STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 30, 2008 - 3:26 p.m.
Concord, New Hampshire

RE: DT 07-011
VERIZON NEW ENGLAND, ET AL:
Transfer of Assets to FairPoint Communications, Inc. (Hearing for the purpose of considering whether information set forth in the Form 8-K filed with the SEC on March 26, 2008 constitutes a basis to alter, amend, suspend, set aside, or otherwise modify Order Number 24,823.)

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

Jody O'Marra, Clerk

APPEARANCES: Reptg. FairPoint Communications, Inc.:
Frederick J. Coolbroth, Esq. (Devine...)
Patrick McHugh, Esq. (Devine, Millimet..)
Kevin M. Baum, Esq. (Devine, Millimet...)

Reptg. Verizon New England, et al:
Victor D. Del Vecchio, Esq.

Reptg. One Communications:
Ted Price, Esq.

Court Reporters: Steven E. Patnaude, LCR No. 52
Susan J. Robidas, LCR No. 44

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

Reptg. Communication Workers of America,
IBEW Locals 2320, 2326 & 2327, and
IBEW System Council T-6:
Scott Rubin, Esq.

Reptg. Irene Schmitt:
Alan Linder, Esq. (N.H. Legal Assistance)

Hugh Lee, pro se

Reptg. Maine Office of Public Advocate:
Wayne Joyner, Esq.

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Rorie Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
F. Anne Ross, Esq.

I N D E X

PAGE NO.

E X H I B I T S

P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good afternoon. We'll open this hearing in docket DT 07-011 concerning Verizon/FairPoint. I'll note for the record, on March 26, 2008, FairPoint filed with the Securities & Exchange Commission a Form 8-K reporting that $551 million of senior notes would be issued at an interest of rate of 13 and one-eighth percent. On March 28, 2008, we scheduled the hearing this afternoon pursuant to RSA 365:28, for the purpose of considering whether the information set forth in the 8-K constitutes a basis to alter, amend, suspend, set aside, or otherwise modify Order Number 24,823, which was issued on February 25, 2008 approving the Verizon/FairPoint transaction. And, I'll note as well the closing of that transaction is currently scheduled to occur tomorrow, March 31st.

I'll note for the record as well that Commissioner Below is on the phone, as I understand are several other parties. We will take appearances shortly. And, I would ask, when I take appearances, especially from the individuals on the phone, if they would indicate whether they're going to seek to cross-examine this afternoon.

Before I go any further into how we're

going to proceed, let's take appearances.

MR. McHUGH: Thank you, Mr. Chairman. This is Patrick McHugh, from Devine, Millimet & Branch, on behalf of FairPoint Communications, Inc. With me at counsel table is Attorney Frederick Coolbroth, Attorney Kevin Baum. Also with us at counsel table is Mr. Gene Johnson, FairPoint's CEO and Chairman of the Board of Directors, and Mr. Walter E. Leach, Executive Vice President - Corporate Development. And, in the background is Ms. Bonnie Newman, FairPoint's Independent Lead Director, a member of the Board of Directors.

CHAIRMAN GETZ: Good afternoon.

MS. ROSS: I would just like to suggest one sort of mechanical recommendation, that we all remain seated and that we speak with our mouths as close to the mikes as possible, because of the difficulties in transmitting to both our Commissioner on the phone and our other participants on the phone. I know, out of respect for the Commission, we normally stand, but I think today it would be better if we stayed close to our mikes.

CHAIRMAN GETZ: Thank you, Ms. Ross.

MR. DEL VECCHIO: With that admonition, good afternoon, Mr. Chairman, Commissioner Morrison. Victor Del Vecchio and Steve Camerino, representing

Verizon. And, with us in the rear of the room are Polly Brown, Robert Kenney, and Sean Nestor.

CHAIRMAN GETZ: Good afternoon.

MR. LEE: Hugh Lee, representing myself, as well as speaking on behalf of other ratepayers.

CHAIRMAN GETZ: So, you -- Mr. Lee, how do you spell your name?

MR. LEE: First name Hugh, H-u-g-h, last name Lee, L-e-e.

CHAIRMAN GETZ: Okay. Mr. Lee, you have not previously petitioned to intervene in this proceeding, is that correct?

MR. LEE: No, I have not.

CHAIRMAN GETZ: Okay. Are you going to be seeking to intervene or seeking to cross-examine or what's your proposed intention this afternoon?

MR. LEE: To the extent that the Chair will permit me to do so, I would like to intervene in these proceedings today, and cross-examine if possible.

CHAIRMAN GETZ: Okay. Well, we'll deal with that after we take appearances. Let's deal with people who are in the room, before we turn to the phone. Other parties of record who want to make an appearance today?

MR. LINDER: Good afternoon. This is Alan Linder, from New Hampshire Legal Assistance, representing residential ratepayer and intervenor Irene Schmitt.

CHAIRMAN GETZ: Okay. Good afternoon.

CMSR. MORRISON: Good afternoon.

MR. LINDER: Good afternoon.

MS. HATFIELD: Good afternoon, Commissioners. Meredith Hatfield, for the Office of Consumer Advocate, on behalf of residential ratepayers. And, for our office today, with me are Rorie Hollenberg, Ken Traum, and Steve Eckberg.

CHAIRMAN GETZ: Good afternoon.

CMSR. MORRISON: Good afternoon.

CHAIRMAN GETZ: I see Labor here.

MR. BARBER: Scott should be on the phone.

CHAIRMAN GETZ: Okay. Thank you. All right.

MS. ROSS: Good afternoon, Commissioners. Anne Ross, with Commission Staff, and with me today is Kate Bailey, Director of the Telecom Division, John Antonuk, our outside consultant, and David Goyette, an Analyst with the Telecom Division.

CMSR. MORRISON: Good afternoon.

CHAIRMAN GETZ: Good afternoon. Let's turn to the phone. I understand, Mr. Rubin, you're on phone. Could you make your appearance please.

MR. RUBIN: Yes, I am. Good afternoon, Mr. Chairman. And, I will be leaving the call in I guess about seven or eight minutes to return to the - () -- as you know, their hearing started at 2:00 this afternoon, and they're on a recess now. And, I think we'll be expecting a decision from the Public Service Board or some kind of ruling when they get back. So, I will leave to finish up that, and then I'll be returning.

CHAIRMAN GETZ: Okay. Thank you. And, I imagine we'll all appreciate being informed if the Vermont Board makes a decision while we are conducting this hearing this afternoon. Who else is on the phone?

MR. JOYNER: This is Wayne Joyner from the Maine Office of Public Advocate.

CHAIRMAN GETZ: Okay. Good afternoon. Are there other intervening parties that are on the phone?

MR. PRICE: Yes, this is Ted Price from One Communications.

CHAIRMAN GETZ: Okay. Good afternoon. Anyone else?

CMSR. BELOW: And this is Commissioner Clifton Below on the phone.

CHAIRMAN GETZ: Okay. It sounds like there are no other parties seeking to make an appearance. Before we turn to Mr. Lee's Petition to Intervene, let me note it's our intention this afternoon to proceed by hearing from FairPoint an explanation of what led up to the filing of the 8-K and the effects of the increased interest rate on the financial viability of the transaction. After the FairPoint witness, which I anticipate would be Mr. Leach, is that correct?

MR. McHUGH: Yes, Mr. Chairman.

CHAIRMAN GETZ: After Mr. Leach has completed his direct examination and has been made available to cross, we will then, as is our typical procedure, will be available to cross by the parties of interest and questions by the Commission, and then an opportunity for redirect. And, so, that would be the first major order of business.

Before we turn to Mr. Lee's request, are there any other preliminary matters that we need to address?

(No verbal response)

CHAIRMAN GETZ: Okay. Hearing nothing,

I think, Mr. Lee, you're making a Petition to Intervene, and I think it's incumbent upon you to demonstrate what rights, duties, interests, privileges or immunities are affected by this proceeding, and why it is in the interests of justice to grant your petition at this late date. Do you have something in the first instance to offer, Mr. Lee?

MR. LEE: Thank you, Mr. Chairman. Yes. I am here today because, in the past and to date in this proceeding, matters have been presented of a financial and technical nature. Those have been addressed by this Commission. However, given the current state of affairs that brought about this hearing, I believe there's a material adverse change in the circumstances, which changes the entire flavor of the proceedings that have occurred to date. And, therefore, I have an interest in participating in the proceedings. The effect -- It affects me personally, as a ratepayer, with regard to the utilization of telecommunications systems within this state.

CHAIRMAN GETZ: And, you are a customer currently of Verizon, is that correct?

MR. LEE: That's correct.

CHAIRMAN GETZ: Okay. Let's allow then

any objections, starting with Mr. McHugh or Mr. Coolbroth?

MR. McHUGH: Yes, Mr. Chairman. On behalf of FairPoint, we respectively do object to this late request. First of all, there was no -- no intervention filing was made by Mr. Lee. I think the decision to grant the request is discretionary. The Commission will recall there was a late intervenor who filed back in the proceedings who, although the intervention was granted, their role was significantly limited. There was no cross-examination allowed by Rural Economic Development. There was no filings permitted whatsoever, other than the filing of a brief.

In this case, given that it's so late, given that nothing was filed in paper in advance for the Commission to evaluate, we would ask that it be -- the request be denied. And, in addition, while I can appreciate Mr. Lee being a customer and a ratepayer, I would note that Attorney Linder is here on behalf of New Hampshire Legal Assistance, the Office of Consumer Advocate is here. Those folks certainly represent the interests of ratepayers, and Mr. Lee will not be harmed by having his petition denied.

Also, in terms of the financial analysis, in addition to the Office of Consumer Advocate having financial witnesses, the folks from Liberty Consulting are here who are also going to be providing financial information on behalf of the Staff, Commission Staff to the Commission. With that, that's my summary.

CHAIRMAN GETZ: Anyone else? Mr. Del Vecchio.

MR. DEL VECCHIO: Mr. Chairman, I would just note that Verizon would concur with what FairPoint has explained. I would also note that, to the extent the Commission were to, however, entertain any intervention, it should be, frankly, limited to any specific issue that arises in connection with this hearing, and not with respect to the underlying order and issues that arose prior to this point. And, secondly, I didn't hear an explanation, as I believe the rules require, explaining why the intervenor could not have sought intervention in a more timely fashion, particularly prior to the conclusion of the hearing with respect to the underlying order.

So, having said all that, to the extent the Commission decides to permit intervention, which we believe is not appropriate in this instance, we would reserve our rights to object to any particular question that might be asserted by this individual. But, as I think Mr. McHugh explained, in the prior instance when you did permit late filed intervention, you did not permit cross-examination. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Linder, Ms. Hatfield, Ms. Ross, anyone else have a position here on the petition to intervene?

MR. LINDER: This is Mr. Linder. I really don't have a position. However, if the Commission decides not to grant the petition to intervene, I believe the Commission would have the discretion to allow a public statement by the petitioner. Thank you.

CHAIRMAN GETZ: Thank you. I take it there's no one else in the room? Ms. Ross.

MS. ROSS: Yes. Staff does not believe an intervention this late is appropriate. However, if the Commission does allow intervention, we believe it would be appropriate to allow a public statement, but not cross-examination of witnesses.

CHAIRMAN GETZ: Mr. Price or Mr. Rubin, do you have a position on this issue?

MR. RUBIN: This is Scott Rubin. I have no position on this.

CHAIRMAN GETZ: All right. Mr. Lee, we'll give you -- you have an opportunity to respond to the objections. There have been a couple of what I would call counterproposals, in effect. That they would argue that you could either make a closing statement or a public statement in lieu of cross-examination. Do you have a response to that or anything else that you've heard?

MR. LEE: Thank you, Mr. Chairman. With regard to the comment made by the representative to my left that I have not indicated a good reason for not intervening earlier, I thought that I had done so, in light of the fact that the material change in the circumstances that has occurred since this Commission did issue an order approving the transfer of the assets from Verizon to FairPoint. So, I think that is a substantial basis. We're here today, obviously, the Commission felt that there was sufficient change in circumstances to warrant this hearing. That is the same basis on which I seek to intervene.

With regard to not having filed anything to intervene, as I understand it, the decision for this hearing occurred late on Friday, and the Commission has been closed until 3:00 today. However, if the Commission feels that my full intervention and ability to cross-examine is not warranted, I would appreciate the opportunity to make a statement. I don't think that participation by one additional individual in these proceedings will in any way impair, hinder or delay the proceedings, and might, in fact, shed some light on the proceedings. Thank you.

CHAIRMAN GETZ: Okay. This is how we're going to proceed. This is a -- I think following up with the remarks of Mr. Del Vecchio, this is a separate hearing pursuant to RSA 365:28, after the order in -- underlying order in this case has become final and after the time for motions for rehearing have been filed, and there have been, to my knowledge, no hearings -- or, no motions for rehearings filed. So, I will, as presiding officer, grant your intervention for the sole purpose of making a closing statement in this, in this proceeding, without the opportunity to cross-examine, under my understanding that there is going to be sufficient opportunity from all of the various parties in interest here to, including the Bench, to conduct the cross-examination of Mr. Leach or any other witness. So, your petition of limited intervention under those conditions is granted.

MR. LEE: Thank you.

CHAIRMAN GETZ: Okay. Is there anything else to address?

(No verbal response)

CHAIRMAN GETZ: All right. Then,

Mr. McHugh, Mr. Coolbroth, if you could call your witness please.

MR. McHUGH: FairPoint would call Walter Leach to the stand, Mr. Chairman.

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

WALTER E. LEACH, SWORN

DIRECT EXAMINATION

BY MR. McHUGH:

Q. Good afternoon, Mr. Leach. Would you state for the record your full name and your job title at FairPoint please.

A. Walter Leach, Executive Vice President of Corporate Development for FairPoint Communications.

Q. Thank you, Mr. Leach. We're here today, as the Chairman indicated, to review some information related to FairPoint's bonds and the interest rate that yielded or that will yield on those bonds, as well as FairPoint's recent 8-K filing with the Securities & Exchange Commission. Do you understand that, Mr. Leach?

A. Yes, I do.

Q. Maybe if you could please, in light of the scheduling of the hearing, would you provide some background information as to how FairPoint's bonds came to yield an effective rate of 13.5 percent and the steps that led up to the 8-K filing?

A. Yes, I'd like to do that. I'd like to start by thanking the Commissioners for taking a Sunday afternoon to do this. We appreciate that on such short notice, especially given the unusually nice weather you have outside today. I'd like to make three points in response to that question. I want to talk about the timing of the communication. We've worked very hard at FairPoint to try to create a very open and direct communication with the Staff and the Commissioners. So, I want to make sure they understand how the timing of events unfolded here. And, I'd like, point number two, to talk about what this change actually means to the transaction itself. And, then, finally, to actually quantify, in terms of numbers, what the higher interest rate actually does to the projections.

But let me start with point number one.

CHAIRMAN GETZ: Before you do that, let's make a technology sound check. Commissioner Below, can you hear the witness?

CMSR. BELOW: Yes, pretty well.

CHAIRMAN GETZ: Well, well enough?

CMSR. BELOW: Well enough, yes.

CHAIRMAN GETZ: Okay. Thank you.

CHAIRMAN GETZ: Mr. Leach.

WITNESS LEACH: Thank you.

BY THE WITNESS:

A. Again, FairPoint has worked very hard to try to create a very open and transparent communication process with both the Staff and the Commissioners. So, it's important to note that when the -- when the road show started, and a road show for the bonds basically is a two-week period by which you -- until that ends you don't know what the actual interest rate on the bonds will be. But, at the beginning of that process, the financial markets were in such turmoil, we had been given some indication that the rates could be as high as 11 or 11 and a half percent. And, at that point, which was a week and a half or so ago, I actually notified the Department that that might be the case, that the interest rates could be as high as 11 and a half percent or so. The surprise then occurred at the end of the road show, about a -- not even a full week after I notified the Staff, that the rate ended up being 13 and a half percent. So, I wanted to explain why, in such a short period of time, there could be such a dramatic change in the interest rate on the bonds. And, in fact, to do that, I have asked to be -- that we submit, in essence, a Standard & Poor's report that I'd like to quote from, as a way of really utilizing a third party to verify the timing of the last minute change.

MR. McHUGH: Mr. Chairman, and just for Commissioner Below and others who are participating by phone, then let me indicate that we've premarked some exhibits. First, just in the order, FairPoint marked a model output run as "Highly Confidential Exhibit 82 HC"; we've premarked a Lehman Brothers -- I'm sorry, we've premarked a JP Morgan report as "FairPoint Public Exhibit 83"; a Lehman Brothers Equity Research Report as "FairPoint Public Exhibit 84"; and what Mr. Leach was just about to explain, information from Standard & Poor's submitted as "FairPoint Exhibit 85". So, Mr. Leach, with that, and barring any questions from the Chairman, please continue.

CHAIRMAN GETZ: Well, I'll just note that the exhibits will be marked for identification as described by Mr. McHugh.

(The documents, as described, were

herewith marked as Exhibits 82HC, Exhibit 83P, Exhibit 84P, and Exhibit 85P, respectively, for identification.)

BY THE WITNESS:

A. Thank you. I would actually like to read from the Standard & Poor's exhibit. And, Standard & Poor's is an independent party, not involved in the financing, not tied in any way to the transaction. But I'd like to quote from a memo that they issued on March 26th, last Wednesday. And, it's the second paragraph, which basically says "Terms for the rated deal, the proceeds from which will fund the company's merger with Verizon's Northern New England business, were forced 200 basis points wide of initial guidance, to 13 and a half percent, amid the highly changing market conditions".

Now, "wide of initial guidance" is investment bank speak for "higher than expected". And, basically, the market and the rating agencies were surprised during the road show process that the actual rate increased by 200 basis points higher than the initial guidance. And, that initial guidance was the information that I provided to Staff a week or so earlier, based upon the best information that was available at the time. So, the point that I'd like to make is, from the time we made the Staff aware of an 11 and a half percent projected rate to the 13 and a half percent, was a very big surprise to the entire market, given what was going on in the financial communities.

The reason for the change is really two-fold. Number one, the financial markets continued to get worse during the two-week road show. Right in the middle of that road show, and a road show again is where the executive management team basically meets with institutional investors, prospective buyers of the bonds. In the middle of that two-week road show, Bear Sterns basically imploded. So, the financial markets became extremely skiddish, and it became even more difficult -- a more difficult environment for raising bonds.

Even before that happened, just as a point of reference, in the first quarter of 2007, 78 transactions were done raising $31.1 billion of bonds of this type. Compare that to what happened in the first quarter of this year, only 11 transactions were done, and only $3.6 billion of bond financing was raised. I only point that out as an indication of how difficult the market was for the time that we were trying to raise the financing.

The second thing that happened is, on the very day that our pricing was to be determined, another very large issuer, Harrah's, the casino resort operator, and their bank group basically dropped $1.5 billion worth of bonds on the market the same day we were pricing. So, all of a sudden all the institutions who had been considering FairPoint's bonds, had an opportunity to look at a very attractive, very high yield bond, and that made it even more difficult for the offering by FairPoint.

Now, the way the process works is you go -- the investment bankers coordinate this process, and they talk to institutional investors, and they take orders along the way as you get close to the end of the road show. And, we had orders for $150 to $200 million of bonds financing at the 11 and a half percent range. Other investors said "I'm not interested at 11 and a half. If you -- Call me back if you go to 12." Other investors said "Call me back if you go to 12 and a half and maybe I'll invest 25 million." So, basically, to fill the book of $540 million of bonds required that the investment bankers continued talking to more and more investors, and the rate kept increasing because of the size of the offering. And, the ultimate price that it took to raise all $540 million was the 13 and a half percent, actually 13 and an eighth percent rate.

So, the bottom line is, we could not have picked a worse time to try to raise $540 million of bonds. There are many investment bankers who were amazed that we were able to do that in this environment at all. In fact, I think it's a testament to the market's confidence in the cash flows from this business, and the management team of the business, and in the industry in general, that allowed, in very difficult circumstances, the Company to still raise the $540 million. So, I did want to address why there was such a surprise in the rate at the last minute.

Now, point number two: What does this mean about the merger? What does the fact that the interest rate changed so dramatically at the end mean? And, the short answer is, it has nothing to do with the expected performance of the Company, the industry, the outlook of the business or the transaction. It was purely about a dislocation in financial markets, whereby certain big institutional investors just decided to not make any investment in bonds at this point in time, and, therefore, it was purely a credit-related issue.

Again, I would also refer back to the Standard & Poor's report to make this point. Quoting from that report, it basically said "The FairPoint offering netted a B+/B3 profile, with stable and positive outlooks", that was the rating on the bonds, "respectively, following an upgrade by Standard & Poor's of the company's corporate credit from a BB -- to a BB, from a BB-." That's important, because this came out after the bond rate was known. Standard & Poor's basically looked at the higher rate and concluded two things: They concluded the corporate credit rating that it had initially provided, which was the step up from the BB- to a BB, was still valid. And, it also took the second point of not putting the credit on a credit watch, which is what the analysts -- the rating agencies do if there's been a major change that they think merits keeping an eye on. So, basically, Standard & Poor's concluded there was no material impact from this particular increase in the cost of the bonds.

Now, I've also included two other reports. One from JP Morgan, which has no "skin in the game" in this transaction, they don't get any fees, there's no relationship with the Company. In that particular handout, and I'll quote from that, the "debt terms were a little worse than expected. The coupon on the bonds came in at 13 and an eighth versus the prior estimate of 9 and a half. This reduces their projected cash flow by $20 million, to $183 million." This is the analyst's own financial forecast. "However, with an adjusted 2008 projected free cash flow yield of 21 percent, fully taxed, compared to a group average of 12 percent," meaning compared to the rest of the companies like FairPoint in this industry, "FairPoint remains the most attractively valued name in the group.

So, a separate analyst report basically looked at the higher rates, concluded that, "yes, it was disappointing and higher than expected", but that the financial viability of the Company was still so attractive that they actually have rated the stock "overweight", which is again an investment banker's term for a buy offering.

The last point I would make is, in a similar handout from Lehman Brothers, Lehman Brothers made a similar statement about "Although this issue is roughly 200 basis points above FairPoint's previous estimate, it only reduces the free cash flow by an estimate -- an estimated 3 percent." The purpose of all this is to provide the Commission an opportunity to see how third parties have actually viewed the impact of the higher interest rate.

The last point I'd like to make is to actually quantify the impact on the financial projections from this change. Now, important to realize that the bonds represent only about 25 percent of the capital structure of the Company, with the bank debt representing the balance. So, this higher rate doesn't apply to all of our debt, it applies to only about 25 percent of the debt. Also important to remember that, as Verizon made concessions, in terms of making capital contributions back to the Company, they made a $235 million concession in terms of the purchase price, that $235 million was applied to the bond piece of the financing. So, we are borrowing less bonds or utilizing less bonds than we expected, because this is the component of the capital structure that has been reduced as a result of the concessions that were made by Verizon.

To put an actual number on it, to start from the lowest case number that we last presented here at 8 and a half percent interest rate, versus the final all-in rate of 13 and a half percent, the math basically says that's a 5 percent increase on $551 million of bonds. That produces a 27 and a half million dollar a year increase in interest expense, pretax; on an after-tax basis, that's roughly 17 and a half million dollars.

So, what is the impact of the higher rate? The impact is about 17 and a half million dollars annually; after tax, let's put that -- let's give some reference to that, we have projected roughly $190 million to $200 million of free cash flow from this business. That's free cash flow representing the cash flow that's available after all the operating expenses, capital expenditures, taxes, basically every use of money has been accounted for, what's left before you pay dividends, which are discretionary, is about 190 to $200 million. This 17 and a half million dollar higher interest expense represents about a 9 percent change in that free cash flow number. We do not view that as a material number. It's an important number, but we don't think it will have a material effect on the long-term viability of the Company.

These bonds have a five-year non-call provision, which means we cannot pay them out any earlier than five years. But, at the end of five years, we would expect to be able to pay them out and, in a normal kind of market, be available to refinance them with a much lower cost of debt.

Now, the last thing I would like to talk about, in terms of quantifying the impact, is we have prepared a financial summary projection, in the format that we have used in the past.

BY MR. McHUGH:

Q. I was going to say, Mr. Leach, before you continue, would just keep in mind that we are in a public session. This document, FairPoint Exhibit 82, has been marked -- well, it's "82 HC", is highly confidential. So, to the extent you can keep all of the information public, I would appreciate it, and maybe refer to the Commission and Commissioner Below to different lines, as need be, without saying the numbers, if possible.

A. I can do so. Thank you. So, what is the impact on the higher -- of the higher interest expense when you look at this confidential document? The first point is, the leverage of the Company continues to go down or continues to deleverage over time, point number one. Point number two, there has been some discussion about liking to see that the Company would be moving towards an investment grade level of debt in the future. That still occurs. In this model, that occurs roughly in 2011, about the fourth year of the transaction. So, our objective to drive debt to a commensurate level of an investment grade company still occurs in this case, but it occurs about a year or so later than it otherwise would have, given the higher cost of the bond debt.

Important to note, there are two important bank default covenants; one related to leverage. And that is, we have to keep leverage under 5.5 times. If you look at the second to the bottom line on this chart, that is the leverage test, and you can see that it never gets close to that number. So, we have no issues at all from a default perspective within our loan agreement. The interest coverage number, which is the bottom line on this page, our covenant requires that we keep that above 2.5 times. And, likewise, you can look at the numbers and see that there is a substantial cushion each and every year above 2.5 times.

The last thing I would mention about this chart is access to capital is important in the utility business, part of our capital structure is our shareholder base. Probably the single most important measure to shareholders, because they invest in the stock because of the dividend, is the payout ratio. And, that is a ratio that says, of your free cash flow, again, after all other uses of cash have been -- have been met, how much of your remaining cash do you have to use to pay a dividend? And, as you can look at that number, in most instances, and I can't announce this because of the confidentiality, but it is a very modest number, and it's a number that, if you compared it to other telecom companies in our group, this is a number that would compare very favorably, if not being better than most other companies, even after taking into account the higher interest rate, which is used in these numbers. So, this is the second reason we do not believe the higher interest rate will have a material impact on the -- on the long-term viability of the Company.

The last thing I'd like to do, before I wrap up, is to talk about the fact that projections are merely that, they are projections. But, over time, these projections have become what I would call have attained a much higher confidence factor, because of new facts that have been generated since we started this process about a year ago. New facts like there was a question about what our labor costs would be. There was an important question about the Union contract expiring in August of 2008, and what might be the costs related to the renewal of that contract. We publicly announced, within the last week or so, that an agreement has been reached with the Union. It still needs to be ratified by the Union members, but our expectation is that that will occur. And, one of the question marks about operating expenses going forward has now been answered. The Union contract is going to be, to the extent it's ratified, it comes in right at the levels that we expected when we put our financial model together. So, what was an estimate is now going to be, for the next five years, pretty -- more or less put into a contract form.

We have, as a result of the state regulatory approval process, we now have in the State of New Hampshire $50 million that's sitting in a fund for unexpected infrastructure uses. That was not known at the time that the model was put together. That was part of the order from the State of New Hampshire. So, in terms of unexpected infrastructure issues or operating issues going forward, there's an additional

$50 million that is available. In Vermont, a similar sort of fund for quality of service issues has been funded by Verizon, to the tune of $25 million, plus another 6.7 million to fund a pole remediation issue. So, the model has never anticipated those funding sources coming from Verizon, the $50 million in New Hampshire or the amounts in Vermont, that provides additional comfort that the projections, if there are any surprises, will not be impacted.

We also have worked in a second item that came from the process here in New Hampshire, and that is we are funding part of the OPEB obligation going forward, the Other Post Employee Benefits amount. This was not part of the original plan. It basically takes dollars that otherwise would be used to pay down debt to fund an account that will earn interest going forward, and we get no credit for that on the projections that you're looking at. But, as a practical matter, it reduces our overall liabilities, because we now have a fund that is growing over time as a result of one of the conditions that came out of the order in New Hampshire. So, that has also improved the quality of the financial projections.

We didn't know for sure what exactly the interest rates would be on the debt. The bank financing came in within a quarter or a half percent of what we expected, and that is locked in place for three or four years via interest rate swaps. That takes a lot of the uncertainty out of the interest rate expense. And, while a pretty ugly rate, at 13 and an eighth, at least we know exactly what the rate is on the high yield debt. And, again, we would expect to pay that out or refinance that at the end of five years, after the call period has elapsed.

So, our view is, the change, while a disappointment, is not material. There have been a number of third party experts who have looked at it, also concluded it's not material. We have provided information here today that shows, relative to bank covenant tests, that it's not material. And, other things have also happened in the interim to help make the financial model even more -- produce a more -- a higher confidence factor in the financial model than what was produced or than the nature of that model was a year ago when we first prepared it.

Q. Mr. Leach, my understanding is that the mechanics of the closing process are set to begin tomorrow morning, March 31, at about 7:45 a.m., is that right?

A. That's correct. In this environment, this is a very complicated transaction, there are numerous banks involved in providing funding. A couple of things are important to note to indicate "why do you have to start so early?" We actually have to get the first transfer started between 7:45 and 8:00 tomorrow morning. Part of the reason is, this is the end of a quarter. The Fed wire transfer process or system gets very heavily used at the end of the quarter, so wire transfers take longer than they normally would.

The second point is an interesting development that has occurred as a result of the financial markets. In the past, if a bank -- if Bank of America was providing $400 million to the financing, and it had syndicated out to ten banks, you know, they were going to provide $40 million each, before the current financial crisis, Bank of America would send in its $400 million wire and expect to get the wires in from its ten syndicate banks. In today's environment, banks don't want to forward on their commitment until they have received what's owed to them from the underlying syndicate partners. So, now you have a process where every single party has got to send a wire transfer in, that wire transfer has to be confirmed before the next party can consolidate that and move it on. And, it makes for a very timely and time-consuming process that's got to get started by 8:00 in the morning, or we can't get it complete in time to meet some deadlines later on in the afternoon.

Q. Is there any risk to the closing process being impacted, if the Commission decides to alter or amend the decision of February 25 in any way?

A. Yes. If the order was altered in any way, it would effectively not allow a closing tomorrow. The reason for that is that the legal opinions that are required by the banks to -- that they rely on for closing documentation would be different than what they expected, because a new order or a change to the order would start the clock again in terms of an appeal process. And, we have talked to our counsel about the implications from that, and, basically, if there is any change to the order, the closing could not occur tomorrow, because of the need to notify certain parties that the opinions coming from certain state attorneys would be different than what they had expected.

I would also tell you, if this transaction does not close tomorrow, it will not close at all. Unfortunately, FairPoint does not have the wherewithal to continue funding all of the employees who have been put in place expecting the transaction to close at the end of December or at the end of January. We have continued to fund those costs, and will not have the ability to continue doing that if the transaction does not close tomorrow.

CHAIRMAN GETZ: Let me just check in once. Commissioner Below, can you still hear?

CMSR. BELOW: Yes, I'm hearing everything. Thanks.

CHAIRMAN GETZ: Thank you. Mr. McHugh.

MR. McHUGH: Thank you, Mr. Chairman. With that, the witness is available for cross-examination. I have no further direct at this time.

CHAIRMAN GETZ: Okay. Thank you. Mr. Del Vecchio, do you have anything for the witness?

MR. DEL VECCHIO: No thank you, sir.

CHAIRMAN GETZ: Let's turn to Mr. Linder.

CROSS-EXAMINATION

BY MR. LINDER:

Q. Mr. Leach, just one clarification. The 17 million after-tax impact, is that per year for five years?

A. Yes, it is.

MR. LINDER: Okay. Thank you. That's all I have. Thank you.

CHAIRMAN GETZ: Mr. Price, do you have any questions?

MR. PRICE: Nothing, Mr. Chairman.

CHAIRMAN GETZ: Mr. Rubin?

MR. BARBER: I believe Mr. Rubin must be on the other line, although nothing's happening there right now. It's my understanding that he did not intend to ask any questions.

CHAIRMAN GETZ: Okay. Thank you. Then, Ms. Hatfield.

MS. HATFIELD: Thank you, Mr. Chairman. And, Mr. Leach, I apologize if I'm sounding loud, but I'm trying to be loud enough for the callers on the phone.

BY MS. HATFIELD:

Q. I had one question about Exhibit 82 HC, which is the model output. And, I don't intend to discuss any confidential numbers with you. But I had a question, and what I'd like for you to do is to compare that, if you would, with a document that we received on Friday. I'm not sure you have a copy, and, unfortunately, I only have one copy with me here. But -- oh, actually, I do have a copy, if FairPoint's counsel would like to have a copy for the witness. It's a copy of what I understand is a revised output of the model provided in the Maine proceeding on Friday. And, there's a difference in some of the numbers. And, I was wondering if Mr. Leach could answer some questions about the differences.

A. Yes.

CHAIRMAN GETZ: Mr.

MR. McHUGH: Mr. Leach, do you have the document?

WITNESS LEACH: I do not have it in front of me.

(Atty. McHugh handing document to the witness.)

CHAIRMAN GETZ: Ms. Hatfield, is this a confidential document in the Maine proceeding?

MR. McHUGH: It's highly confidential, Mr. Chairman.

CHAIRMAN GETZ: So highly confidential that we don't have it?

MR. McHUGH: I think Mr. Leach can explain, it's very similar to what we've introduced as "FairPoint Exhibit 82 HC".

CHAIRMAN GETZ: Okay.

MR. McHUGH: We're looking to see if we have additional copies.

MS. HATFIELD: And, Mr. Chairman, my intent is not to get deep into these numbers, but there are some differences. And, I just wanted to explore with FairPoint if there were two separate final model runs that were run individually for the different states.

MR. McHUGH: There you go. Thank you, Mr. Chairman.

(Atty. McHugh handing documents to the Chairman.)

CHAIRMAN GETZ: Okay. I'll note for the record that we now have copies of that document. Please proceed.

MS. HATFIELD: Thank you.

BY MS. HATFIELD:

Q. Mr. Leach, if you look under the year 2011, and you look at the leverage number at the bottom, under the final view for each of the states, you'll notice that there's a difference between those two numbers in the Maine version of the model output and the New Hampshire version, and that difference begins in 2011, then it continues through the end, which is 2015. Could you please explain the differences, and also speak to whether there were different models or different runs of the model performed for the different states?

A. Sure. If I could refer you to Footnote Number 2 in the -- not the Maine one, but the other one. Footnote Number 2 says "Assumes 100% excess cash flow sweep to the debt." If you look at the footnote in the Maine operation, that says -- the double asterisk says "Assumes a 90 percent excess cash flow sweep." The difference is predominantly or may be exclusively related to that. Maine wanted to do one thing a little different with the excess cash flow sweep versus the other two states. And, basically, what they said is "you're only required by the order to sweep 90 percent of the cash flow to -- to apply 90 percent of your free cash flow to pay down debt. So, we want you to assume that 10 percent that you don't have to doesn't pay down debt, and that just sits in an account and builds up over time."

Now, as a practical matter, nobody would do that, but that was the way the State of Maine wanted to look at it, to be a little conservative. And, so, what happens is, the State of Maine version has -- everything else is identical, Meredith, except for we don't use the excess cash the same way we do here, 10 percent of it is parked and doesn't pay down debt in every instance, as it does in the New Hampshire filing. Beyond that, I believe these are identical models.

Q. So, if I understand you correctly, you modeled it two different ways for the different states, based on requests that the states had, in terms of seeing the potential impact of different scenarios?

A. I would say we modeled that one element, how we use the excess cash differently, at the request of Maine versus the way we did it in New Hampshire and Vermont. The rest of the model is virtually the same.

Q. Previously, in your testimony, you discussed your desire to have an "open and transparent communications process". I'm wondering, when did you notify the Staff and the Commission of the fact that the interest rate on the bonds would be 13 and a half percent?

A. We didn't know ourselves until the end of the day Wednesday, when the investment bankers went through the price talk process. And, I believe, subject to check, that we issued an 8-K the end of the day Wednesday, I'd like to confirm that, I don't have it in front of me, I think that's the case. At that point, I put in a phone call to, I'm certain, to at least the State of Maine and New Hampshire. I'm not sure I immediately connected, because I was traveling that day, but we did have a three-state call Friday morning, in which case I described the higher interest rate and the basis for that. So, found out the end of the day Wednesday, attempted to make people aware of it Thursday, and then made it available to all three states on the Friday call, as I recall.

Q. Also, earlier in your testimony, I think you said that "FairPoint couldn't have picked a worse time to raise the $540 million that it needed to raise in this bond issue." And, for those of us who aren't experts in financing, if it was the worse possible time, why did you do it then, and was there a reason for that?

A. The reason was, this transaction would not close if we did not go ahead and meet our obligation under the Merger Agreement to close at the end of March, and that date was tied back to certain orders being approved amongst the three states. And, then, based upon a time frame, we were required to close at the end of March, and that was our contractual obligation.

Q. So, it sounds like you couldn't have done it any later, but could you have done it any sooner?

A. We didn't -- no, we did not have the required time frame between the last orders being issued and any respective appeal periods or other issues that might have made the appeals -- excuse me, made the orders not final.

Q. You also referenced in your testimony a JP Morgan report, I think you said from it. And, the language that you read from refers to an "estimate of 9.5 percent". And, I'm wondering, was that a FairPoint estimate at some point?

A. No. The financial analysts typically use all their own work and their own analysis and their own forecasts. The Company -- This was not something that the Company provided.

Q. In discussing the interest rate on the bonds, I believe you said there is a "five year non-call provision", is that correct?

A. Yes.

Q. And, that means that FairPoint can't refinance the bonds and seek a new interest rate for that five year period?

A. As a practical matter, that's right. There is an ability to go in the open market and try to buy them back. But, typically, the market is so efficient that effectively it doesn't make sense to do it prior to the call period elapsing -- the non-call period elapsing, I'm sorry.

Q. And, when the non-call period is over, beginning in year six, can FairPoint retire that debt early?

A. Yes.

Q. And, would there be a call premium for that?

A. I believe there is a call premium, I don't recall exactly what that number is, but it would something like at 102 in the first year, 101 in the second year, something like that. "102" meaning at 102 percent of the face price. So, that exists, but I do not have the exact number, the exact conditions in front of me.

MR. McHUGH: Mr. Leach, is the rate 106, would that refresh your memory?

WITNESS LEACH: That does. That sounds more correct. Thank you, yes.

BY MS. HATFIELD:

Q. So, how much would that equate to in the first year as a premium, in order to retire that first year's debt early?

A. Is that, do you mean assuming the call premium was paid?

Q. Yes.

A. If 106 is the right number, and, again, I don't -- I'll assume for the moment that's right, you would basically add 6 percent to the amount, the face amount of the bonds that you are purchasing as a premium to buy them back, if you will. So, if you had $10 million of bonds you were buying, you would add 6 percent to that to buy them back as part of the repurchase.

Q. You spoke a little bit about, in your earlier testimony, about why, in your view, this closing must take place tomorrow. Can you talk a little bit more about the risks to FairPoint if you don't close, if you do need to delay the closing because of action that this Commission takes?

A. Well, the first risk would be that the transaction will not close, if it does not close tomorrow. Again, as I said before, we are required to close on a month end basis, because accounting information is not available in a fashion that allows you to close in the middle of the month in most instances. So, if this was delayed, we would have to delay it another month. We have a substantial amount of employees that are -- that have been employed for one purpose only, and that is to complete the transaction. We started hiring those employees in the fourth quarter of last year, with an assumption we would close in the January -- the December/January time frame.

So, the bottom line is, FairPoint has committed a substantial amount of financial resources to make the closing occur tomorrow. And, if it gets delayed another month, we do not have the wherewithal to continue paying all these people and continue the process going forward.

Q. In your prior testimony today, you referred to a $50 million fund that FairPoint agreed to make available in New Hampshire to address, I believe, issues that you have not discovered to this point. Do you remember that testimony?

A. Yes.

Q. And, I thought you said that that had not been included in FairPoint's modeling. Did I hear you correctly?

A. Well, I believe what I said or certainly what I meant to say was, when the initial financial model was put together, that $50 million you may call it an "insurance policy", if you will, was not part of the model, was not additional comfort that parties looking at the model could rely upon. What we have done, to make the model as realistic as possible, we have assumed that that $50 million will get invested. The net benefit to FairPoint is effectively the depreciation from the investment, and that creates a little bit of tax savings. That has been worked into the model.

Q. So, the final model runs that the parties in this case have do include that $50 million?

A. They include the depreciation benefit of the $50 million having been spent, yes.

Q. And, do I remember correctly that that $50 million cannot be used for interest expense?

A. That is correct.

Q. Mr. Leach, coming from the perspective of the consumer and the ratepayer in this case, one of the questions that we have about this new development is what is the risk that the ratepayers will have to pay for this increase in debt costs? And, I'm wondering if you have an answer to that question?

A. Our view, and we have been fairly consistent with this from day one, when we first announced the transaction in January 2007, we believe the shareholders are the appropriate party too take the risk if things don't go as expected. There are some financial surprises, and we don't generate the cash flow we expect --

(Interruption through telephone speaker.)

CMSR. BELOW: I'm still on the line.

CHAIRMAN GETZ: Okay. Well, let's establish this. On that other line was, I understand, Mr. Price and Mr. Rubin, is that correct?

MR. DEL VECCHIO: Yes, that's correct.

CHAIRMAN GETZ: That's who we were expecting.

MR. DEL VECCHIO: Mr. Price. Mr. Rubin wasn't --

MR. BARBER: Mr. Rubin should be back on because the Vermont hearing has ended.

CHAIRMAN GETZ: Okay. Let's take two minutes to see if we can get that straightened out, and we'll take a brief recess. And, also, I'm sorry, when we come back, if there's a report on what happened in Vermont, that might be useful.

MR. McHUGH: Fair enough, Mr. Chairman.

(Whereupon a recess was taken at 4:23 p.m. and hearing resumed at 4:37 p.m.)

CHAIRMAN GETZ: We're back on the record. Let's take stock. Commissioner Below, are you in hearing range?

COMISSIONER BELOW: Yes, I'm here, and I hear everything.

CHAIRMAN GETZ: Thank you. And who's on

the other phone? Mr. Price?

MR. RUBIN: This is Scott Rubin.

CHAIRMAN GETZ: Okay.

MR. PRICE: Ted Price, One Communications.

CHAIRMAN GETZ: Any other parties?

All right. We were in the midst of Ms. Hatfield's cross-examination. But before we pick that up again, Mr. McHugh, do you have anything to report from the Vermont proceeding?

MR. McHUGH: I do. Mr. Leach, did you find out the results from Vermont?

WITNESS LEACH: Yes. I was told that the Board -- the Public Utilities Board decided to take no action, meaning that the order continues in full force and effect to allow us to close tomorrow, which is the same conclusion that was reached in Maine when they asked that question. So the other two states have concluded no material adverse effect from this change that would affect their order.

CHAIRMAN GETZ: Anything else on that?

MR. McHUGH: No, Mr. Chairman.

CHAIRMAN GETZ: Thank you. Then we'll turn back to Ms. Hatfield.

MS. HATFIELD: Thank you, Mr. Chairman.

BY MS. HATFIELD:

Q. Mr. Leach, I believe you were answering a question about the risk to the ratepayers. And the last thing I remember you discussing was -- and correct me if I'm wrong -- but I remember you discussing that the shareholders are the appropriate parties to take any risk from increased interest costs. Did I that get that right?

A. That's correct.

Q. Is FairPoint willing to make a commitment to not pass any of these additional costs on to ratepayers?

A. Are you referring to the additional cost of the higher interest expense?

Q. Yes, I am.

A. This debt is held at the holding company level, not at the operating company level. And the -- we have always -- and we said in numerous responses throughout this process that, because the debt does not sit at a New Hampshire entity, we would effectively have to come up with some agreement as to the appropriate capital structure from a debt-in-equity perspective. So I believe the answer to the question, Meredith, is, the debt, as well as the related interest costs of the parent company, should not have any impact on rate-setting in the State of New Hampshire.

MR. McHUGH: Mr. Chairman, I would also just point out for the record that Section 8.9 of the New Hampshire settlement agreement between FairPoint and Verizon and the Staff that I think deals with this was approved by the order of February 25, in terms of cost of capital. Again, Section 8.9 of the settlement agreement, Page 24 of that agreement.

CHAIRMAN GETZ: Okay. Thank you.

BY MS. HATFIELD:

Q. Mr. Leach, during your testimony in Maine on Friday, I believe you provided some updated numbers on 2007 total line loss. And I'm wondering if I could check with you if these numbers are correct that I heard in Maine.

I think I heard you testify that there was approximately 10-percent line loss for residential customers, about 7-1/2 percent for business customers, which resulted in an average of somewhere over 9 percent; is that correct?

A. No, that's not exactly right. The residential number was right, around 10 percent. The business number was approximately 4-1/2-percent loss, resulting in an all-in decline of, I believe it was 8.2 percent.

That's subject to check. But 8.2 or 8.4 percent kind of number.
Q. Is FairPoint proposing any mitigation of this new interest expense?
A. From whom would that come?
Q. Well, I'm wondering if you're proposing doing anything different as a result of what you call an unexpected event.
A. We are not. We believe, and, as I indicated, a number of different sources have also agreed it's not a material adverse effect on the company. So we are comfortable moving forward with this. I should say that if you looked at our all-in cost of capital, the bank debt cost plus this existing -- or this new interest rate on the bonds, we would still have an average rate of cost of capital very comparable to our industry group. We're not out of whack with the rest of the group. We're right in line with the other companies that look like us.
Q. Has FairPoint approached Verizon to explore whether Verizon might be able to help finance the $540 million that FairPoint needs, perhaps at a lower interest rate?
A. No.
Q. Why not?

A. Because we have a deal. We have a contract in place with the merger agreement that stipulates how the transaction should be funded. It requires meeting some fairly specific capital components to meet the Reverse Morris Trust rules. And we don't see any reason to change that, given where we are today.
Q. My understanding is that the orders in all three states require FairPoint to reduce dividends by 35 percent in the near term. Is that correct?
A. That's correct.
Q. And then further dividend reductions might be triggered if other certain circumstances take place?
A. That's correct.
Q. If this Commission were to respond to this increase in debt cost by either requiring or asking FairPoint to agree to further dividend reductions, would that be something the company would consider; and if so, what would the impact of that be?
A. We would not consider that. We think that that is a board of directors' decision. We have already proven that, if the situation merits, we will cut the dividend appropriately. We've taken that action. We believe anything beyond where we are today would be premature because it would be based upon future events that no

one knows will or will not occur.

Q. We're focusing today on the interest rate on FairPoint's bond issue. But I wanted to just touch quickly on the bank loans that you referred to. And I believe you said that FairPoint's bank loans were at a better interest rate and they were locked in for the next three to four years. Did I hear you correctly?

A. The bank rate is a very attractive commitment. That part is correct. And that's because we put the commitment in place in January of 2007. But it was a dramatically different financial market environment. That commitment could not be replaced today in any form or fashion at the rates that we have -- that have been committed to us. In fact, when the bank syndication process occurred, the lead banks had to take a cut -- had basically to syndicate at a discount to syndicate all the paper or the loans out because of the fact that it is a below-market kind of transaction today.

So the first answer is: That is a very attractive financing that could not be -- would not be available otherwise if we had not put the commitment in place early.

And I'm sorry, Meredith. The second part of that question?

Q. I think you referred to the fact that they were locked in for the next three to four years.

A. Okay. That's effectively locked in through the use of interest rate swaps. The bank debt is a floating rate debt tied to LIBOR, the London Inter Bank Offered Rate. And it floats at, depending upon which is being used, 250 or 275 over LIBOR. What we have done is put in a substantial number of interest rate swaps in place that effectively lock the rate on much of that bank debt out for three or four years.

Q. Is there some portion of those bank loans that are not locked in at those favorable rates?

A. There is some portion that's not locked. And what I would tell you is, in today's environment, because rates have dropped so far, the floating rate piece is actually a little more attractive than the fixed piece in general.

Q. What portion of it is not locked in?

A. I do not have that specific information available. I believe we talked -- the last time I answered that question, it was roughly 60 percent of bank debt had been covered with interest rate swaps. I believe it's now a larger number because of perhaps some additional swaps being in place. But I don't have that specific number available.

MS. HATFIELD: With the Chairman's permission, the OCA would like to have Ken Traum ask a few questions of Mr. Leach?

CHAIRMAN GETZ: Certainly.

BY MR. TRAUM:

Q. Good afternoon, Mr. Leach. I just have a couple questions with regards to some of your assumptions in the final view. And I'll remind you, and I'll try to make -- ask the questions in such a way not to impact the confidentiality.

And with regards to the bond rate, in the model is there an assumption that after the first five years it will be called?

A. Yes, there is.

Q. Is the call premium then, in that first year, included in the model?

A. The call premium is included in the implied interest rate, not separately. So we are assuming that all-in with the premium that we could refinance at about 8-1/2 percent five years out.

Q. So in year, I guess 2013, you're assuming the 8-1/2 percent would be all-inclusive of a call premium of roughly $32 million?

A. Again, I haven't done the math. But when we came up with the rate, we assumed the 8-1/2 percent was sufficient to cover any call premium. And that is a call premium that amortizes over time. It doesn't stay at 6 percent each year. It actually amortizes down to no premium towards the end of the 10-year period.

Q. So how much of the 500-plus million dollars would you be seeking to call in 2013 under this model?

A. In this model, we are assuming all of it gets refinanced at a prevailing all-in cost of 8-1/2 percent, including the call premium.

Q. And the call premium, though, in year 2013 is 6 percent?

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

Q. So then, you're assuming the 8-1/2 refinancing would include the 6 percent?

A. That's correct. We're effectively saying we would finance it for less than 8-1/2 percent, but end up at net, reflecting the premium we get to an 8-1/2-percent all-in cost.

Q. I guess I'm missing something. You're assuming that the net cost of the new debt would be 2-1/2 percent; 2-1/2 plus 6 to get the 8-1/2?

A. No, no. The premium doesn't work that way. The

6 percent is a one-time add-on, not a -- it doesn't continue forward. So you would basically -- to keep the numbers easy, if you had $500 million, you would take 6 percent of that, which I believe is $30 million. So you basically refinance at $530 million instead of $500 million. Now, you could have the same financing cost, but if that costs you 7-1/2 percent of 500, then to take into account the premium, you could say -- and I'm making these numbers up. I'm not attempting to reconcile back to the model -- you would add a higher interest expense number, which does continue over the life of the model as a way to amortize the cost related to the premium.

MR. TRAUM: Thank you.

BY MS. HATFIELD:

Q. Mr. Leach, I think I just have one last question. What is FairPoint's stock price today? Do you know?

A. I believe it's very close to $10.60, $10.50, something in that ballpark.

Q. Do you recall what it was when you first filed this case?

A. I recall when we signed the transaction with Verizon it was close to $18.88.

MS. HATFIELD: Thank you very much. The

OCA has no further questions.
CHAIRMAN GETZ: Thank you.
Ms. Ross?
MS. ROSS: Thank you. We have no questions for this witness.
CHAIRMAN GETZ: Commissioner Below, do you have questions for Mr. Leach?
COMISSIONER BELOW: I have just one question. I think he referred to J.P. Morgan and Lehman Brothers and Poor's as all third parties. But just to be clear, Lehman Brothers is associated with this transaction; is that correct?
WITNESS LEACH: That is correct. Lehman Brothers I would not call -- is affiliated with the transaction that -- the analysts technically have a Chinese Wall that doesn't allow them to share information with the investment banking side. But that is correct, the Lehman Brothers does have a role in the transaction.
COMISSIONER BELOW: Okay. Thank you.
CHAIRMAN GETZ: And I just have one question, I think. Following up, Mr. Leach, on a question by Ms. Hatfield. I think it goes to the so-called discovery model, one of the scenarios that's part of Exhibit 82. And she asked you about, I believe, the

effect of the $50 million additional condition that came in pursuant to the settlement agreement. That 50 -- if I looked at the free cash-flow line of the discovery model, would it mean that any year on that line would effectively be, or is it just the first year would be $50 million higher?

WITNESS LEACH: No, sir. The $50 million would never show up on that free cash-flow line. The $50 million will be contributed by Verizon, put into a neutral bank account, and then, based upon proposals we make to the Staff and the Commission, will be used to cover investments and infrastructure, or operating expenses, whatever is deemed appropriate. It's not part of the cash-flow stream. It doesn't show up anywhere in the financial model, other than we do assume we will spend it and we will investment it in fixed assets. And those fixed assets will have a depreciation amount that for tax purposes creates a deduction. Beyond that, you won't see it anywhere in the model at all.

CHAIRMAN GETZ: Okay. Thank you. Redirect?

MR. McHUGH: No, Mr. Chairman.

CHAIRMAN GETZ: Anything further for Mr. Leach? Hearing nothing, then you're excused. Thank you, sir.

MR. McHUGH: That concludes FairPoint's witnesses, Mr. Chairman.

CHAIRMAN GETZ: Mr. Del Vecchio?

MR. DEL VECCHIO: No, Mr. Chairman.

CHAIRMAN GETZ: Anyone else that's going to be providing a witness? Staff?

MS. ROSS: Yes.

CHAIRMAN GETZ: Ms. Ross.

MS. ROSS: Yes, I'd like to call John Antonuk to the stand.

(Whereupon John Antonuk was duly sworn and cautioned by the Court Reporter.)

JOHN ANTONUK, SWORN

DIRECT EXAMINATION

BY MS. ROSS:

Q. Mr. Antonuk, could you just state your name and your address for the Commission, please.

A. John Antonuk, Liberty Consulting Group, 65 Main Street, Quentin, Pennsylvania.

Q. And Mr. Antonuk, did you prepare testimony in this, in the underlying case?

A. I did.

Q. And have you reviewed the AK and the information

concerning the bond issue?
A. It was reviewed by members of my staff under my direction, yes.

MS. ROSS: Okay. At this point, I would like to introduce an exhibit which will be marked as Staff exhibit, whatever the next number in the sequence would be. This is not a highly confidential exhibit, so this can go in as a regular exhibit.

Q. Mr. Antonuk, this exhibit that we are entering is a letter from Verizon dated March 30th, which is today, signed by counsel for Verizon, Victor Del Vecchio, and by myself on behalf of Commission Staff. Are you familiar with the terms of this agreement?
A. I am.
Q. And just for the record, could you briefly describe what the points are in this letter of agreement?
A. The purpose of the letter agreement is to specify that Verizon will implement the Commission's order in a way that will serve to alter the implementation of the provisions relating to the backstop that had been provided to address line loss in excess 10 percent. The way the implementation would have occurred absent this agreement is that Verizon would have been subjected to two potential $15 million payments in the

event that line loss exceeded 10 percent. In lieu of that form of implementation, this agreement says that Verizon will, on the first anniversary, pay the first $15 million, regardless of what level of line loss FairPoint experiences. And on the second anniversary, the second million payment -- the second $15 million payment will be subject to a more restrictive line-loss contingency; specifically, it will move from 10 percent down to 7.5 percent. And in addition, regardless of what happens with respect to line loss, should FairPoint's interest coverage fall below 2.5 percent as of that second anniversary, Verizon would also be obliged to make that second $15 million payment.

Q. Mr. Antonuk, you advised Staff in connection with this agreement, didn't you?

A. I did.

Q. Would you mind sharing your assessment of the risks and advantages of the current implementation agreement. And in that discussion, would you please cover the bond issuance costs as well.

A. Yes. This change is intended to make broader the effect of the backstop, if you will, that Verizon agreed to provide. The settlement agreement, and I believe in turn the Commission's order, were designed to address a basket of risks, one of which was line loss, not necessarily even the most significant of which. I think that was probably in the eye of the beholder.

The material change that's happened here is that one of the risks that the entire settlement agreement was intended to cover has moved from the category of an unknown to a known. The bad news is that the cost of that risk is higher than we thought it would be. That risk was a movement in the interest rates. They moved from what we were modeling at 8-1/2 percent to 13-1/2 percent on about $550 million of financing. That's the bad news. If there is good news, and there almost always is, that is no longer an unknown. So that is no longer a risk that requires protection with respect to future uncertainties. So to that extent, the remaining risks have been decreased.

So what we decided would be of benefit would be to take some portion of what remained as protection against the unknown risks, the risks that remained, and transfer that to firm payments, which you see in the form of $15 million which now will come to FairPoint, regardless of whether the line-loss risk occurs or not. And that line-loss risk also was at a level that is significantly above what was being modeled at the time, and remains above the numbers that Ms. Hatfield and Mr. Leach were just discussing, which I believe Mr. Leach indicated were in the range of 8.2 percent based on recent experience. So the 10 percent was still significantly above that level.

In addition, in the event that we don't experience 10-percent line loss in the second year, we still have an opportunity to capture that second $15 million if in fact FairPoint comes to a position where it is in jeopardy of violating its interest rate coverage requirement. So we believe that what we've done is turned contingencies with a lesser chance of occurrence into what amounts to a firm payment of $15 million up front. And that second $15 million we think now is protecting us against a second contingency as well.

Now, I want to emphasize. When I say that, none of this increases Verizon's total exposure. What this does is just changes the way in which its exposure will play out, based on what happens from here on.

Q. And Mr. Antonuk, based on this agreement, would you recommend that the Commission do nothing with regard to

its current and final order on this transaction?
A. That is our recommendation, yes.
MS. ROSS: The witness is available for cross-examination.
CHAIRMAN GETZ: All right. Let's start with, since this is an agreement between Staff and Verizon, Mr. Del Vecchio. Do you have questions for the witness?
MR. DEL VECCHIO: No, sir.
CHAIRMAN GETZ: Mr. McHugh?
MR. McHUGH: No questions, Mr. Chairman.
CHAIRMAN GETZ: And Mr. Rubin?
MR. RUBIN: No questions.
CHAIRMAN GETZ: Mr. Price?
MR. PRICE: No questions, Mr. Chairman.
CHAIRMAN GETZ: Mr. Linder?
MR. LINDER: No questions.
CHAIRMAN GETZ: Ms. Hatfield?
MS. HATFIELD: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MS. HATFIELD:
Q. Good afternoon, Mr. Antonuk.
A. Hello.
Q. When did you learn that FairPoint's bond interest rate

was 13-1/2 percent?
A. I learned that sometime on Thursday afternoon last.
Q. And in your view, is this something that should be of concern to the Staff and the Commission?
A. Well, it certainly was of concern to us. We placed calls immediately upon finding out this change in interest rates had happened, and we began immediately assessing whether it constituted a material change; and if so, what the heck were we going to do about it. So I think that's a yes, certainly from the Staff's point of view.
Q. And is it your view that it's a material change?
A. We certainly took the position that it was a concern, and the concern was based on the fact that it could have represented a material change. I have to hesitate in saying whether it was, because we were able to work out an agreement with Verizon that moderated the effects of this change enough so that we could conclude that, after the agreement we reached, there was not a material change. So I guess we never quite reached the bridge of saying was it a material change. We only would have reached that bridge, I think, had we not been able to work out something with Verizon.
CHAIRMAN GETZ: Let me ask this

question, just for my own clarification. The use of the word "material," are we using this as a term of art that's used in some of the agreements in this proceeding, or are we using this as an adjective meaning substantial or significant?

MS. HATFIELD: When I heard Mr. Antonuk use the word, I was certainly -- I had in mind the term of art that's at issue here.

CHAIRMAN GETZ: Okay. Thank you.

BY THE WITNESS:

A. And from my perspective, we were looking at it from the perspective of the provision in the stipulation, the number of which I can't recall, that allowed us to reconsider our support for the settlement agreement in the event of material changes. So that's what we were looking at, because we were bound, and properly so, by a provision in the settlement agreement that limited our rethinking of the merits of the transaction in regards to material changes.

(Witness reviews document.)

BY THE WITNESS:

A. Yeah. On Page 4, there's a paragraph that begins right before "Agreed terms and conditions for approval." And it says, "The joint petitioners and the Staff have reached a settlement on the terms and conditions under which Staff agrees that it will, comma, subject to the terms and conditions hereof, comma, recommend approval of the merger and all related transactions." Next sentence says, "The signatories acknowledge that Staff has placed substantial reliance on various representations of the content of FairPoint's debt agreements in entering into this agreement. The signatories further acknowledge that Staff's support for this merger and all related transactions depends upon the continuing accuracy of these representations."

So materiality in our minds was, were the representations no longer, quote, accurate, close quote. And by definition, obviously, that means inaccurate to a material degree.

BY MS. HATFIELD:

Q. And so I think what I hear you saying is that the difference between 8-1/2 and 13-1/2 percent is material.

A. It was a big enough change to force us to undertake serious consideration of whether it was material. I only would -- and the rest of the Staff only would, I think, have actually formed a conclusion on materiality if we had not reached the agreement with Verizon, because after the agreement with Verizon, the net effect on FairPoint is much less than the effect of the raw change from 8-1/2 to 13 percent would have been. And I think that's -- you know, I can't argue that that's not a fair question, because that's precisely the question we wrestled with. I'm just saying we did not have to reach that because we were able to mitigate the effect of the change that you've mention.

Q. I think you just referred to the fact that this agreement with Verizon would reduce the financial impact on FairPoint. Assuming that the Commission approves the agreement with Verizon or that it goes into effect, what would -- what will the impact be on Verizon after this -- excuse me -- on FairPoint after the Verizon contribution?

A. If you assume that line loss is less than 10 percent -- well, let me take it the other way, 'cause it's easier to start there.

If you assume line loss is more than 10 percent in both the first two years, there will not be a net change for FairPoint. If line loss is less than 10 percent in the first year, then this means $15 million of increased cash flow to FairPoint. In the second year, if line loss is less than 10 percent, it means that if FairPoint strays close to its interest coverage limits, the second $15 million will serve, in our judgment, to keep it at or above those limits. At or above those limits in this case means a good thing because those are floor requirements, not ceilings.

CHAIRMAN GETZ: Excuse me, Mr. Antonuk. You said 10 percent in the second year? Or did I --

WITNESS ANTONUK: I thought I did.

CHAIRMAN GETZ: I thought you were describing the new proposal. Am I misunderstanding?

WITNESS ANTONUK: Oh, yeah. I was saying in the event that line loss is greater than the triggers in the agreement, there is no net change to FairPoint. If it is less than the triggers, then it means $15 million sure in the first year; it means $15 million in the second year if FairPoint wanders into the danger zone under its interest coverage requirements.

CHAIRMAN GETZ: I'm just trying to follow you here. I'm reading this letter saying that it's greater than 7.5 percent.

WITNESS ANTONUK: I'm sorry. You're right. You're right. There's a third -- there's a third point which I hadn't gotten to yet, which is that, if it is between 7-1/2 and 10, and if they don't -- and even if they're not at 2.5 under the agreement, then we actually have stronger line-loss protection than we had before. So that's the third potential difference that this change could make. I hadn't gotten to that contingency yet that you raised. But that is, in fact, the third effect.

CHAIRMAN GETZ: I apologize, Ms. Hatfield. Please continue.

MS. HATFIELD: Thank you, Mr. Chairman.

BY MS. HATFIELD:

Q. Mr. Antonuk, is it your understanding that FairPoint is not restricted as to how they use those funds from Verizon if they -- or when they receive them?

A. Well, they are obliged to use cash flow to reduce debt. So, to the extent they would require this money to meet the debt pay-down requirements, I think, in effect, they are constrained.

Q. Without Verizon's agreement to this changed condition, would Staff take the position that the closing not proceed as scheduled?

A. Well, that's the bridge we didn't get to, so we didn't decide whether we would cross it or burn it. We certainly were troubled by the change. We considered it, worrying. And we worked as hard as we could with Verizon to try to find a way to get to a point where

the question we had to face was a lot less critical and a lot less concerning. And that's the point we reached. So I'm not trying to duck your question, because it is the right question. I'm just saying that I think we found a way to avoid having to reach it. And I have to honestly say that we had not made a decision what our final position would have been in the absence of the agreement with Verizon.
Q. So in the absence of the agreement with Verizon, you don't have a position on whether you would agree with FairPoint that, even with this increased debt cost, the company still has the financial ability to undertake this transaction?
MS. ROSS: That question, I object. The question's been asked and answered at least twice at this point.
CHAIRMAN GETZ: I'll permit the question.
BY THE WITNESS:
A. I got distracted by objections, so you need to repeat the question, please. I'm sorry.
MS. HATFIELD: Sure. Could the court reporter read the question back, please?
(Record read as requested.)

BY THE WITNESS:

A. I do not, because it hasn't been -- we haven't thought through it to reach that conclusion.

MS. HATFIELD: One moment, please.

CHAIRMAN GETZ: Let me just note for the record that this letter dated today from Mr. Del Vecchio and signed by Ms. Ross will be marked for identification as "Staff Exhibit 64".

(The document, as described, was herewith marked as Staff Exhibit 64 for identification.)

BY MS. HATFIELD:

Q. But you would agree that with this additional condition from Verizon, that the company does have the financial ability to undertake the transaction?

A. Yes.

Q. And that it is in the public good with this additional condition for FairPoint to go through with the transaction?

A. Well, I'm almost -- yes. I just want to balk a little bit at calling it a condition. What this is, is a change in the way the existing agreement and order will be implemented. So if you allow me that leeway, I'll say yes.

Q. Did Staff run any additional scenarios in FairPoint's model to test the impact of this?
A. We did. We did a number of calculations to look at the incremental effect. We looked at what we thought was the likely impact on leverage ratio and interest coverage. We looked at the amount that it would take to assure us that FairPoint would not fall under violation of its covenants. And I think it's important to say we did that on the basis not of a predicted view of what's going to happen; we did that on the basis of what we think was the kind of pessimistic scenario that we should assume to allow FairPoint to have a certain -- a reasonable certainty of survival, even if things don't go as planned. So we didn't run it against our predicted view of the future. We ran it against the scenario that we were, in our minds, comfortable that, if FairPoint can withstand this, then we think the benefits they'll bring by taking over Verizon's responsibilities will make that transfer in the public interest.
Q. Do you recall in what you refer to as the pessimistic view, the model that you ran, did you recall the pessimistic bond interest rate number that you used?
A. We used in our scenario 8-1/2 percent, which I think,

in effect, is about a half-percent higher than what Mr. Leach was talking about when he was telling you the net change between the old assumed bond rate and the now rate, because I think I heard him say he was using 8 percent. So our analyses used 8-1/2 percent. So that was pretty close, apparently, to what he was using. But it sounds like it might be a little different. Not materially, I don't think.

Q. Mr. Leach testified -- and I'm paraphrasing his language. But he testified to the effect that this change in the bond interest rate has nothing to do with the expected performance of the company, and it's purely a credit-related issue. Would you agree with that statement?

A. I'd agree, to the extent that it's overwhelmingly a current credit-market issue. And the reason I don't want to go further is that we looked to see what other transactions were closing in the time frame. And as Mr. Leach pointed out, there really is only one, and that was Harrah's. And our information showed no interest rate available from that. Had we seen a number of other transactions, we could have at least eyeballed what we thought was the FairPoint effect, if there was one, versus the market effect. But because transactions simply just aren't moving forward with bonded debt, as Mr. Leach correctly pointed out, there really isn't a good basis for isolating any effect that might be associated with FairPoint's particular condition. I absolutely we agree with them, that the -- you know, with his basic point. He didn't say it quite this way. But it's just a really lousy market right now for that kind of debt. So you can't get a lot of data from which to draw conclusions, other than the fact that clearly, you know, succeeding in issuing any kind of bonded debt in this market, even at rates that are that high, does indicate how difficult or how low the demand is for that kind of debt right now.

Q. I just have one last question on the $15 million. Do you know, would that contribution from Verizon to FairPoint be taxable for FairPoint?

A. I don't.

Q. But if it was taxable, then FairPoint clearly would -- the value of the money would be less than $15 million.

A. That's correct. From a cash-flow point of view, you would have to discount it for income taxes.

Q. And your prior answer which had to do with the impact of the extreme market conditions we're facing right now --

(Pause in proceedings)

CHAIRMAN GETZ: Sounds like we're okay for the moment.

MS. HATFIELD: Actually, I'd like to strike that question. We are -- we have completed our cross-examination. Thank you.

CHAIRMAN GETZ: Commissioner Below, do you have questions for --

COMISSIONER BELOW: I'm still here.

CHAIRMAN GETZ: Do you have questions for Mr. Antonuk?

COMISSIONER BELOW: Oh, yes. Mr. Antonuk, have you had a chance to review the J.P. Morgan report, which I think is Exhibit 83 from March 26th?

WITNESS ANTONUK: I skimmed it. It was yesterday. I can't say that any major part of it I have independent recall of.

COMISSIONER BELOW: Okay. Then I guess I don't have any questions.

CHAIRMAN GETZ: Well, Mr. Antonuk has the exhibit in front of him, Commissioner Below, if you want to pursue this line.

COMISSIONER BELOW: Okay. The first line of their report says, "Deal set to close. Bond term worse than expected. Fees still intact." What do you take that to mean?

WITNESS ANTONUK: By FairPoint, if you accept J.P. Morgan's point of view.

COMISSIONER BELOW: And further down they state that delivering target still achievable in reference to -- based on their own estimates, which --

(Pause in proceedings)

COMISSIONER BELOW: In their second bullet they state, "Delivering target still achievable." And they reference using more conservative than management guidance estimates. They estimate that the leverage targets are still achievable. Is that a correct interpretation?

WITNESS ANTONUK: Yes. And for the reporter --

COMISSIONER BELOW: More conservative than management would mean they assumed sort of a worse case than management.

WITNESS ANTONUK: That's correct. And in what particular way, I can't say. Although, one I believe could determine that by looking at the subsequent pages where they show summary financials that are based on J.P. Morgan's forecast versus the company's forecast for delevering, which is D-E-L-E-V-E-R-I-N-G. I got a look from the reporter, Commissioner, so I figured that was her question.

CHAIRMAN GETZ: Anything further, Commissioner Below?

COMISSIONER BELOW: Well, to your knowledge, is J.P. Morgan an independent analyst in this matter?

WITNESS ANTONUK: I am not familiar with any direct or indirect connection that they may have to the transaction. We certainly didn't uncover any. But I would absolutely have to defer to the company's view of that. We've done a fair amount of reading, particularly Randy Vickroy who testified in the proceeding. And we've discussed the participants, and that's not a name that we've exchanged, and it's not a name that I found on my own had any direct connection with.

COMISSIONER BELOW: That's all.

CHAIRMAN GETZ: Okay. I have to -- I want to go back to this Exhibit 64, Mr. Antonuk, to make sure I understand how the conditions will be working.

The way I characterize this is, the proposal is to convert the existing line-loss condition in such a way that what had been a contingent liability or contingent exposure before will become a much more certain exposure. And it looks like there's two steps.

WITNESS ANTONUK: So far, yes.

CHAIRMAN GETZ: And at the end of year one, there will be a payment of $15 million, without any other terms. It's going to be regardless of what occurs with anything that's happening with FairPoint.

WITNESS ANTONUK: Correct. No contingency at all on that first payment.

CHAIRMAN GETZ: Okay. And the second anniversary, if the line loss is greater than 7.5 percent, or the interest coverage ratio is less than 2.5 times, if either of those things occurs, then the 15 -- an additional $15 million payment will be made?

WITNESS ANTONUK: That's correct.

CHAIRMAN GETZ: Okay.

WITNESS ANTONUK: So that adds the second contingency -- namely, interest coverage -- and it reduces the trigger on line loss from 10 to 7.5 percent.

CHAIRMAN GETZ: Is there a way of quantifying -- I think Mr. Leach testified that this would be an additional $85 million over the five years in interest payments in the increase from 8-1/2 to 13-1/2 percent on this debt. This effectively reduces the $85 million by $30 million?

WITNESS ANTONUK: As much as, yes. Or another way to look at it is, if you look at the effect of the bond interest rate change on interest coverage ratios, the application of this $30 million would be enough to keep FairPoint from violating its interest coverage test unless --

CHAIRMAN GETZ: But is it a fair comparison for me to look at this as this additional $30 million is turning the 13.5-percent interest rate into a 11-percent interest rate, or a 10-1/2-percent interest rate?

WITNESS ANTONUK: Well, in a way. You can do that in a way, yes. If the $15 million payments are both made, what it will have the effect of doing is wiping out the effect of that interest rate increase in the first two years, assuming that the payments are not taxable. If they are taxable, then they would only wipe it out to the extent of however much the 15 would be left on an after-tax basis.

CHAIRMAN GETZ: Okay. All right.

So, redirect, Ms. Ross?

MS. ROSS: We have no redirect.

CHAIRMAN GETZ: Anything further for

this witness?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then you're excused. Thank you, Mr. Antonuk.

My understanding is that there are no further witnesses. And with respect to the procedures I laid out at the beginning, the next step would be allowing for statements of positions or closing statements by the parties. But let me do one administrative thing.

Is there any objection as to striking the identifications and entering exhibits as full exhibits? Hearing no objection, we'll admit them as exhibits.

Is there anything else that we need to address before the opportunity for closing statements? Ms. Ross.

MS. ROSS: Yes. I believe that Staff Exhibit 64 has already been used for a highly confidential exhibit in the main case -- I'm sorry -- in the original case in New Hampshire. Excuse me. And so I think it should actually be Staff 65, the March 30 letter.

CHAIRMAN GETZ: Okay. The clerk will make that adjustment.

(Correction to exhibit number noted.)

CHAIRMAN GETZ: Thank you. Anything else before the opportunity for closing statements, after which we'll recess for deliberations? Okay. Hearing no matters, then let's -- for the purpose of closing statements, let's start with you, Mr. Lee.

MR. LEE: Thank you, Mr. Chairman. As you and all of us have heard today, FairPoint and Verizon obviously have the best of intentions in connection with this transaction. However, the best of intentions may or may not save the day. At the commencement of his testimony, Mr. Leach said, in describing the interest rate structure that he's -- he and FairPoint are faced with, referred to this as a surprise. Surprises can be good. Surprises may not be good. So here, approximately 30 days since this Commission issued an order allowing for this transaction, we have a surprise. The question is: What other surprises may be hidden in the projections that the Staff and various other parties have relied on?

We also heard from Mr. Leach that if it doesn't close tomorrow, it will not close at all. This strikes me as kind of a desperate statement, a statement from an entity that is on the financial edge. I'm not sure that we as New Hampshire consumers and ratepayers want to be subjected to an entity, the financial wherewithal of which is right on the ragged edge. We don't want to be subjected to additional surprises. To help Mr. Leach with regard to the stock price of FairPoint, last trade on Friday was $10.26. That's down more than 3 percent on the day, yielding FairPoint with a price earnings ratio of 60.4, compared to Verizon's stock price which went down .31 percent on Friday. And Verizon has a price earnings ratio of 16.8. Along similar lines, Verizon has a debt-to-equity ratio of .59, whereas FairPoint has a debt-to-equity ratio of 2.70. Both of those figures were taken from this Commission's order.

Mr. Antonuk, in his testimony when specifically questioned about whether or not there was a material change, seemed to be parsing words, as we hear so often in the news today. However, keep in mind his initial comment, which was that this is a material change which has moved from the unknown to the known. Now, it's all well and good for Verizon to offer to pay a couple of $15 million payments that are contingent payments under the agreement. But those contingent payments are intended to cover more or other than just the interest rate risk which has occurred in the past 30 days. And consequently, as Mr. Antonuk indicated, these payments would cover the incremental cost for the first couple of years. That's well and good. But then, those two $15 million payments are consumed before even the contingency of the line-loss coverage is considered, if in fact a line-loss coverage exceeds 10 percent.

The underlying benefits that this Commission believes that the ratepayers of New Hampshire are receiving include the double-pole issues, some 7,000 poles; include the extension of broadband access to the hinterlands, if you will. As was indicated in the dissenting view in the Commission's order, the issue of the broadband expansion is essentially a non-issue. And I would submit that the 7,000 double poles are something squarely within the jurisdiction of this Commission, and this Commission has the ability to address that by forcing Verizon to deal with the double-pole issue, if that's a critical issue. The expansion of the Internet is at 1.5 megabytes. The slowest available on the FiOS is 5. This is all according to the order of the Commission. And I do, I do very much appreciate the hard work that's been put into this deal by the Commission, the Staff and others. But this is New Hampshire. In New Hampshire we tend to be a conservative lot. We don't like a lot of debt individually, corporately or otherwise. Debt brings substantial risks with it. I believe those are the risks that are being brought to this transaction. And as can be seen by the fact that a swing of some 60 percent in the interest rate on 25 percent of FairPoint's debt for this transaction, to me that's pretty material. To have a debt-to-equity ratio of 2.70 seems rather high.

I do appreciate the Commission's commentary in its order regarding the quotation from Voltaire, the colloquialism, "The best is the enemy of the good." I also appreciate the reference to the Greeks at Thermopylae. However, I'd like to bring home a couple of colloquialisms that may be closer to the hearts of most New Hampshire-ites. One of those deals with engineering platforms. If one has an effective engineering platform, the rule of thumb is: If it is not necessary to change, it is necessary not to change.

Additionally, I would ask the Commission to think seriously about how taut the rubber band is stretched and another colloquialism: "The straw that broke the camel's back." With a swing in interest rates which has occurred as a surprise, the question is: What other surprises are out there that could in fact break the camel's back?

And a third, very local colloquialism used in New Hampshire: "If it ain't broke, don't fix it."

We may not have the best communication system, but we have Verizon, a very financially healthy company. And if they're not doing what they should do with regard to poles or other matters, I believe the Commission has or can obtain from the legislature the authority to make it do what it needs to do.

In closing, I would ask this Commission to live by the rule of thumb: Just use your common sense. Thank you.

CHAIRMAN GETZ: Thank you.

Mr. Price?

MR. PRICE: Nothing, Mr. Chairman. Thank you.

CHAIRMAN GETZ: Mr. Rubin?

MR. RUBIN: I have nothing. Thank you, Mr. Chairman.

CHAIRMAN GETZ: Mr. Linder?

MR. LINDER: Mr. Chairman, Commissioners, we don't believe there's been showing of a sufficient material change to warrant the Commission exercising statutory prerogative under 365:28 to open or alter the final order that was issued on February 25th. Thank you.

CHAIRMAN GETZ: Ms. Hatfield?

MS. HATFIELD: Thank you, Mr. Chairman. I'd like to begin by thanking the Commission for convening this hearing today and for taking the time to explore the serious issues that are before us. I also would like to thank Mr. Lee for taking time out of his day as a citizen and as a ratepayer to come here today to share his thoughts with us.

The OCA, as the other parties did, had limited notice of today's hearing, had approximately one hour prior to the start of the hearing to review the company's case that was presented today. Due to these circumstances, the OCA is unable to present an affirmative case on the new developments. The OCA regrets that it is not able to assist the Commission more fully with its evaluation of the changed financial circumstances that we've heard about today. We believe that the change in circumstances with the new bond interest rate raises the question of whether this transaction is now different from the one that this Commission approved. In a case in which FairPoint's financial ability was a significant and contested issue, an annual increase in pretax interest expenses of nearly $30 million is a serious issue. The OCA is concerned that this new development puts FairPoint at even greater financial risk. The OCA hopes that this development and the resulting increased costs are not a harbinger of things to come.

The OCA reiterates the concerns that we raised in the original hearings in this case, and we maintain our position that FairPoint lacks the financial ability to undertake this transaction; and as a result, we decline to comment on Staff and Verizon's proposed agreement to modify the terms of the New Hampshire settlement agreement.

We are also not clear at this moment as to the procedural posture of this case and what will occur next, and we would appreciate some clarification of that, if the Commissioners would be able to provide that.

And lastly, we just became aware of a development in the case in Maine where the Commission has opened a new docket to receive all compliance and reporting filing requirements that the company is subject to under the Maine order. And we would ask that the Commission consider doing the same in New Hampshire. It would certainly make it much easier for all the parties to the 07-011 docket to be sure that they were receiving those documents. And for any additional members of the public or other parties that wish to try to track this case, it would be much simpler. And it seems that with this information coming to light -- at least for the OCA it came to light because of a requirement in the Maine order for FairPoint to actually report this change to the Maine Commission -- it seems as though it would be very helpful to all concerned if it was -- if parties who were interested could be assured that they had access to information as it was available. Thank you very much.

CHAIRMAN GETZ: Thank you. Before I turn to -- we'll go to Ms. Ross and then Mr. Del Vecchio and to Mr. McHugh. But I'd like the three of you, if you can give some clarification along the lines of the procedural steps that we're being asked to take today. As I understand, the proposal or the recommendations of the parties with respect to this revised condition is: One, that we take no action under 365:28, which was the purpose of this hearing in the first instance. But affirmatively, I want to understand what, if anything, is being requested of us with respect to the manner or form of dealing with the revision in the -- revision in the line-loss backstopping mechanism. So if that could be addressed, that would be helpful.

So, Ms. Ross.

MS. ROSS: Yes. What Staff is asking of the Commission today is that under 365:28 the Commission indicate that it intends to take no action to alter, amend or modify its order of February 25th. Staff believes that the changes in interest rate on the bonds, together with the concession offered by Verizon on its backstop, amount to no material adverse change for the transaction that has been approved. We view the closing and the commitments going forward with regard to backstop issues as issues of implementation of the Commission's order, and we believe the proposal before us today is consistent with the order that is in place. We acknowledge that there may be some need by the Commission for ongoing oversight as this transaction unfolds, and it may be appropriate for this Commission to open a docket for that purpose.

So the relief that we're asking for today is an indication from the Commission that it intends to allow its February 25th order to stand and some commitment going forward that the Commission will continue to supervise the implementation of that order.

CHAIRMAN GETZ: Okay. Mr. Del Vecchio.

MR. DEL VECCHIO: Thank you, Mr. Chairman. First, Mr. Chairman, Commissioners, the February 25th, 2008 order is final and non-appealable. It contains a variety of provisions intended to ensure a viable and vibrant provider of service in New Hampshire.

And in its order, the Commission, in fact, went beyond the terms and conditions of the stipulation to ensure the vibrancy of this provider of communications. Those terms and conditions are not at issue in this hearing today.

Secondly, there's no materially adverse circumstances that have been presented here to warrant anything other than to allow the final and non-appealable order to remain in full force and effect.

Thirdly, we would request an executive secretary's letter today, simply finding or concluding that our proposed compliance with that final and non-appealable order is acceptable.

And finally, I would thank the Commission for convening this admittedly unusual hearing on a Sunday afternoon and allowing us to share some time with you on this beautiful day, and also to thank Commissioner Below for interrupting his vacation plans. We look forward to closing this chapter of the book and to close this transaction tomorrow morning. Thank you.

CHAIRMAN GETZ: Mr. McHugh.

MR. McHUGH: Attorney Coolbroth, Mr. Chairman.

MR. COOLBROTH: Thank you, Mr. Chairman. FairPoint also appreciates the willingness of the

Commission to schedule a hearing on Sunday. This is obviously very unusual, and we appreciate it.

FairPoint is prepared to assume control of the northern New England business, and that transaction is scheduled to close tomorrow. We've completed the arrangements for financing, we've brought on the Staff to take over the business, and we're prepared to go. And the closing will start early tomorrow morning, assuming that nothing happens today to amend or rescind the Commission's order.

Mr. Leach has thoroughly described the circumstances of the marketplace, has described the process by which the notes came to be priced. He's described thoroughly the financial implications of that change and has presented, as well, analyses by financial analysts from Standard & Poor's, J.P. Morgan and Lehman Brothers that this change is not a material change. In fact, there is an increase in interest charges in relation to free cash flow that Mr. Leach estimates at 9 percent.

Verizon has offered to propose a change in the line-loss backstop. This proposal they have made is fully enforceable without any further order of the Commission. New Hampshire law is very strong on the enforceability of obligations made by counsel on behalf of a client in settlement of a matter. It's the case in this kind of a situation that Mr. Del Vecchio's signature is more significant than Mr. Siedenberg's under New Hampshire law. When an attorney makes a commitment like this and binds --

MR. DEL VECCHIO: I hope Mr. Siedenberg's listening.

MR. COOLBROTH: In terms of the comments of Mr. Lee, who has come to provide his expertise a year and a quarter after this proceeding commenced, I think that most of what he has articulated is his disagreement with the Commission's prior order which has been issued is more than 30 days old, and the time for rehearing and appeal has run.

In short, our desire is to proceed with this closing and proceed with the exciting business of serving the people of New Hampshire. Thank you.

CHAIRMAN GETZ: All right. Thank you. Anything else before we take a recess? Okay. What we will do then is we'll recess, I expect on the order of a half-hour or so, and then we will return and share with you our deliberations in this matter. Thank you, everyone.

(Recess taken for deliberations.)

CHAIRMAN GETZ: Good evening, everyone. We're back on the record. Thank you for your patience.

The hearing this afternoon was scheduled pursuant to R.S.A. 365:28 to consider whether to alter, amend, suspend, annul, set aside or otherwise modify Order No. 24,823, in light of FairPoint's Form AK indicating that $551 million of notes would be issued at 13-1/8 percent.

Among other things today, we heard testimony from Mr. Leach that annual interest expense would be $17.5 million higher after tax for the five-year, no-call period under the bonds. He also expressed his opinion that the transaction remain viable with the increased interest expense. Furthermore, Staff sponsored Exhibit 65 on behalf of it and Verizon, which mitigates the effect of the increased interest expense to application of the $15 million line-loss payments contemplated under Order No. 24,823.

Based on what I've heard today, I do not believe that the Commission should take any action pursuant to R.S.A. 365:28.

COMMISSIONER MORRISON: I have no objection, and I believe -- and I agree with Chairman Getz.

CHAIRMAN GETZ: And Commissioner Below?

COMISSIONER BELOW: I also do not believe that the Commission should take any action pursuant to R.S.A. 365:28 today.

CHAIRMAN GETZ: Okay. With that, I want to thank the Staff and commend it for its hard work with Verizon as well, in agreeing to a way to mitigate the impact of the increased interest rates. And we're going to close this hearing, and we'll issue an appropriate secretarial letter. Thank you, everyone.

(Hearing closed at 7:00 p.m.)