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May 31, 2007

Ms. Marlene Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Dear Ms. Dortch:

RE: Ex Parte Notice. WC Docket No. 07-22. In the Matter of Application Filed for the Transfer of Certain Spectrum Licenses and Section 214 Authorizations in the States of Maine, New Hampshire and Vermont from Verizon Communications Inc. and its Subsidiaries to FairPoint Communications, Inc.

On May 30, 2007, Kenneth R. Peres, economist with the Communications Workers of America and Randy Barber, financial consultant, met with William Dever, Adam Kirschenbaum, Gail Cohen, Mary Clair Butt and Ivan Watkins of the Federal Communications Commission. Dr. Peres and Mr. Barber represented both the CWA and the International Brotherhood of Electrical Workers.

The CWA/IBEW representatives urged the Commission to 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. They emphasized that such a comprehensive review should include many documents that the Applicants claim to be proprietary. These documents are needed because the Applicants have stated that all of their publicly released documents "may be modified by such [confidential] disclosure schedules." [1] The CWA/IBEW representatives also stated that a significant amount of important information is being made available in the state regulatory proceedings in Maine, New Hampshire and Vermont. In addition, they referred the Commission to important publicly available documents such as the original S-4 and the recently released S-4/A filed by FairPoint with the Securities Exchange Commission.

Dr. Peres and Mr. Barber discussed the financial and structural risks posed by

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

the transaction and the potential impact on consumers, workers and communities in the three states. They also referred to and provided copies of the testimony each delivered in the Vermont proceeding (attached to this letter).

Mr. Barber focused on the financial risks posed by the transaction including the following:

- High debt. The 2006 debt to equity ratio was 0.59 for Verizon and 2.70 for FairPoint. However, it was 7.81 pro forma for the combined FairPoint-Verizon Northern New England (NNE) operations.

- Projected $60-$75 million expense savings are in doubt. FairPoint has not demonstrated an ability to drive down operating expenses. After all, FairPoint's unit operating expenses are higher than NNE's and FairPoint's unit costs are increasing at the same level as NNE's.

- FairPoint's High Dividend policy has consequences. FairPoint's dividend payments are higher than its capital expenditures (126% greater than in 2005 and 171% greater in 2006] and higher than net income (122% greater in 2005 and 178% greater in 2006). FairPoint has committed to an additional $85 million in dividend payouts following the merger.

- FairPoint's policy of diverting depreciation to dividends undercuts capital expenditures. For example, FairPoint's capital expenditures as a proportion of depreciation has been decreasing – from 84% in 2002 to 61% in 2006.

- Reduction in Shareholder Value. FairPoint's shareholder value has eroded by $57 million or 21% from March 30 2005 to March 30 2006.

- Revenue Risks. Such risks could arise from the possibility of greater than projected line losses due to increased competition from cable companies. Another risk is posed by a Maine Public Utility hearing examiner recommendation of a $32.4 million annual rate reduction which would represent 16% of the combined companies' pro forma adjusted operating income. If adopted by the Maine Commission, this recommendation would significantly affect the company's cash flow.

Both Mr. Barber and Dr. Peres discussed the structural, operational and transitional risks posed by the transaction.

- Risks posed by the fact that FairPoint would have to become an almost entirely different company. Currently, FairPoint is a holding company specializing in the acquisition of small, rate-of-return regulated largely rural companies which qualify for relatively high USF subsidies and that face relatively little competition. FairPoint's 31 subsidiaries had a combined 249,000 access lines. The NNE operations are price cap regulated, do not qualify for large USF subsidies, and face significantly more competitive threats. Furthermore, if the transaction is approved FairPoint management would have to deal with a 614% increase in access lines and a 333% increase in employees. Indeed, the union represented workforce alone would increase from 119 to 2, 919 – a 2,353% increase. FairPoint management has not had the experience running such a large complex company.

- There is nothing in FairPoint's experience that approaches an operation of the size and scope of the NNE operations. The closest that FairPoint came to an operation this size was its entry into the CLEC business in 1998. Three years later, when FairPoint decided to discontinue the CLEC operations it had accumulated hundreds of millions of dollars in losses and laid-off at least 365 employees.

- Risks posed by the fact that FairPoint will have to create, integrate and implement 600 new operational, support and administrative systems. When FairPoint introduced a new billing system it had significant problems with the vendor which resulted in significant increases in customer complaints. Yet, FairPoint will be confronted with 600 new systems if the transaction is approved – not just one billing system. Hawaii Telcom provides an example of what could go wrong with Transition Service Agreements involving Verizon and contracting firms. Hawaii Telcom experienced significant transition issues which resulted in major financial and customer service problems. One difference between the two situations is that the Carlyle Group which purchased Verizon's Hawaii operations has major financial resources it can extend to Hawaii Telcom if it so desires. FairPoint will not have access to such resources.

Dr. Peres discussed the risks that the transaction poses to service quality.

- FairPoint has had service quality problems in Vermont where it had the highest rate of complaints for six of the last seven years of any telephone company including Verizon. In Maine, FairPoint had the highest complaint rate, disconnect notices and billing problems in 2005 and 2006.
- Verizon has had significant service quality problems in the three

states. Indeed, Verizon provided very poor performance in clearing out of service troubles within 24 hours in each of the three states. Verizon also had other service quality problems. For example, in Vermont Verizon's service deteriorated from 2001 to 2006 in the following categories: percentage out of service over 24 hours residential; percentage out of service over 24 hours business; percentage calls not answered within 20 seconds residential; percentage installation commitments not met; and customer trouble report rate.

- Greater capital and labor resources would have to be allocated to improve service quality. If Verizon wanted to, it has the resources to improve service quality. Even if FairPoint want to improve service quality, it would be very difficult to achieve given its limited and strained resources. Indeed, if the transaction is approved FairPoint would have to allocate the resources needed to improve not only FairPoint's service quality but Verizon's as well.

Both Dr. Peres and Mr. Barber addressed the issue of who would bear the risks if FairPoint falters; for example, if it could not seamlessly replicate 600 Verizon systems and squeeze out $60-$75 million in cost savings. These risks are magnified by FairPoint's relatively small size compared to the NNE operations it would acquire, the significant differences between FairPoint's and NNE's existing business, the structural transformation that FairPoint would have to undertake and the overall impact on FairPoint's business model.

FairPoint has provided an indication of who would bear the risks when one of its expert witnesses stated that, if there were problems, that FairPoint would have to "adjust the company's cost structure" [i.e. labor costs], "scale capital expenditures" [i.e., cut capital expenditures] and "alter the company's dividend policy." The last two options, "would only be invoked if the operations became distressed." Indeed, dividend cuts would result most likely in a decline in share price which would make raising additional capital more difficult, much less fund any further acquisitions. Obviously, cutting dividends would be a last ditch effort.

Thus, the major bearers of risk would be consumers, workers and communities.

- Consumers would be faced with the risks of higher rates, degraded service due to capital and labor cutbacks, and limited service offerings.
- The NNE workers would be faced with the risks of lost jobs, benefits and job security.
- Communities would be faced with the risks of reduced build-out of broadband and the multiplier impacts of lost telecommunications jobs

and wages.

- Competitive Local Exchange Companies would be faced with the erosion of the underlying facilities on which they rely.
- The 3. 25 million residents of the three states will bear risks also because they are directly and indirectly affected by the health of the largest telecommunications provider in the three states – they are all connected.

The CWA/IBEW have concluded that the Commission should deny the transaction because its risks to the public interest overwhelm any purported benefits. However, both Dr. Peres and Mr. Barber urged the Commission to reach its own conclusions about the deal based on its own thorough and extensive merger review.

Sincerely,

Kenneth R. Peres, PhD.
Research Economist
Research and Development Department
Communications Workers of America

encl:

cc: William Dever
Adam Kirschenbaum
Gail Cohen