Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Application for Transfer of Certain Verizon	)	WC Docket No. 07-22
Spectrum Licenses in Maine, New	)	
Hampshire and Vermont to FairPoint	)	

Petition to Deny of Communications Workers of America International Brotherhood of Electrical Workers

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Table of Contents

I. INTRODUCTION AND SUMMARY

Verizon, the second largest telecommunications company in the United States has proposed the sale of its Maine, New Hampshire and Vermont local exchange assets to Fairpoint, the 14th largest telephone company in the country. These companies (Applicants) have applied for the Commission's approval of the transaction contending that it will be beneficial to consumers, workers, shareholders and the economic development of the states and local communities involved.[1] However, after analyzing the available financial and operational data it becomes clear that the sale would place each of these groups at significant **risk.** Fairpoint, a highly leveraged company already, will have great difficulty meeting the significantly greater dividend and debt commitments it has made while simultaneously investing enough capital to maintain current plant, improve service quality, set up entirely new operational, administrative and billing systems, hire more workers and expand broadband availability. The financial and operational risks involved in the transaction overwhelm any supposed benefits. The Commission should deny Applicants' petition since it will result in significant harm to the public interest without any countervailing benefits.

The post-sale company will be hard pressed to deliver any significant public interest benefits. It will be burdened with $1.7 billion in more debt and $85 million in additional annual dividend commitments. The merged companies will also experience a 79% reduction in

[1] *Application of Verizon New England, Inc., NYNEX Long Distance Company, Bell Atlantic Communications, Inc., Verizon Select Services Inc., Verizon Communications, Inc., and Northern New England Spinco Inc., Transferors, and FairPoint Communications, Inc., Transferee, for Consent to Transfer Certain Assets and Long-Distance Customer Relationships in the States of Maine, New Hampshire and Vermont,* January 31, 2007 (Verizon-FairPoint Application to the FCC).

shareholder equity and a 1,031% increase in the long-term liability to equity ratio.[2] At the same time, FairPoint will have to replace, develop, initiate and successfully operate 600 new operational, administrative and support systems formerly offered by Verizon to its Northeastern operations. FairPoint's management also will have to manage a company with seven times more access lines and four times more employees than the consolidated total for its current 31 separate local exchange operations in eighteen states. Indeed, the acquired operations will have 26 times more access lines than the largest local exchange company currently owned by Fairpoint.

Traditionally, companies that are stretched in terms of finances, operations and management seek to recover fi-om any major problems by increasing rates and/or reducing labor and capital expenditures. The result is that consumers pay more for worse service. This scenario played out in Hawaii after Verizon sold its local exchange operations to the Carlyle Group. The post-sale company experienced financial, managerial and operational problems resulting in a significant decline in customer service. However, the Carlyle Group, unlike Fairpoint, has significant financial resources available to fix the problems if it so chooses. Fairpoint would not have similarly sized resources on which to rely.

While the transaction could result in extensive harm, it presents no countervailing public interest benefits. Fairpoint has made few if any appreciably positive commitments in terms of broadband build-out or improvements in service to consumers. In terms of capital expenditures, Fairpoint has committed to less, not more, expenditures per line. For example, Verizon spent 45% more per line in Maine, New Hampshire and Vermont in 2006 than FairPoint projects that it will spend in 2008 if the deal is approved. Fairpoint spent 31% more on its current access lines

[2] As will be discussed later, these calculations are based on year-end 2006 pro forma data filed by Fairpoint and assume that the transaction was in place during 2006..

across the country than it plans to spend in the three Northeastern states in 2008. Both Verizon and FairPoint have experienced significant service quality problems in the region. These problems will be exacerbated if the transaction is approved due to inadequate capital expenditures and problems with integrating new systems.

The Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers (IBEW) represent 1.45 million employees working in the wireline telecommunications, cable, wireless, broadcasting, construction and maintenance, government, utility, publishing, manufacturing, airlines, higher education, and other public and private sector organizations. The CWA and IBEW represent 2,800 workers employed by Verizon in Maine, New Hampshire and Vermont. We are vitally concerned with the outcome of this proceeding because our members and their families will be affected by the sale in terms of their interests as workers, consumers and residents. Indeed, this transaction could affect adversely the economic health of their states and local communities. In order to protect their interests and the public interests the Commission should adopt the following.

> **Conduct an Extensive Merger Review and Thorough Analysis.** The Commission should conduct an extensive merger review of the proposed transaction since it poses significant risks for the public interest. The Commission should create a complete factual record including the testimony and cross examination transcripts from state commission proceedings. The Commission should obtain the proprietary disclosure agreements that, as admitted by the Applicants, supersede and modify all public documents the companies have released. These documents as well as other proprietary and/or confidential information have been submitted to the three state commissions. In addition, the Applicants' rationale for the professed public interest benefits of the transaction relies on pro forma financial statements and expert testimony that are based on questionable assumptions. A complete analysis of FairPoint's post-sale financial and operational viability depends on a comprehensive analysis of these assumptions that can only be obtained from the cross-examination of the companies' and parties' witnesses in the state proceedings. Once all this information is obtained, the Commission would be able to conduct thorough financial and operational analyses, including sensitivity analyses, concerning the range of potential and likely results of the combined entities operations.

2. **Deny the Verizon-FairPoint Application.** Upon completion of its review, the Commission should deny the Applicants' petition because it poses significant risks to the public interest.

In the alternative, the following conditions could serve to mitigate somewhat the public interest harms that otherwise would result from this transaction:

a. Limit the amount of dividend payments, inter-affiliate transaction costs, and fees of the Maine, New Hampshire and Vermont operations to the parent and other related corporate entities.

b. Limit the amount of debt that Fairpoint can attribute to the Maine, New Hampshire and Vermont operations.

c. Set a floor for capital expenditures and/or require a specific amount of additional capital expenditures sufficient to improve existing plant and fund broadband build out throughout the region.

d. Require that parallel operating, administrative and support systems function efficiently and without significant problems for two years after the deal is closed but before a full "cutover from Verizon provided transition support services to standalone FairPoint operations takes place.

e. Require service quality improvements based on performance as measured by the FCC in its ARMIS reports and/or equivalent measurements required by the State regulatory authorities.

f. Require build-out of broadband services throughout the region by 2010.

II. STANDARD OF REVIEW AND PUBLIC INTEREST FRAMEWORK

Pursuant to sections 214(a) and 310(d) of the Communications Act, the Commission must determine whether the Applicants have demonstrated that the proposed transfer of control of Verizon's licenses and authorizations to FairPoint will serve the public interest, convenience, and necessity.[3] The Commission considers whether the proposed transaction could result in

[3] 47 U.S.C. §§ 214(a), 310(d).

public interest harms by substantially frustrating or impairing the objectives or implementation of the Communications Act or related statutes.

The public interest standards of sections 214(a) and 310(d) involve a balancing process that weights the potential public interest harms of the proposed transaction against the potential public interest benefits.[4] The Applicants bear the burden of proving, by a preponderance of the

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[4] *See, e.g. AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum Opinion and Order, March 26,2007, para. 19 (March 26,2007 rel)("*AT&T/BellSouth Order'?; SBC communications, Inc. and AT&T Corp. Applicationsfor Approval of Transfer of Control,* WC Docket No. 05-65, Memorandum Opinion and Order, 20 FCC Rcd 18300, para 16 (2005) ("*SBC/AT&T Order"), Verizon communications, Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18443, para. 16 (2005) ("*Verizon/MCI Order"),* Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation For Consent to Transfer Control of Licenses and Authorizations, WT Docket 04-70, *Memorandum Opinion and Order,* para. 40, Oct. 26, 2004 (rel) *("Cingular-AT&T Order");* Applications for Consent to the Assignment of Licenses Pursuant to Section 310(d) of the Communications Act from NextWave Personal Communications, Inc., Debtor-in-Possession, and NextWave Power Partners, Inc., Debtor-in Possession, to Subsidiaries of Cingular Wireless LLC, WT Docket 03-217, *Memorandum Opinion and Order,* 19 FCC Rcd. At 2580-81 para. 24 (2004) ("*Cingular-NextWave Order");* General Motors Corporation and Hughes Electronics Corporation, Transferors, and The News Corporation Limited, Transferee, MB Docket No. 03-124, *Memorandum Opinion and Order,* 19 FCC Rcd. at 483 para. 15 (2004) ("*GM-News Corp. Order");* WorldCom, Inc. and Its Subsidiaries (Debtors-in-Possession), Transferor, and MCI, Inc., Transferee, WC Docket No. 02-215, *Memorandum Opinion and Order,* 18 FCC Rcd. 26,484, 26,492 para. 12 (2003) *("WorldCom-MCI Order");* Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee, MB Docket No.02-70, *Memorandum Opinion and Order,* 17 FCC Rcd. 23,246, 23,255 para. 26 (2002) ("*AT&T-Comcast Order");* Application of EchoStar Communications Corporation (A Nevada Corporation), General Motors Corporation, and Hughes Electronics Corporation (Transferors) and EchoStar Communications Corporation (A Delaware Corporation) (Transferee), CS Docket No. 01-348, *Hearing Designation Order,* 17 FCC Rcd. at 20,574 para. 25 (2002) ("*EchoStar-DirecTV HDO*"); Voicestream Wireless Corporation, PowerTel, Inc., Transferors, and Deutsche Telekom AG, Transferee, IB Docket No. 00-187, *Memorandum Opinion and Order,* 16 FCC Rcd. 9779,9789 para. 17 (2001) *("Deutsche Telekom-VoiceStream Order");* GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, CC Docket No. 98-184, *Memorandum Opinion and Order,* 15 FCC Rcd. at 14,045, 14,046 paras. 20, 22 (2002) *("BellAtlantic-GTE Order");* Applications of Voicestream Wireless Corporation or Omnipoint Corporation, Transferors, and Voicestream Wireless Holding Company, Cook Inlet/VS GSM II PCS, LLC, or Cook Inlet/VS GSM III PCS, LLC, Transferees, *Memorandum Opinion and Order,* 15 FCC Rcd. 3347 para. 12 (2000) ("*VoiceStream-Omnipoint Order");* AT&T Corp., British Telecommunications, PLC, VLT Co. L.L.C, Violet License Co. LLC, and TNV [Bahamas] Limited Applications, IB Docket No. 98-212, *Memorandum Opinion and Order,* 14 FCC Rcd. at 19,150 para. 20 (1999) ("*AT&T Corp.-British Telecom Order");* Application of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc., CC Docket No. 97-211, *Memorandum Opinion and Order,* 13 FCC Rcd. At 18,031 para. 10 (1998) ("*WorldCom-MCI Order*"); Applications to Assign Wireless Licenses from WorldCom Inc. (Debtor-in-Possession) to Nextel Spectrum Acquisition Corp., WT Docket No. 03-203, *Memorandum Opinion and Order,* 19 FCC Rcd. at 6241-42 para. 23 (WTB, MB 2004) ("*Nextel-WorldCom Order");* Applications of SBC Communications Inc. and BellSouth Corporation, WT Docket No. 00-81, *Memorandum Opinion and Order,* 15 FCC Rcd. at 25,464, 25,467 paras. 13, 18 (WTB, IB 2000) ("*SBC-BellSouth* **Order,");** Vodafone AirTouch, PLC, and Bell Atlantic Corporation, *Memorandum Opinion and Order,* 15 FCC Rcd. 16,512 , 16,517 paras. 13, 25 (WTB, IB 2000) *("Bell Atlantic-Vodafone Order*").

evidence, that the proposed transaction serves the public interest.[5] As the harms to the public interest become greater and more certain, the degree and certainty of the public interest benefits must also increase commensurately.[6]

The Commission's public interest evaluation encompasses the "broad aims of the Communications Act"[7] which include, among other things, the preservation and advancement of universal service, the accelerated deployment of advanced services, and whether the merger will affect the quality of communication services.[8]

In its evaluation, the Commission must consider whether the new entity will have the requisite financial, technical, and other qualifications to provide the public interest benefits that

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[5] *See, e.g., AT&T/BellSouth Order,* at para. 19; *SBC/AT&T Order,* 20 FCC Rcd at 18300, para 16; *Verizon/MCI Order,* 20 FCC Rcd at 18443, para. 16; *Cingular-AT&T Order* 19 FCC Rccd at 21542-44, para. 40; *Cingular-Next Wave Order,* 15 FCC Rcd. at 2581 para. 24; *GM-News Corp. Order,* 19 FCC Rcd. at 483 para. 15; *AT&T-Comcast Order,* 17 FCC Rcd. at 23,255 para. 26; *EchoStar-DirecTV HDO,* 17 FCC Rcd. at 20,574 para. 25; *Bell Atlantic-GTE Order,* 15 FCC Rcd. at 14,046 para. 22; *VoiceStream-Omnipoint Order,* 15 FCC Rcd. at 3347 para. 11; *SBC-BellSouth Order,* 15 FCC Rcd. at 25,464 para. 13; *Bell Atlantic-Vodafone Order,* 15 FCC Rcd. at 16,512 para. 13; Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Communications, Inc., Transferor, to AT&T Corp., Transferee, CS Docket No. 98-178, *Memorandum Opinion and Order,* 14 FCC Rcd. 3160, 3169 para. 15 (1999) ("*AT&T-TCI Order*"); *WorldCom-MCI Order,* 13 FCC Rcd. at 18,031-32 para. 10.

[6] *AT&T/MediaOne Order* para 154 quoting from *SBC-Ameritech Order* 14 FCC Rcd at 14825; *Bell Atlantic-NYNEX Order,* 12 FCC at 20063 para. 157.

[7] *See Cingular-AT&T Order,* at para. 41; *GM-News Corp. Order,* 19 FCC Rcd. at 483 para. 16; *AT&T-Comcast Order,* 17 FCC Rcd. at 23,255 para. 27; *EchoStar-DirecTV HDO,* 17 FCC Rcd. at 20,575 para. 26; Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from MediaOne Group, Inc., Transferor, to AT&T Corp., Transferee, CS Docket No. 99-251, *Memorandum Opinion and Order,* 15 FCC Rcd. 9816, 9821 para. 11 (2000) ("*AT&T-MediaOne Order*"); *VoiceStream-Omnipoint Order,* 15 FCC Rcd. at 3346-47 para. 11; *AT&T Corp.-British Telecom. Order,* 14 FCC Rcd. at 19,146 para. 14; *WorldCom-MCI Order,* 13 FCC Rcd. at 18,030 para. 9.

[8] *See AT&T/BellSouth Order,* para. 20; *SBC/AT&T Order,* 20 FCC Rcd at 18301, para. 17; *Verizon/MCI Order,* 20 FCC Rcd at 18443-44, para. 17; *Cingular-AT&T Order,* at 19 FCC Rcd at 21544, para. 41; *AT&T-Comcast Order,* 17 FCC Rcd. at 23,255 para. 27; *AT&T-MediaOne Order,* 15 FCC Rcd. at 9821-22 para. 11; *WorldCom-MCI Order,* 13 FCC Rcd. at 18,031 para. 9.

the Applicants claim the transaction will provide.' Past experience underscores the critical importance of assessing Applicants' claims to an independent, rigorous analysis. For example, in its 1998 evaluation of the MCI/WorldCom merger, the Commission dismissed as "speculative" commentators' analysis of the weakened financial capacity of MCI WorldCom after the merger." Yet, within two years after the Commission granted merger approval, MCI WorldCom chose to deal with its declining financial performance by perpetrating what would become the largest corporate fraud in U.S. history, falsifying $11 billion in financial reports to the Securities and Exchange Commission (SEC), which eventually lead to a bankruptcy declaration in July 2002. MCI WorldCom's bankruptcy cost tens of thousands of employees not only their jobs, but their retirement savings, while investors lost more than $200 billion in equity and bonds."

The Commission's public interest authority enables the Commission to impose and enforce narrowly tailored, transaction-specific conditions that ensure that the public interest is served by the transaction.[12] Section 214(c) of the Act authorizes the Commission to attach to the certificate "such terms and conditions as in its judgment the public convenience and necessity

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9 Sprint-Nextel "will demonstrate that the New Local Company will possess the requisite financial strength, in addition to managerial and technical capability, to fully perform its public service obligations." Letter from Gary D. Foressee, Chairman and CEO, sprint corp., and Timothy M. Donahue, President and CEO Nextel Communications, Inc., to Ms. Marlene H. Dortch, Secretary, FCC, WT Docket No. o5-63 (filed Aug. 2,2005) *See Sprint-Nextel Order* at 183 and fns. 431 – 434.

[10] *WorldCom/MCI Order* at para. 193; *See* Reply Comments of Communications Workers of America (CWA), CC Docket No. 97-211, March 20, 1998 Shapiro Aff. at 4-5; CWA July 2, 1998 *Ex Parte.*

[11] SEC First Amended Complaint; "WorldCom Audit May Rise to $11 Billion," *Wall Street Journal,* Apr. 1,2003; "WorldCom Report Finds Ebbers Played Role in Inflating Income," *Wull Street Journal,* June 6,2003; First Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, Nov. 4,2002 ("Thornburgh I"); Second Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, June 9,2003 ("Thornburgh 11").

[12] *See, e.g.,AT&T/BellSouth Order* at para. 22; *SBC/AT&T Order*, 20 FCC Rcd at 18302, para. 19; *Verizon/MCI Order,* 20 FCC Rcd at 184445, para. 19; *Bell Atlantic-GTE Order,* 15 FCC Rcd. at 14,047 para. 24; *AT&T Corp.-British Telecom. Order,* 14 FCC Rcd. at 19,150 para. 15; *WorldCom-MCI Order,* 13 FCC Rcd. at 18,032 para. 10; *Deutsche Telekom-VoiceStream Wireless Order,* 16 FCC Rcd. 9779 (2001); *Cingular-AT&T Order* paras. 251-267 (2004); *Sprint-Nextel Order* at para. 23.

may require."[13] Indeed, the Commission's public interest authority enables the Commission to rely upon its extensive regulatory and enforcement experience to impose and enforce conditions to ensure that the merger will yield overall public interest benefits.[14]

111. THE COMMISSION SHOULD CONDUCT AN EXTENSIVE MERGER REVIEW OBTAINING ALL NECESSARY DOCUMENTS AND THOROUGHLY ANALYZING THE APPLICANTS PROJTECTIONS AND ASSUMPTIONS IN ORDER TO PROPERLY EVALUATE THE IMPACT OF THE SALE ON THE PUBLIC INTEREST

The Commission's decision in this case will affect directly a significant portion of the population of Maine, New Hampshire and Vermont. The Petitioners contend the Commission need not conduct a comprehensive review because this is just another example in which a smaller carrier acquires the local exchanges of a larger incumbent carrier. Of course, the Applicants would like to have as little scrutiny of the transaction and its effects as possible and obtain speedy approval. However, the reality is that the Applicants have proposed a very important and significant transaction. The 1.53 million access lines served by Verizon in the three affected states would rank as the 9th largest telephone company in the country – six times

[13] *AT&T/BellSouth Order* at para. *22; SBC/AT&T Order, 20* FCC Rcd at *18302,* para. *19; Verizon/MCI Order, 20* FCC Rcd at *184445,* para. 19;*Cingular-AT&T Order* at *43 (2004);GM/News Corp, 19* FCC Rcd at *477* para *477; Bell Atlantic-GTE Order, 15* FCC Rcd. at *14,047* para. *24; AT&T Corp.-British Telecom. Order, 14* FCC Rcd. at *19,150* para.*15; WorldCom/MCI Order, 13* FCC Rcd at *18304-35* para *14;In the Matter of Applications for Consent to the Assignment and/or Transfer of Control of Licenses Adelphia Communications Corporation (and subsidiaries, debtors-in-possession), Assignors to Time Warner Cable In. (subsidiaries), Assignees; Adelphia Communications Corporation, (and subsidiaries, debtors-in-possession), Assignors and Transferors, to Comcast Corporation (subsidiaries), Assignes and Transferees; Comcast Corporation, Transferor, to Time Warner, Inc., Transferee; Time Warner Incl, Transferor, to Comcast Corporation Transferee,* Memorandum Opinion and Order (July *21, 2006* rel.) ai para. *28 ("Adelphia-Comcast-Time Warner Order"); Sprint-Nextel Order* at para. *23.*

[14] *See, e.g., Cingular-AT&T Order* at *43 (2004);GM-News Corp. Order, 19* FCC Rcd. at *477* 5; *Bell Atlantic-GTE Order, 15* FCC Rcd. at 14,047-48 para. *24; WorldCom-MCI Order, 13* FCC Rcd. at *18034-35* para. *14;Schurz Communications, Inc. v. FCC, 982* F.2d *1043, 1049* (7th Cir. *1992);Adelphia-Comcast-Time Warner Order* at para. *28; Sprint-Nextel Order* at para. *23.*

the size of FairPoint itself.[15]

The proposed transaction represents the transfer of the vast majority of local access lines and local exchanges in Maine, New Hampshire and Vermont. It would not only affect the direct customers of Verizon but all the other carriers and consumers that depend upon Verizon's underlying facilities and those who want to connect with Verizon subscribers. The proposed transaction also will affect economic development in these states and in local communities not just in terms of basic services but also in terms of advanced services. In effect, the proposed transaction will have direct and indirect effects on the entire population of Maine, New Hampshire and Vermont.

The Commission should conduct an extensive and comprehensive merger review in recognition of the serious public interest impact of the proposed transaction on the 3.25 million residents of Maine, New Hampshire and Vermont.

Thus, the Commission should only issue a decision in this proceeding after it obtains all pertinent documentation including those not made public by the Applicants and after it develops a comprehensive and complete record of data and analyses upon which to reach an informed decision. This record should include a thorough analysis of the Applicants financial and operational projections as well as the assumptions upon which these projections are based. As a practical matter, the comprehensive examination of the projections and their assumptions will be available only after the Applicants experts are cross-examined in the proceedings in Maine, New Hampshire and Vermont.

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[15] Federal Communications Commission, Industry Analysis and Technology Division, Wireline Competition Bureau, *Trends in Telephone Service February* 2007, Telephone Loops of Incumbent Local Exchange Carriers by Holding Companies as of December 31, 2005, p. 7-7.

A. The Commission Should Obtain All Documents and Disclosure Schedules Related to the Proposed Sale

The Application presented to the Commission cannot form a basis for any comprehensive analysis of the supposed benefits of the proposed transaction. The Application – as well as all of the Applicants' other public documents - are subject to modifications based on proprietary disclosure agreements.

> The parties to the Merger Agreement have made to each other certain representations, warranties and covenants, which are qualified by information in confidential disclosure letters delivered together with the Merger Agreement. While the Company does not believe that these letters contain information that the securities laws require it to publicly disclose, other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the Merger Agreement. <u>Accordingly, the representations, warranties and covenants should not be relied on as characterizations of the actual state of facts, since they may be modified by the disclosure schedules</u> (emphasis added).[16]

Indeed, the Merger Agreement itself states that it is not, by itself, the entire agreement between the Applicants. Specifically, Section 11.8 of the Agreement states:

> Entire Agreement. This Agreement (together with the other Transaction Agreements, the Confidentiality Agreement, the exhibits and the Disclosure Letters and the other documents delivered pursuant thereto) constitutes the entire agreement of all the parties hereto ...[17]

The Applicants have asked the Commission to approve a transaction based on incomplete information. Instead, the Commission should obtain all pertinent documents both public and confidential before conducting an analysis of the proposed transaction.

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[16] Form 8-K filed by FairPoint, Inc. with the Securities Exchange Commission, dated January 19, 2007 (January 8-K), p. 3.

[17] *Agreement and Plan of Merger dated as of January 15, 2007 by and among Verizon Communications Inc., Northern New England Spinco, Inc. and FairPoint Comnzunications,* **p.** 115. ("Agreement and Plan of Merger").

B. The Commission Should Create a Complete Factual Record Including The Testimony and Cross Examination Transcripts as well as Proprietary and/or Confidential Information Supplied by the Applicants to the State Commissions

The Application is filled with statements concerning the proposed benefits of the sale. However, there is no real supporting documentation or specific commitments. These statements amount to unenforceable promises and should not be used by the Commission to reach its decision on the proposed transaction.

In the regulatory proceedings in the three states, the Applicants' have utilized confidential pro forma financial statements and expert testimony in an attempt to justify and quantify the supposed public interest benefits of the transaction. A serious analysis of FairPoint's post-sale financial and operational viability and its impact on the public interest requires a comprehensive analysis of these figures and statements. However, these figures and statements are based on questionable assumptions. In turn, the viability of these assumptions can only be judged after the companies' and parties' witnesses in State regulatory proceedings have been cross-examined. It is critical in this instance to obtain the most extensive and comprehensive information available. Thus, we recommend that the Commission obtain the record of the technical hearings in the three states as part of its analysis of the proposed transaction along with all of the proprietary and/or confidential information that FairPoint and Verizon will have provided to the State regulatory commissions.

IV. THE PROPOSED TRANSACTION WILL NOT SERVE THE PUBLIC INTEREST

The proposed transaction will place consumers, workers and state and local economies at significant risk. FairPoint, a highly leveraged company already, will have great difficulty meeting the significantly greater dividend and debt commitments it has made while simultaneously investing enough capital to maintain current plant, improve service quality, set up entirely new operational, administrative and billing systems, hire more workers and expand broadband availability. The financial and operational risks involved in the transaction overwhelm any supposed benefits.

In its 10k filing with the Securities Exchange Commission, Fairpoint itself has recognized the significant and numerous risks posed by the transaction. Fairpoint identified the following risks, among many others:

- strain on our financial, management, and operational resources.. .
- difficulties in integrating the network, operations, personnel, products, technologies and financial, computer, payroll and other systems of acquired businesses.
- Difficulties in enhancing our customer support resources.. .
- The potential loss of key employees or customers. ...
- Unanticipated liabilities or contingencies.. .
- Unbudgeted costs.. .
- Failure to achieve projected cost savings or cash flow.. .
- There can be no assurance that we will be able to successfully complete the integration of Spinco. ...
- The size of Spinco's business in relation to our existing business.. .
- Our Billing systems may not function adequately.[18]

These statements may appear to be a pro forma statement of risk. However, just like the warning on cigarette packs, these risks are real and are supported by evidence.

A. The Proposed Transaction Entails Significant Financial Risk and Instability

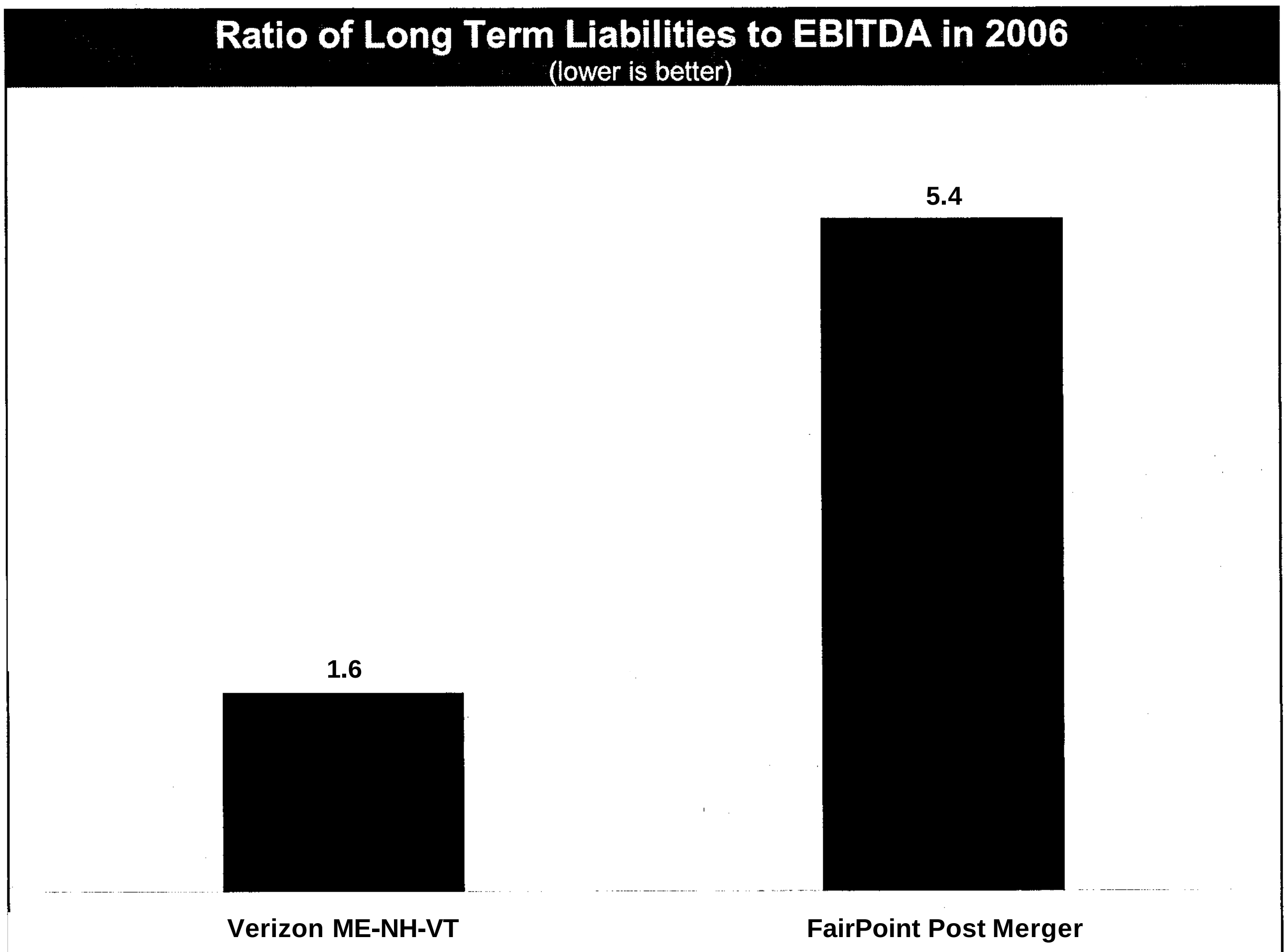
The transaction will erode significantly the financial viability of the Maine, New Hampshire and Vermont ("NNE" for Northern New England) operations. On a 2006 pro-forma basis, the post-merger company would have

[18] Fairpoint 10k tiling with the Securities Exchange Commission, filed March 13, 2007, **pp.** 25 and 26.

- $1.7 billion more debt than the pre-merger companies, a 285% increase.
- $1.1 billion less in shareholder equity than the two companies combined, a 79% reduction.
- A long-term liability-to-equity ratio of 8.69 – a 1,031% increase in the combined companies' pre-merger levels of 0.84 and a 1,800% implicit increase from the 0.49 ratio of the Maine, New Hampshire, and Vermont operations of Verizon.
- An 844% increase in goodwill and a 73% increase in intangibles over pre-merger levels.
- An $85.5 million or 153% increase in dividend commitments.[19]

The deteriorated financial condition of the NNE operations is starkly illustrated in the following chart. The chart examines the "leverage ratio" or the ability of a company to pay off its long term liabilities with its earnings. The chart shows that the post-merger company will have a much worse leverage ratio than the NNE operations. The post-merger company also will have a much worse ratio than Verizon. This is critically important because Verizon would be the parent on which the NNE operations would rely if the sale is not approved. In other words, the residents in Maine, New Hampshire and Vermont would be served by a much more financially stable and secure company if the sale is not approved.

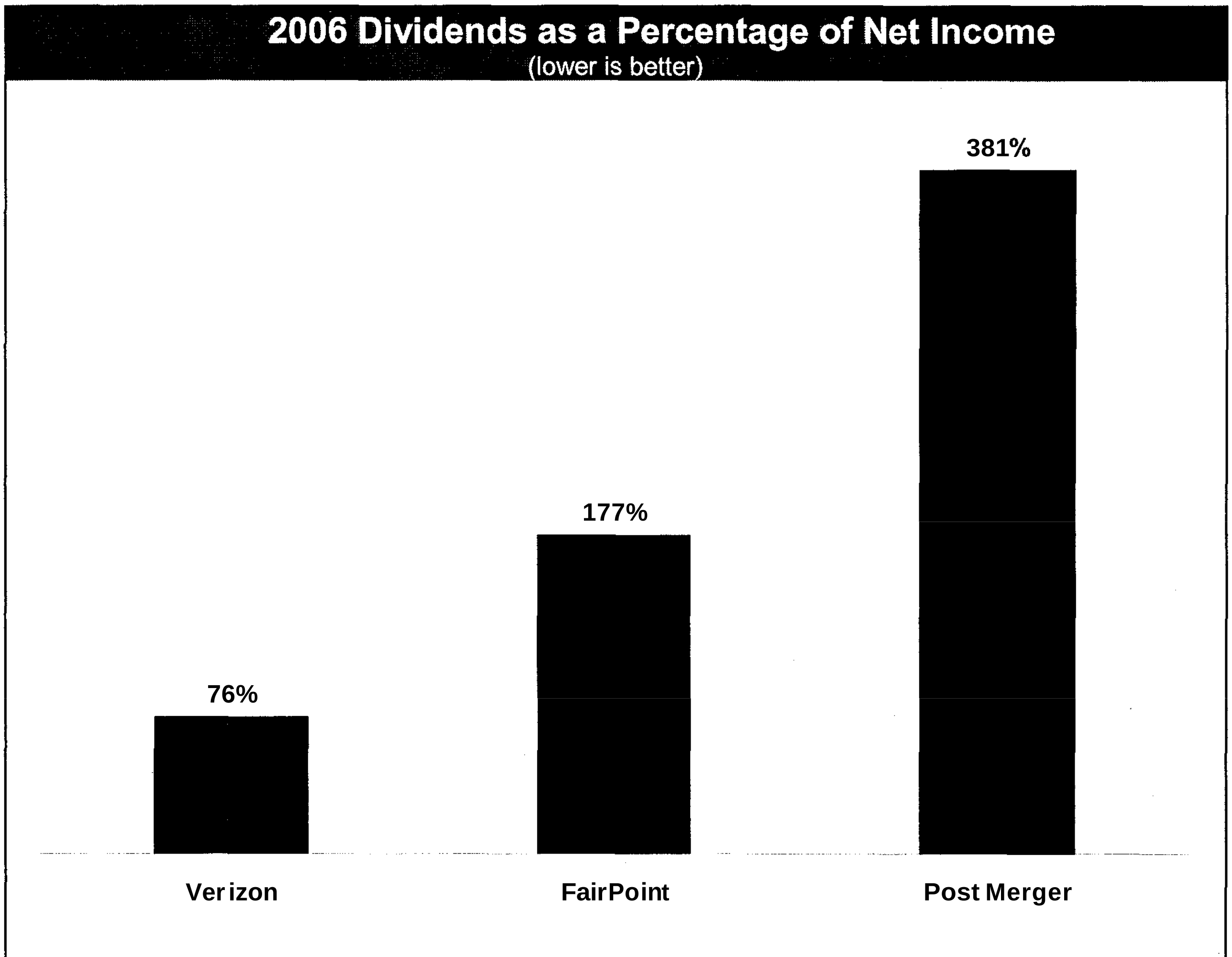
[19] Computed from 2006 pro-forma data contained in the FairPoint S-4 filing with Securities Exchange Commission dated April 3,2007, pp. 172-173 and contained in Exhibit A attached to this petition.



EBITDA is earnings before interest, taxes, depreciation and amortization. It is as a more refined measure of a company's underlying earnings strength. Calculations for ME-NH-VT are actual year-end 2006 results. The FairPoint post-merger data is based on year-end 2006 pro-forma data of the combined FairPoint and ME-NH-VT operations as if the merger had been in effect for 2006.

Sources: FairPoint Form S-4 filing with the SEC pages 172-173..

FairPoint's dividend policy also represents a significant drain on resources adding to the financial fragility of the proposed transaction. In 2006, Verizon earned $6.2 billion in net income and paid $4.7 billion in dividends while Fairpoint earned $31 million in net income and paid *$55* million in dividends. Incredibly, in 2006 on a pro-forma basis, Fairpoint revealed that the merged companies would have earned $37 million in net income but paid $141 million in dividends. As the following chart shows, the post-merger company's dividends overwhelm its net income.



Sources: Verizon Form 10k and FairPoint Forms 10K and S-4 filings with the SEC. Verizon and FairPoint bars reflect actual 2006 results. The "Post Merger" bar reflects 2006 pro-forma computations by Fairpoint.

B. The Ability of FairPoint to Obtain Cost Savings is Suspect and Requires Further Commission Analysis of the Applicants' Assumptions and Projections

FairPoint's rosy projections rely on a number of hopes and assumptions. The company projects that it will be able to achieve between 22% and 28% in net cost savings from $270 million in "back office" services and allocations that are currently being provided to the NNE operations by Verizon and its affiliates "including information systems and information technology, shared assets including office space outside of New England, and supplemental customer sales and service operations." Fairpoint estimates that these savings will be in place within six months of the merger and that "the combined company will realize net cost savings on an annual basis of between $60 to $75 million from internalizing these functions or obtaining these services from third-party providers."[20]

Interestingly, when it first announced the transaction, Fairpoint projected the same cost savings of $60 to $75 million, but stated that Verizon's back office charges to NNE were *$240 million*,[21] based on NNE's 2005 results, and those projected savings translated into a higher net cost reduction of 25% to 31%. It appears that Verizon's charges to NNE increased by $30 million, or 12.5%, in 2006.' Fairpoint, however, has not adjusted the dollar amount of savings that it projects that it will achieve sometime in 2008.

The viability of the sale for future operations and profitability partially relies on these savings. However, FairPoint did not provide any detail as to how this substantial percentage of savings would be obtained and was careful to state that "the combined company may not realize the anticipated synergies, cost savings and growth opportunities from the merger."[22] Moreover, FairPoint did not discuss how these savings would be forthcoming when it also promised to add an additional 600 jobs related to these same "back office" related functions.[23]

The Applicants' other projections should also raise concerns. For example, to our knowledge, the Applicants have not adequately accounted for factors that could diminish revenue and income including those that will exacerbate access line loss such as heightened

[20] Fairpoint Form S-4 filed with the SEC, p. 14 footnote 1.

[21] Fairpoint SEC Form 425, January 19,2007, page 5

[22] Fairpoint Form S-4 filed with the SEC, p. 14 footnote 1.

[23] Fairpoint presentation to investors, January 16, 2007, p. 14.

competition from Comcast and Time Warner and a city-owned telecommunications utility in critical urban areas in the NNE region and the possible movement of large customers from NNE accounts to Verizon Business accounts which are not included in the transaction. In addition, the Applicants' projections do not take into consideration such potential risks (copiously documented in FairPoint's S-4 filing) as the negative impact of delays in closing the transaction, a longer-than-anticipated transition period (during which Fairpoint will be required to pay Verizon substantial amounts for "back office" and other services), higher-than-anticipated costs associated with the replication of 600 Verizon systems, less-than-adequate performance of the replicated systems, and many more.

C. Projected Capital Investment in Plant Is Insufficient to Properly Address Basic Maintenance Much Less Expand Broadband Build-Out

Fairpoint plans to expend less capital on network infrastructure than was previously spent by Verizon. Indeed, on a per line basis, Fairpoint will spend less in the NNE area than it has expended in its current operations nationwide or that Verizon spent in this same region. The relatively low level of planned expenditures undermines the statements made by the Applicants that FairPoint will not only maintain and improve the existing plant but will also speed up the deployment of broadband. For example, the Applicants stated ''Fairpoint plans to increase broadband availability from current levels in Maine, New Hampshire and Vermont within twelve months after the completion of the merger by expanding investment and offering quality broadband-based services."[24]

The following table demonstrates how little Fairpoint is concerned with even maintaining

[24] Verizon-FairPoint Application to the FCC, p. 18.

the NNE properties' current infrastructure. Before Verizon embarked on its capital-intensive FiOS roll-out in southern New Hampshire in 2005, it averaged around $209 million in annual capital expenditures or $117.58 per residential and business access line over the three previous years.[25] In the Merger agreement with Fairpoint, Verizon is required to make only $137.5 million in capital expenditures for the NNE assets in 2007. Based on NNE's 2006 residential and business access lines, this translates into $91.26 per access line, or a reduction of $26.32 or 22.4% from NNE's per line capital expenditures prior to embarking on the FiOS project (and a reduction of $42.87, or 32%, from the average per-line capital investments for 2005 and 2006).

Table A Per Line Investment in NNE Infrastructure Before Merger Agreement and Required by the Merger Agreement	
Average VZ-NNE Capital Expenditures Per Line Pre-FiOS (2002-04)	$117.58
Required VZ-NNE 2007 Capital Expenditure Per Line as per Merger Agreement	$91.26
Difference between VZ-NNE Pre-FiOS and 2007 Required Capital Expenditure on a Per Line Basis Dollar Difference Percentage Difference	 326.32 -22.4%
Note: these calculations are based on the number of NNE access lines in 2006. The dollars are also nominal and not adjusted for inflation. Sources: FairPoint Form S-4 tiled with the SEC.	

[25] During 2005 and 2006, Verizon's average total capital expenditures in the NNE territory remained about the same as the three preceding years, but its average capital expenditures per residential and business access line increased 14% to $134.14. Unfortunately, Verizon abandoned its FiOS project in southern New Hampshire at just about the same time it was entering into intensive negotiations with Fairpoint. Verizon announced that it would begin construction of FiOS operations in New Hampshire on January 27,2005, and initiated construction on May 18, 2005. In June 2006, Verizon halted expansion of FiOS in New Hampshire, although it still services and maintains the existing FiOS infrastructure and continues to sell this service.

The ability of FairPoint to maintain current plant also is undermined by the lack of capital expenditures projected in the future. FairPoint stated that it "expects that the combined company's annual maintenance capital expenditures will be approximately $160 million to $180 million in the first full year following the closing of the merger."[26] However, these projected expenditures include Fairpoint's other 31 operating companies. Since FairPoint had $32 million in capital expenditures in 2006, it is fair to assume that it will expend at least this amount in the full year following the closing, which it projects to be around year-end 2007. That would imply annual maintenance capital expenditures for the NNE properties of $128 million to $148 million, at most.

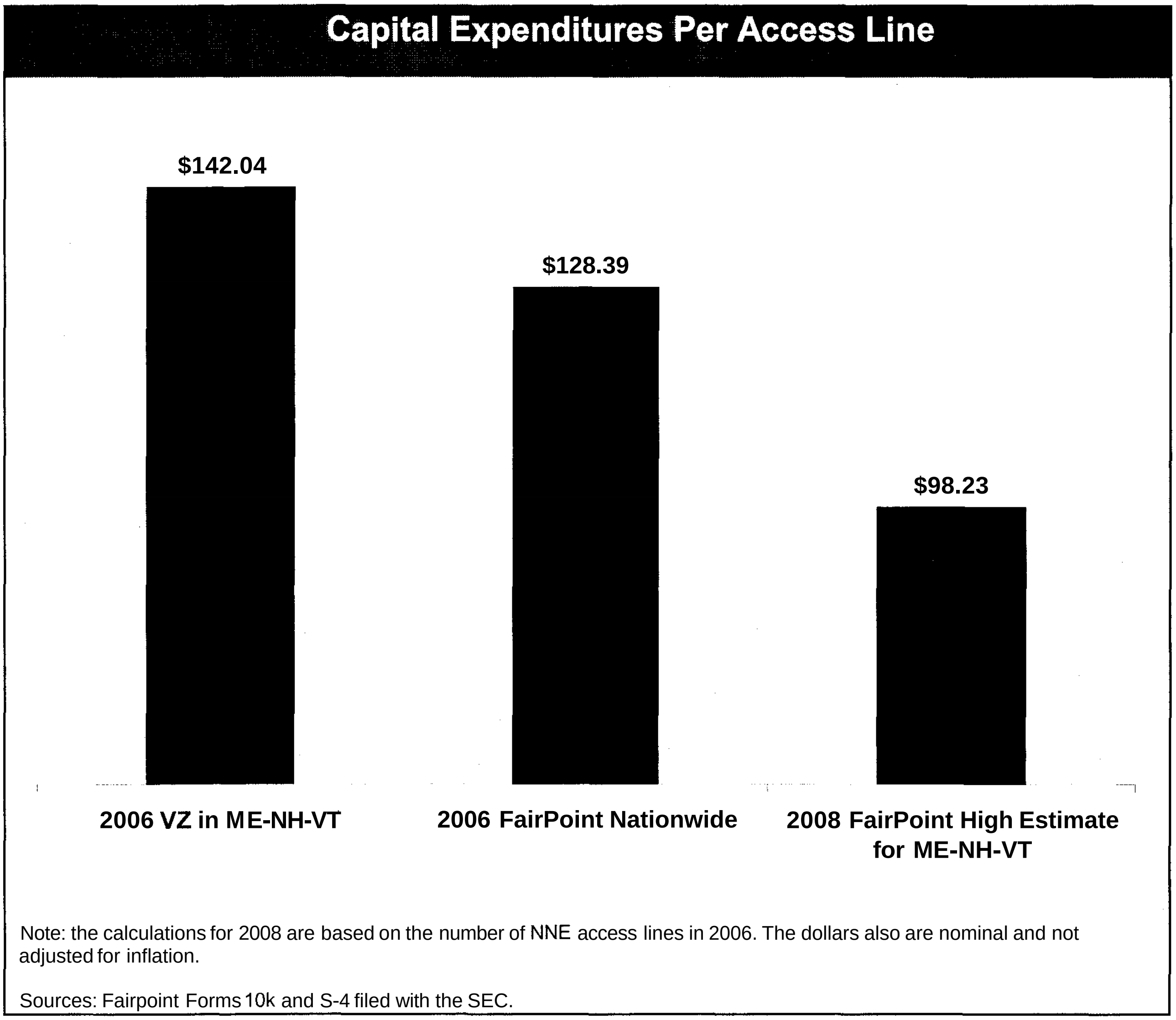
Table B examines Fairpoint's projected combined company capital expenditures of $160 million to $180 million in the first full year following the closing. Assuming that Fairpoint's capital expenditures for its other 31 operating companies remain at 2006 levels, its planned annual maintenance capital expenditures for NNE will continue to be significantly below Verizon's historic levels of investment (even excluding the company's large FiOS investments in southern New Hampshire over the past two years). Depending on whether the low or high range of Fairpoint's projections are used, Fairpoint plans to make maintenance investments in the NNE territory that are at least 16% to 28% lower than Verizon's pre-FiOS levels and 27% to 37% lower than average 2005-2006 levels.

[26] Fairpoint SEC Form S-4, April 3, 2007, **p.** 132

Table B Per Line Investment in NNE Infrastructure Before and After the Merger	
Average VZ-NNE Capital Expenditures; Per Line Pre-FiOS (2002-04)	$1 17.58
Required VZ-NNE 2007 Capital Expenditure Per Line as per Merger Agreement	$91.26 or -22%
Projected Capital Expenditures in the First Year Following the Agreement	
Low Estimate	$84.96 or -28%
High Estimate	$98.23 or -16%
Note: these calculations are based on the number of NNE access lines in 2006. The dollars are also nominal and not adjusted for inflation. Sources: Fairpoint Form S-4 filed with the SEC.	

The relatively low level of Fairpoint's planned level of investment per access line also can be illustrated by comparing it to Fairpoint's investments in its current lines as well as Verizon's investment in its the Maine, New Hampshire and Vermont lines. Verizon spent 45% more than FairPoint plans to spend in 2008 per line in the NNE region.[27] Fairpoint itself spent 31% more on its current operations in 2006 than it plans to spend in 2008 in the NNE region.

[27] Unlike the other statistics presented in this section, the 2006 Verizon expenditure includes its FiOS investment in the NNE region. FairPoint has basically stated that it will not continue Verizon's FiOS build out. However, this is a management decision and it is fair to compare actual expenditures in 2006 to Fairpoint's projected expenditures in the same region.



FairPoint's planned low level of capital expenditures for the Maine, New Hampshire and Vermont region undermines its commitment to build out its DSL infi-astructure. Verizon estimated a DSL cost of $285 per line including $150 per home passed plus $135 to connect each home.[28] Thus, any additional build-out of DSL by FairPoint will require additional capital expenditures over and above that needed to maintain the current plant. Yet, FairPoint has not

[28] Verizon Analyst Call, September 27,2006; Michael Balhoff, Direct Testimony to the State of Maine Public Utilities Commission, Docket 2007-67, **p.** 10.

provided enough capital to maintain the existing plant much less fund the additional capital required for DSL build-out.

D. The Post Merger Company Will be Subject to Operational Instability

FairPoint proposes to undertake a very daunting task – the integration of a complex operation many times its size. FairPoint management will have to deal with a 418% increase in employees, a 2,353% increase in union-represented employees and 614% more access lines. This is the case of the mouse swallowing the cat.

FairPoint Pre- and Post-Merger

		Estimated Post-Merger	Difference (ME, NH, VT) #	%
Total Employees	868	4,500	3,632	418%
Union Employees*	119	2,919	2,800	2,353%
Access Lines	249,186	1,779,898	1,530,712	614%

Sources: FairPoint 1/16/07 Presentation Slide Show and SEC Form 10k tiled for the 2005 year; FairPoint response to Labor data request 1-52 before the Vermont PSB – employees at year-end 2006 and estimated 12 months after closing. FairPoint's Form 10k filed with the SEC p. 10 reports 952 employees at year-end 2006. However, this table utilizes the figures given by FairPoint in its response to Labor Data Request 1-15 of 868 total pre-merger employees and the estimated 4,500 post-merger employees.

Even Fairpoint has indicated the problems and risks associated with this transition including the following[29]

- Due to, among other things, the size and complexity of the Northern New England business and the activities required to separate Spinco's operations from Verizon's, Fairpoint may be unable to integrate the Spinco business into its operations in an efficient, timely and effective manner, which could have a material adverse effect on the combined company's business, financial condition and results of operations.

[29] Fairpoint Form S-4 filed with the SEC, section on Risk Factors.

- Identify, acquire or develop, test, implement, maintain, and manage systems and processes which provide the functionality currently performed by over 600 systems for the Northern New England business by Verizon.
- Over 80% of the information systems used in support of the Northern New England business are Verizon proprietary systems.
- The failure of any of the combined company's systems could result in its inability to adequately bill and provide customer service to its customers, meet its financial and regulatory reporting obligations or provide services to its customers.
- If, for any reason, the parties are unable to implement successfully their plans and procedures or those plans and procedures are not sufficient for integration of the required systems, it could result in failure or delays in the merger integration and could adversely impact the combined company's business, results of operations and financial condition. This could result in the need to acquire and deploy additional systems, extend the transition services agreement and pay increasing monthly fees under the agreement.
- All of the risks associated with the integration process could be exacerbated by the fact that FairPoint may not have a sufficient number of employees to integrate FairPoint's and Spinco's businesses or to operate the combined company's business.

The risks associated with this transition are very real and should not be underestimated or discounted in any way. FairPoint and Verizon contend that they have dealt with such issues in the Merger Agreement which requires FairPoint to pay fees to Verizon for maintaining its systems for a year (fees increase substantially after a year) and with CapGemini for systems development and integration. However, these agreements do not obviate the cause for concern given FairPoint's track record, the terrible experience following Verizon's sale of its Hawaii assets, and the potential loss of a significant portion of the experienced workforce that could face Fairpoint.

1. FairPoint's Spotty Record With Certain Acquisitions and System Integration

FairPoint has a spotty history when it comes to the acquisition of anything but very small local telephone companies in rural areas under rate-of –return regulation or the integration of new systems.

FairPoint's greatest misstep, by far, was its entry into the CLEC business, via a subsidiary called Fairpoint Solutions in 1998 (at this point the parent was still called MJD Communications). By late 2001, when Fairpoint decided to discontinue its CLEC operations, it had accumulated several hundred million dollars in losses, laid-off at least 365 employees, "notified its remaining customers in the Southwest, Southeast, and Mid-Atlantic competitive markets to find alternative carriers," and came perilously close to bankruptcy. In the end, it was able to negotiate an exchange of Solutions' debt for about $100 million in redeemable preferred shares, as well as incur substantial additional charges as it wound down this subsidiary.[30]

Another misstep that FairPoint experienced involved its decision to centralize – and outsource – its billing and related customer care services for all of its operating subsidiaries. As the company put it in its 2005 1OK: "Our objective is to improve profitability by reducing individual company costs through the sharing of best practices, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability." Unfortunately for FairPoint – and its customers - the company that performed these outsourcing functions decided to sell its underlying software and agree that it would not add any more customers to its service bureau platform. This was in late 2005, when Fairpoint had already converted 17 of its then 28 operating subsidiaries to the outsourced system.

[30] Fairpoint Communications, SEC Form 10K, 2002 and 2003

Ultimately, FairPoint transferred this project to another firm, Mid America Computer Corporation (MACC). However, the new billing system generated a significant number of consumer complaints. For example, the *Bangor Daily News* reported that "Fairpoint's six Maine subsidiaries had among the highest rates of complaint for service, disconnection notice and billing in 2005 and '06, according to [Maine] PUC documents, and one of its companies, China Telephone, appears to have had the highest complaint rate in both years."[31] Fairpoint says that it intends to complete the outsourcing of its billing and related customer care operations by mid-2007.

Thus, Fairpoint has run into major problems when it attempted to step out of its normal acquisition strategy of small rural telephone companies without significant competition that are rate-of-return regulated and qualify for high universal service fund payments. When FairPoint acquired the CLEC it failed. When it attempted to develop new billing systems and integrate their operations it stumbled heavily.

Regulators should be aware of these missteps because they raise significant concerns about Fairpoint's ability to successfully conduct the NNE operations. FairPoint will not be faced with just creating and integrating a billing system but with 600 different operational, administrative and support systems. Fairpoint will not be faced with operating a relatively small CLEC but with the NNE properties which have 26 times more access lines than Fairpoint's largest local exchange company. FairPoint management may be familiar with small rural exchange companies but the NNE properties are qualitatively not just quantitatively different.

[31] Bangor Daily News, FairPoint Comes Calling, January 18, 2007

2. The Cautionary Tale of Verizon's Sale of its Hawaii Properties

In 2005, Verizon sold its 715,000 access lines in Hawaii to the Carlyle Group, a large private equity firm for $1.65 billion. Verizon and the Carlyle Group made many of the same claims as Verizon and FairPoint are making in this sale in relation to the purported benefits of a smaller, more locally focused provider that would retain the experienced workforce and provide new jobs and expand broadband build-out. Not surprisingly, many of the same concerns also developed in terms of transition and the creation and integration of entirely new systems and functions formerly provided by Verizon. The new entity, Hawaiian Telcom entered into a Transition Services Agreement (TSA) with Verizon for the continuation of certain Verizon functions for up to nine months after the closing of the sale "to provide Hawaiian Telcom with adequate time to establish new and independent back office support systems in the State. Additionally, Carlyle engaged the services of BearingPoint, Inc. to establish the new and independent back office support systems."[32] This deal is similar in concept to FairPoint's proposed TSA with Verizon and CapGemini.

Unfortunately, Hawaiian Telcom experienced significant problems despite the TSA. In a November 2006 report, Moody's Investor Service reported that Hawaiian Telcom had not managed to develop the systems it needs to function as a stand-alone business, citing a "continuing delay in creating fully functioning back office systems [that in turn] is contributing to numerous operational problems (i.e., customer care, order management, billing, and financial reporting) and distracting senior management." Moody's downgraded Hawaiian Telcom's

[32] Docket 04-0140, In the Matter of the Application of Paradise Mergersub, Ind., GTE Corporation, Verizon Hawaii Inc. Bell Atlantic Communications Inc. and Verizon Select Services, Inc. for Approval of a Merger Transaction and Related Matters, Decision and Order No. 21696 filed, March 16, 2005 **pp.** 19 and 20.

speculative grade liquidity from SGL-3 to SGL-4 meaning liquidity is so weak that the company must rely on external financing services stating "[t]he company's financial and operating profile could be permanently impaired if the systems issues are not resolved quickly."" Standard and Poor's followed suit in March 2007 when it cut Hawaiian Telcom's rating one level to B-. Standard and Poor's stated that Hawaiian Telcom has a "highly leveraged financial profile" whose "profitability significantly lags its peers."[34]

Hawaiian Telcom also had significant problems with new billing systems – just as Fairpoint had in Maine. The company established a new $100 million operations system to handle the functions that previously were conducted by Verizon. The company also hired an additional 120 workers but the problems still persisted.[35] Ultimately, Hawaiian Telco replaced its IT and related services consultant, BearingPoint, with Accenture.

The experience of Hawaiian Telcom and the TSA should act as a cautionary tale for regulators examining the proposed Verizon-FairPoint transaction.[36] There are important similarities between the two transactions. In both transactions, Verizon sells its local exchange operations to a highly leveraged firm; the purchasers need to develop and integrate new operating and support systems; and each of the purchasers enter into TSA's with Verizon to

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[33] The Deal, *Carlyle continues to stumble with Hawaiian Telecom acquisition: Carlyle's Hawaiian Disconnect,* December 4,2006.

[34] Bloomberg News Service, *Standard and Poor's cuts Hawaiian Telcom to B- rating,* March *30, 2007.*

[35] Star Bulletin, Billing woes overwhelm Hawaiian Telcom systems: the company recently hired 120 additional workers, but the extra help wasn't enough, June 21,2006.

[36] FairPoint has paid special attention to the Hawaiian Telcom experience. In an April 3, 2007 press release FairPoint announced that it hired Patrick Hogan, the former Hawaiian Telcom Vice President and Controller to become FairPoint's Senior Vice President and Controller. Whether this helps or hinders FairPoint in the future remains to be seen but the Commission should explore in some depth Mr. Hogan's role in Hawaiian Telcom's myriad transition-related problems.

ostensibly smooth the transition process. However, one difference between the two situations is that the Carlyle Group has major financial resources it can extend to Hawaiian Telcom if it so desires. FairPoint will not have access to such resources.

3. The Potential Loss of Experienced Workers

The transaction could lead to a loss of experienced workers. Currently there are 2,800 union-represented workers employed by Verizon in Maine, New Hampshire and Vermont. These workers are skilled and experienced. However, they are fearful of the impact of the proposed sale on their wages, working conditions, benefits and job security. Many workers who are eligible for retirement have told CWA and IBEW that they are thinking seriously of retiring before the merger becomes official. Other workers are seeking assignments and transfers to Verizon's operations in Massachusetts or other states. Conversely, workers in other states no longer bid on jobs in Maine, New Hampshire and Vermont which previously obtained many such bids. There is a strong possibility that if the deal is approved, FairPoint will lose many experienced workers in the three states as well as access to the pool of experienced workers in nearby states. Even if Fairpoint hires enough new workers to replace those who leave, there will still be major problems due to the loss of experience. It takes 42 months for a new technician to be considered fully trained and able to work independently.[37] This time period may well last longer in FairPoint's case since the experienced mentors that make on-the-job training a reality will no longer exist in sufficient numbers.

[37] Newly hired Verizon technicians are evaluated every six-months and if they pass the evaluations they can obtain a pay-scale wage increase. After 42 months, the technicians are no longer evaluated in order to obtain pay increases but can progress to top-craft status by taking an examination to become "rated" which is similar to obtaining journeyman status in other jobs.

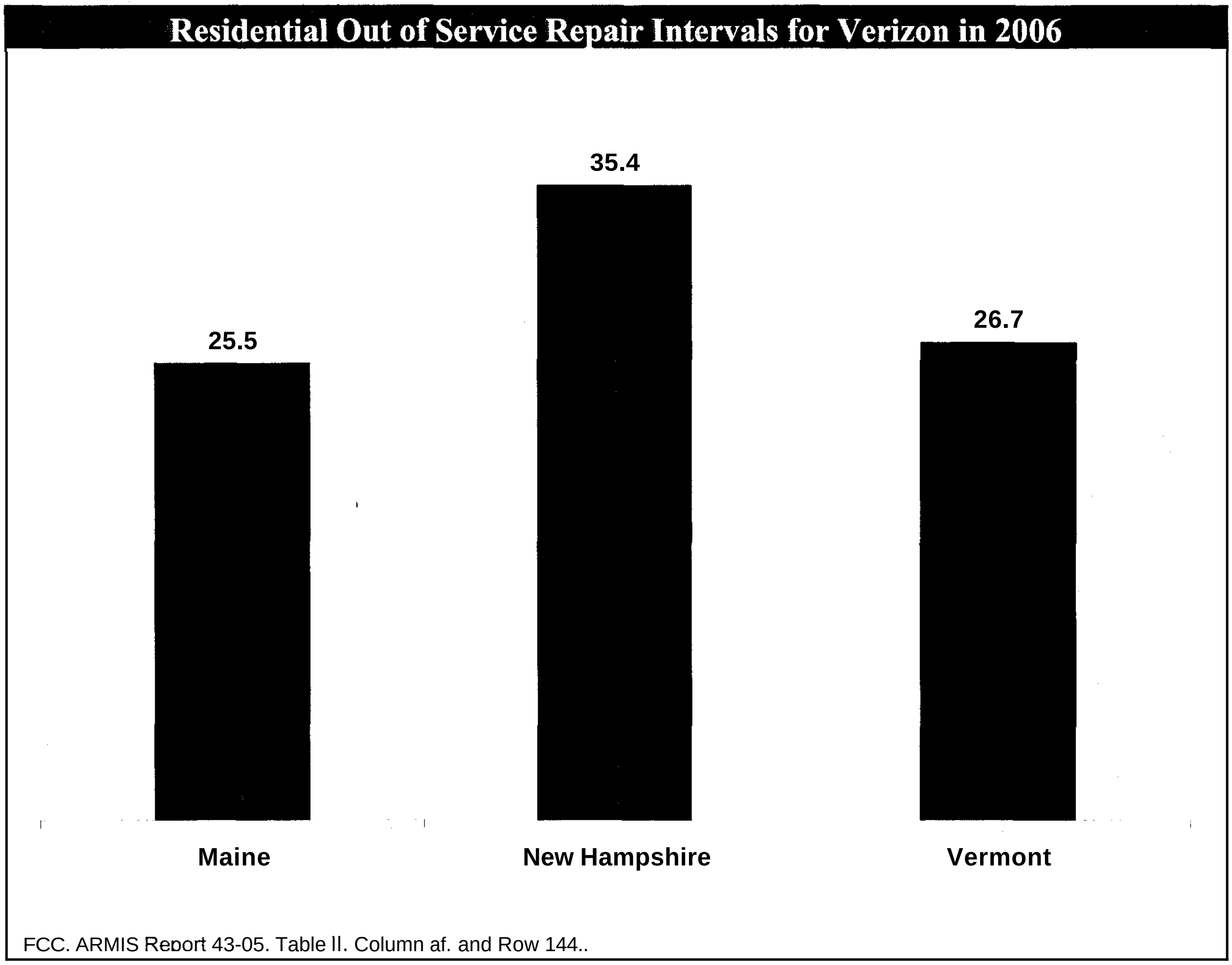
E. Service Quality Will Erode Given Inadequate Capital Investment in Infrastructure and the Loss of Experienced Workers

Both Verizon and Fairpoint have experienced significant service quality problems in the Maine, New Hampshire and Vermont region. These problems will be exacerbated by Fairpoint's inadequate capital expenditures planned for the region, problems associated with developing and integrating new support, billing and administrative systems and the likely depletion of the experienced workforce.

FairPoint has experienced service quality problems. For example, the company's six subsidiaries in Maine had among the highest complaint rates for service, disconnection notice and billing in 2005 and 2006 according to the State Public Utility Commission. One of Fairpoint's subsidiaries, China Telephone, appears to have had the highest complaint rate in both years. Since March 2006, the PUC's public service division has been monitoring four aspects of Fairpoint's service – billing, phone response and two measures of E911 services. In addition, the Maine Public Advocate's office filed a complaint against the company, arguing that Fairpoint may be overcharging its subsidiaries.[38]

Verizon also has delivered poor quality service. For example, a recognized industry standard is for a company to clear its out of service troubles within twenty-four hours. This is an important standard since out-of-service conditions can affect health and safety as well as the general ability to communicate and conduct business. Yet, in 2006 Verizon was unable to clear its residential out-of-service troubles within 24 hours in each of the three states.

[38] Bangor Daily News, FairPoint Comes Calling, January 18,2007



Verizon's poor service quality performance also is reflected in state collected data. For example, for 2006, Verizon-Maine failed to clear 37.7% of its out-of-service troubles within 24 hours. In the first quarter of 2007, the company failed to clear 32.6% of its out-of-service troubles within 24 hours. Verizon's level of performance in relation to this category is worse than any other phone company in Maine that is measured by the PUC.[39]

[39] Maine Public Utilities Commission, Local Telephone Company Service Quality Reports, 2006 and 1st Quarter 2007.

Fairpoint will be hard pressed to maintain, much less improve, these unacceptable levels of service quality performance. Fairpoint will have to allocate significant increases in capital and labor just to bring service performance of its potential NNE properties up to the level of other telephone companies in the three states. Yet, Fairpoint has projected relatively less, not more, capital expenditures. At the same time, FairPoint would like us to believe that there will be a perfectly smooth transition to its new operating, administrative and billing systems which will not cause any problems. Yet, FairPoint's own experience with its new billing systems in Maine has been disastrous and Hawaiian Telcom's botched transition has created an operational and financial crisis.

Thus, there is substantial risk and even the expectation that Fairpoint will not be able to improve service without a significant infusion of capital and labor resources that it has not projected and just does not possess. The obvious victims of poor service are the consumers and businesses throughout the entire region.

V. RECOMMENDATIONS

It is clear that the proposed sale of Verizon's properties in Maine, New Hampshire and Vermont poses grave risks for the public interest. Based on current projections, FairPoint will be so financially fragile and operationally challenged that it will not be able to meet the needs of consumers, workers, businesses and the state and local economies of Maine, New Hampshire and Vermont. Consequently, CWA and IBEW propose the following recommendations to the Federal Communications Commission.

1. **Conduct an Extensive Merger Review and Thorough Analysis.** The Commission should conduct an extensive merger review of the proposed transaction since it poses

significant risks for the public interest. The Commission should create a complete factual record including the testimony and cross examination transcripts from state commission proceedings. The Commission should obtain the proprietary disclosure agreements that, as admitted by the Applicants, supersede and modify all public documents the companies have released. These documents as well as other proprietary and/or confidential information have been submitted to the three state commissions. In addition, the Applicants' rationale for the professed public interest benefits of the transaction relies on pro forma financial statements and expert testimony that are based on questionable assumptions. A complete analysis of FairPoint's post-sale financial and operational viability depends on a comprehensive analysis of these assumptions that can only be obtained from the cross-examination of the companies' and parties' witnesses in the state proceedings. Once all this information is obtained, the Commission would be able to conduct thorough financial and operational analyses, including sensitivity analyses, concerning the range of potential and likely results of the combined entities operations.

2. **Deny the Verizon-FairPoint Application.** Upon completion of its review, the Commission should deny the Application because it poses significant risks to the public interest .

In the alternative, the following conditions could serve to mitigate somewhat the public interest harms that otherwise would result from this transaction:

a. Limit the amount of dividend payments, inter-affiliate transaction costs, and fees of the Maine, New Hampshire and Vermont operations to the parent and other related corporate entities.

b. Limit the amount of debt that FairPoint can attribute to the Maine, New Hampshire and Vermont operations.

c. Set a floor for capital expenditures and/or require a specific amount of additional capital expenditures sufficient to improve existing plant and fund broadband build out throughout the region.

d. Require that parallel operating, administrative and support systems function efficiently and without significant problems for two years after the deal is closed but before a full "cutover from Verizon provided transition support services to standalone FairPoint operations takes place.

e. Require service quality improvements based on performance as measured by the FCC in its ARMIS reports and/or equivalent measurements required by the State regulatory authorities.

f. Require build-out of broadband services throughout the region by 2010

VI. CONCLUSION

The Commission should deny Applicants' petition since it will result in significant harm to the public interest without any countervailing benefits. The proposed transaction will place consumers, workers and state and local economies at significant risk. FairPoint, a highly leveraged company already, will have great difficulty meeting the significantly greater dividend and debt commitments it has made while simultaneously investing enough capital to maintain current plant, improve service quality, set up entirely new operational, administrative and billing systems, hire more workers and expand broadband availability. The financial and operational risks involved in the transaction overwhelm any supposed benefits. In the alternative, the Commission should adopt the conditions contained in these comments which could serve to mitigate the public interest harms that otherwise would result from this transaction

Respectfully Submitted,

George Kohl
Assistant to the President/Director of Research
Communications Workers of America

Edwin D. Hill
International President
International Brotherhood of Electrical Workers

DECLARATION OF KENNETH R. PERES

My name is Kenneth R. Peres. I am Research Economist with the Communications Workers of America. My business address is 501 Third Street N.W., Washington, D.C. 2001.

The Communications Workers of America is a labor organization representing 700,000 workers, working in wireline telecommunications, cable, wireless, broadcasting, construction and maintenance, government, utility, publishing, manufacturing, airlines, higher education, and other public and private sector organizations.

The International Brotherhood of Electrical Workers is a labor organization representing 750,000 workers who work in a wide variety of fields, including utilities, construction, broadcasting, telecommunications, manufacturing, railroads and government.

Together, CWA and IBEW represent 2,800 Verizon workers in Maine, New Hampshire and Vermont.

I am familiar with the contents of the foregoing Petition. The factual assertions made in the petition are true to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.
Executed on April 27, 2007.

Kenneth R. Peres

Kenneth R. Peres

EXHIBIT A: Merger's Impact on Combined Companies' Balance Sheets, Pro Forma, as of December 31, 2006

	Verizon's Maine, New Hampshire & Vermont Operations, As Reported December 31, 2006	Fairpoint As Reported, December 31, 2006	Verizon NNE and Fairpoint Combined Balance Sheets, Unadjusted for the Merger, December 31, 2006	Pro Forma Combined Balance Sheet, Adjusted for the Merger, December 31, 2006	Difference Between Combined Unadjusted and Adjusted Balance Sheets	Percent Change between Unadjusted and Adjusted Combined Balance Sheets
Assets						
Current assets:						
Cash and Short Term Investments	$49	$4	$53	$24	($29)	-55%
Accounts Receivable	172	28	200	200	0	0%
Accounts Receivable from Affiliates	30		30	30	0	0%
Prepaid and other	35	13	48	48	0	0%
Deferred income tax		34	34	26	(8)	-24%
Total current assets	**286**	**79**	**365**	**328**	**(37)**	**-10%**
Property, plant, and equipment, net	1,701	246	1,947	1,947	0	0%
Goodwill		499	499	861	362	73%
Investments		12	12	7	(5)	-42%
Intangible assets, net	5	13	18	170	152	844%
Prepaid pension asset	31		31	39	8	26%
Deferred income tax		24	24		(24)	-100%
Other	29	12	41	58	17	41%
Total assets	**2,052**	**885**	**2,937**	**3,410**	**473**	**16%**
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	82	14	96	78	(18)	-19%
Accounts payable to affiliates	99		99	99	0	0%
Dividend payable		14	14	14	0	0%
Current deferred income tax liabilities	7		7		(7)	-100%
Accrued interest payable		1	1		(1)	-100%
Current portion of long-term debt		1	1		(1)	-100%
Current portion of capital lease obligations	2		2	2	0	0%
Liabilities of discontinued operations		1	1	1	0	0%
Total current liabilities	243	46	289	262	(27)	-9%
Long-term liabilities:						
Long-term debt, net of current portion		607	607	2,334	1.727	285%
Capital lease obligations	12		12	12	0	0%
Employee benefit obligations	373		373	204	(169)	-45%
Deferred income taxes	175		175	255	80	46%
Unamortized investment tax credits	6		6	6	0	0%
Other liabilities	31	7	38	38	0	0%
Total long-term liabilities	**597**	**614**	**1,211**	**2,849**	**1,638**	**135%**
Stockholders' equity:						
Common stock			0	1	1	nm
Parent company funding	1,212		1,212		(1,212)	-100%
Additional paid-in capital		531	531	368	(163)	-31%
Accumulated other comprehensive loss, net		5	5	(70)	(75)	-1500%
Accumulated deficit		(311)	(311)		311	-100%
Total stockholders' equity	**1,212**	**225**	**1,437**	**299**	**(1,138)**	**-79%**
Total liabilities and stockholders' equity	**2,052**	885	**2,937**	**3,410**	**413**	**16%**
Long Term-Liabilities-to-Equity Ratio	***0.49***	**2.73**	***0.84***	**9.53**	***8.69***	**1031%**
Leverage Ratio (Long Term Liabilities to EBITDA)	***1.61***	**5.39**	***2.50***	***5.42***	***2.91***	**116%**

EXHIBIT B: Per Line Investment in NNE Infrastructure Before and After the Merger			
	2007 VZ Required	**1st Full Year Following**	
		Low	**High**
Combined Company's Annual Maintenance Canital Exenenditures	n/a	$160 million	$180 million
FairPoint 2006 Capital Expenditures	n/a	$32 million	$32 million
VZ-NNE 2007 Capital Expenditures required by the Agreement	$137.5 million	$128 million	$148 million
CapEx Per Line	$91.26	$84.96	$98.23
Avg CapEx per Line VZ-Pre Fios (2002-04)	$117.58	$117.58	$117.58
Difference between VZ-NNE Pre-FiOS and 2007 Required Expenditure			
Dollar Difference	-$26.32	-$32.62	-$19.35
Percentage Difference	-22%	-28%	-16%

Note: these calculations are based on the number of NNE access lines in 2006. The dollars are also nominal and not adjusted for inflation.
Sources: FairPoint Form S-4 filed with the SEC.