stockholders that would meet or exceed, on a present-value basis, the value of the Merger Consideration***.[37]

Of course, it is the Board's job to make shareholder value paramount. However, this consideration does not address the interests of other FairPoint stakeholders (customers, communities, workforce) nor the benefits or risks that may accrue to them with an alternative stand-alone strategy.

[37] Definitive Proxy Statement, p. 56 (emphasis added).

RISKS IDENTIFIED BY CONSOLIDATED'S "STRESS TESTS" OF ITS FINANCIAL PROJECTION MODEL

Q. Has Consolidated produced any "sensitivity" or "stress" analyses of its basic financial projection model for this transaction?

A. In response to Staff 3-22, Consolidated provided the results of seven "stress tests" requested by the Department of Public Service in Vermont, reporting the projected impact of alternative scenarios for 2017 through 2024. Some of these alternative scenarios produce positive financial results (variances) compared to Consolidated's Base Model, while others produce negative results compared to the Base Model.

In Table 7, below, I evaluate the possible impact on Levered Free Cash Flows (LFCF)[38] of the convergence of three of the alternative scenarios in a selected year, 2021: An increase in LIBOR (interest) rate of 200 basis points (2%) (Stress Test No. 3); a 25% reduction in synergies (Stress Test No. 5); and, a 10% increase in capital expenditures combined with a 5% decrease in revenues (Stress Test No. 6). I have printed the full results of the Base Model and each of these "stress test" scenarios from Consolidated's response to Staff 3-22 and attached them as Schedule RB-9 (Confidential).

I do not argue that this convergence of negative factors will emerge, but none of them are beyond the realm of possibility. Indeed, FairPoint broadly confronted a similar "perfect storm" in its acquisition of the Verizon NNE operations (assumed interest rates spiked,

[38] After capital expenditures, dividends, and pension and OPEB payments.

revenues declined in the face of serious operational and cutover problems; capital expenditures increased in response to regulatory requirements established as conditions for approval of the transaction; and FairPoint had difficulty reducing headcounts as its employees struggled to cope with the virtual meltdown of its back office systems in the wake of systems cutovers).

{BEGIN CONFIDENTIAL [redacted]

Table 7
Variances in Selected "Stress Tests" from Base Model
Levered Free Cash Flow ("LFCF")
($millions)

"Stress Test" Scenario	2021 LFCF	Variance from Base Model LFCF
Base Model	[redacted]	
#3 Increase interest rate by 200 basis points	[redacted]	[redacted]
#5 25% reduction in synergies	[redacted]	[redacted]
#6 10% increase in capex and 5% decrease in revenues	[redacted]	[redacted]
Sum of impacts	[redacted]	[redacted]

Source: Confidential Attachment to Staff 3-22, Summary tab

END CONFIDENTIAL}

Q. Is it reasonable to combine the results of sensitivity analyses by simply adding up the results?

A. No. The "sum of impacts" row in Table 7 does not represent an accurate projection for such a combination of negative events. There are other factors in Consolidated's model which would need to be taken into consideration in order to produce a more accurate combined scenario. These factors may include potentially lower cash taxes, higher depreciation charges for the increased capital expenditures, and so forth. However, I believe that the results reflected in this table provide a useful order of magnitude illustration of the potential risks associated with this transaction, if a number of key financial factors turn negative simultaneously.

RISKS ASSOCIATED WITH SYSTEMS CONVERSIONS

Q. Does Consolidated have plans to change FairPoint's operating systems?

A. Yes. Even though Consolidated claims that there will be "no cutover" associated with this transaction,[39] Consolidated plans to convert FairPoint to new systems after closing. Mr. Waggoner testified: "Consolidated has developed multiple tools and automation resources to assist in the deployment and support of services allowing for quality installation and first call resolution of issues. We will be evaluating opportunities to integrate these tools and our experience and knowledge after the close of the

[39] Testimony of Gabe Waggoner, pp. 7-9.

transaction."[40] Consolidated witness Gabe Waggoner testified that the process of integrating various FairPoint systems would typically take 18 to 24 months[41] -- arguing that any "any future billing or operation support system integrations will only occur when it is necessary for supporting new services or efficiency gains."[42] Lest there be any mistake, "efficiency" gains are part of the $55 million in synergies Consolidated hopes to extract from FairPoint's operations.

Thus, Consolidated has also made clear that it intends to change many FairPoint systems and processes fairly soon after closing. Consolidated will be unable to achieve the $55 million in synergy savings without significant integration activities.

That Consolidated will not engage in an immediate cutover of FairPoint systems and processes is beside the point. The Commission should require the Petitioners to provide detailed integration plans, along with timelines and discussions of the risks and benefits to New Hampshire customers. New Hampshire consumers already have seen what can happen when a transition is not managed properly. The Commission should ensure that does not happen again under Consolidated's drive to achieve synergy savings.

[40] Id., pp. 8-9.
[41] Id., p. 7.
[42] Id., p. 8.

OTHER FACTORS AFFECTING AN EVALUATION OF CONSOLIDATED'S FINANCIAL AND MANAGERIAL CAPABILITIES

Q. One aspect of a company's financial capability can be ensuring that it has the ability to attract capital on reasonable terms. What are your conclusions about Consolidated's ability to attract capital on reasonable terms if the transaction closes?

A. It is important to understand that if the synergies target is not achieved, there could be serious financial problems for Consolidated. Consolidated's ability to improve its financial condition, meet its debt service obligations, and continue to pay its dividend to stockholders will depend on achieving synergies. Those synergies are unrealistic because they fail to take into account the current state of FairPoint including the cuts already achieved and the depleted state of FairPoint's workforce. As Labor witness Soule will explain, there is a serious risk that further cuts would result in deteriorating network conditions and poor customer service. If the estimated synergies are not achieved, then FairPoint could find itself part of a larger, but financially troubled, company. In other words, if Consolidated can achieve its synergies projections, there is likely to be no impairment; but there is a significant risk of Consolidated not achieving its projected synergies. In that circumstance, Consolidated's financial condition could be impaired, especially compared to where FairPoint is today.

Q. Part of having the managerial capability to operate the state's largest telecommunications carrier is the ability to allocate resources and manage

personnel. Do you have any concerns about Consolidated's ability to allocate resources and manage personnel?

A. Yes. Consolidated's "synergy" cost cuts are apparently targeted exclusively at FairPoint's operations, and pose multiple risks, including inadequate funds for operations. See my earlier discussion of the risks inherent in Consolidated's synergy strategy, and my brief discussion of Consolidated's service quality issues in other states. Obviously, a significant financial impairment could affect Consolidated's ability to manage the FairPoint network and make needed investments in New Hampshire.

Q. Have you formed an opinion about the proposed transaction's effect on the credit-worthiness of FairPoint and Consolidated?

A. The potential for an adverse impact on the combined companies' credit-worthiness depends on projected cash flows, credit ratings, leverage and interest coverage ratios and the possible operational harms stemming from the significant operating expense reductions. Although FairPoint's credit rating is lower than Consolidated's, FairPoint's leverage ratio and interest coverage metrics are higher. The combined entities will have a lower leverage ratio than Consolidated has on a stand-alone basis, but higher than FairPoint's current leverage ratio.[43] Similarly, the combined entities will have an

[43] Leverage ratio is the ratio of EBITDA to Net Debt. At year-end 2016, Consolidated's Leverage Ratio was 5.2x, according to calculations made by Standard & Poors Capital IQ database. FairPoint's was 2.0x. While companies typically make a range of adjustments to net debt, and produce different Leverage Ratios, the methodology used by Capital IQ is identical for both firms. In addition, Consolidated has published another Leverage Ratio for post-transaction,

improved (higher) interest coverage ratio,[44] but lower than FairPoint's current interest coverage metric. While Consolidated's debt is rated one or two notches higher than FairPoint's (depending on the rating agency), FairPoint maintains superior leverage and interest coverage metrics, ratios that analysts employ in evaluating company financials and operations. As I discuss elsewhere, the projected reductions in FairPoint operating expenditures (via mechanically-applied synergies) pose a real risk to FairPoint's ability to provide safe and adequate service to its customers in the State of New Hampshire and the company's continuing ability to raise capital on reasonable terms. As I explained earlier, the ability to raise capital on reasonable terms is a key indicator of a utility holding company’s financial capability.

Q. Do you have any other, more specific, concerns about Consolidated’s financial and managerial capabilities as they relate to New Hampshire?

A. Yes. Consolidated intends to "sweep" cash from FairPoint New Hampshire into Consolidated's central accounts and deploy these assets as it determines.[45]

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post-synergies for the combined companies.

[44] There are two commonly referenced interest coverage metrics: EBIT-to-Interest Expense and EBITDA-to-Interest Expense. FairPoint's is significantly higher than Consolidated's as of year-end 2016, with FairPoint's EBIT-to-Interest Expense ratio at 2.8x, compared to Consolidated's 1.2x. Similarly, FairPoint's EBITDA-to-Interest Expense ratio was 5.5x, compared to Consolidated's 3.4x. Calculations derived from Standard & Poor's Capital IQ database, accessed March 7, 2017.

[45] Maine Technical Hearing, pp. 143-144, attached as part of Schedule RB-3.

{BEGIN CONFIDENTIAL [redacted] **END CONFIDENTIAL}** This is just one example of the many ways in which FairPoint's financial metrics and cash are intended to benefit Consolidated and not FairPoint.

It appears that the New Hampshire company, on its own, would lack the ability to make capital investments without the approval of Consolidated at the parent-company level, and it would not even have the cash to do so under Consolidated's financial structure. Consequently, it would seem reasonable to place strictures on the amounts of investment funds that are diverted from FairPoint New Hampshire to Consolidated to ensure that the New Hampshire operations have the financial capability necessary to maintain and upgrade the state’s predominant telecommunications network.

Q. From your review of Consolidated and FairPoint financial information and projections, is there a risk that Consolidated will not have the requisite financial capability to own and operate FairPoint?

A. Yes, as I demonstrate elsewhere, there is a material risk that New Hampshire will be adversely affected by this transaction. There is a real risk that Consolidated's drive to achieve synergies will result in a deterioration of the quality and reliability of service and will move cash out of New Hampshire to support Consolidated's operations elsewhere (or to pay interest and dividends to Consolidated's investors). As I discuss elsewhere, the significant synergy-driven cuts in operating expenses pose risks to operations in the former FairPoint territories. If these risks materialize, investors also could be adversely impacted.

CONCLUSIONS AND RECOMMENDATIONS

Q. Do you have anything else to add?

A. Yes. Throughout this proceeding, I am struck by how much the Petitioners have not disclosed about their plans with respect to FairPoint's New Hampshire operations. These encompass areas such as capital expenditures, operating expenditures, cash flows, integration plans, relocations of any New Hampshire-based operations, relocations of any FairPoint or Consolidated operations into New Hampshire, plans to improve service quality, and, projected employment levels.

Q. What are your recommendations?

A. The Commission has not been provided with sufficient information to permit it to make an informed decision.

Consolidated appears to be singularly uninformed about the actual operations of FairPoint in New Hampshire, or at least that is what the company has told the Intervenors. Its lack of detailed information about New Hampshire, some four months after signing the merger agreement, is in and of itself an indication of Consolidated’s lack of managerial capability to own and operate a system as large and diverse as FairPoint.

My fundamental recommendation is that the Commission defer ruling on this transaction at this point. As I demonstrate in my testimony, the Petitioners simply have not provided enough detailed information upon which an informed judgment can be reached. Very little of the Petitioners' Petition, Testimony, and Data Replies, relates specifically to FairPoint New Hampshire and its operations.

In particular, the Commission should not approve the proposed Transaction until Consolidated agrees to

- Concrete, enforceable commitments to improve operations and service in New Hampshire, and
- Increase capital investments in New Hampshire similar to those which were required by the Commission in the FairPoint/Verizon Transaction.

Making those types of commitments would provide assurances that Consolidated will appropriately manage and finance the New Hampshire operations.

In addition, the Commission should require the Petitioners to provide significantly more New Hampshire-specific data, covering the next five years, for projected:

- capital expenditures,
- operating expenditures,
- cash flows,
- integration plans,
- relocations of any New Hampshire-based operations,
- relocations of any FairPoint or Consolidated operations into New Hampshire,

- plans to improve service quality, and,
- employment levels.

I also recommend that the Commission evaluate the impact of FairPoint's December 2016 headcount reductions on all aspects of FairPoint New Hampshire's operations (with the participation of the Petitioners and Intervenors).

In sum, the Commission should not approve the proposed Transaction until Consolidated discloses much more detailed plans for New Hampshire than it has to-date and the Commission and Intervenors have an opportunity to analyze and comment on these needed disclosures. Finally, the Commission should not approve the proposed Transaction until Consolidated agrees to concrete, enforceable commitments to improve operations and service in New Hampshire, including increased capital investments in New Hampshire.

Q. If the Commission decides to approve this transaction in spite of your recommendations, do you have any alternative suggestions?

A. I strongly urge the Commission to defer action on this transaction until the actions I recommend are taken, but if the Commission determines that it will approve this transaction despite the material lack of details provided by the Petitioners, the Commission should:

- Require that Consolidated return a fair portion of New Hampshire-generated operating cash flows it has harvested to FairPoint operations in the State.

- At a minimum, FairPoint's New Hampshire operations should have a budget equal to projected pre-synergies levels for at least the first five years after the transaction closes.

- Require that Consolidated reduce dividend payments by up to 50%, using the savings to pay down FairPoint-related debt. Alternatively, use the savings to fund part of the needed additional capital investments in New Hampshire identified below.

- Identify specific areas of needed additional capital investments in New Hampshire, including broadband speed upgrades for more customers, identify areas of the copper network which have unacceptable service metrics and require the company to repair or replace sub-standard equipment, copper and so forth.

- Require Consolidated and FairPoint to increase staffing to remedy shortcomings in FairPoint New Hampshire's network, plant and operations.

Q. Does this conclude your direct testimony?

A. Yes.