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May 22, 2007

Stock Rating

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Industry View

In-Line

## FairPoint Communications

### Tougher Environment for Levered RLEC Deals

**Quick Comment:** Opposition to FairPoint's acquisition of certain Verizon lines could pressure the stock near-term with no positive deal-related news likely on the horizon for several months. Though meetings with regulators have already begun, the last of the necessary regulatory approvals would come in Oct. or Nov., the company expects, with a deal close target of January. Importantly, challenges to getting this deal through could signal a more difficult environment for leveraged rural telecom transactions more generally, which could be negative for the Bells to the extent that they have plans to divest other non-metro operations.

**What's New:** Telecom newsletter TR Daily reported Monday evening that House Representative Dennis Kucinich may attempt to prevent FairPoint's planned acquisition of Verizon's ME, NH, and VT lines and will address his concerns to the FCC and SEC. The newsletter quoted Rep. Kucinich at a Saturday rally in NH as saying, "Verizon doesn't want to serve rural communities in the tri-state area and, based on its finances, FairPoint can't. This deal doesn't pass the smell test." Rep. Kucinich chairs a panel with oversight of the FCC and SEC, according to the newsletter.

**Implications:** We have been concerned about the risk the deal poses to FRP holders near-term, especially given the lack of visibility we have into the Verizon operations to be acquired and their large size relative to FairPoint's current operations.

#### Key Ratios and Statistics

Reuters: FRP.N Bloomberg: FRP US

Telecom Services / United States of America

<b>Price target</b>	<b>++</b>
Shr price, close (May 21, 2007)	\$18.15
Mkt cap, curr (mm)	\$631
52-Week Range	\$21.53-12.82

Fiscal Year (Dec)	2006	2007e	2008e	2009e
<b>ModelWare EPS (\$)*</b>	<b>0.67</b>	<b>0.43</b>	<b>0.41</b>	<b>0.37</b>
<b>Prior ModelWare EPS (\$)</b>	-	-	-	-
<b>P/E</b>	<b>28.4</b>	<b>42.3</b>	<b>44.3</b>	<b>49.7</b>
<b>Consensus EPS (\$)</b>	<b>0.65</b>	<b>0.53</b>	<b>0.52</b>	<b>0.45</b>
Div yld (%)	8.4	8.8	8.8	8.8

\* = Please see explanation of Morgan Stanley ModelWare later in this note.

e = Morgan Stanley Research estimates

++ = Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy.

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*Morgan Stanley & Co. Incorporated ("Morgan Stanley") is currently acting as financial advisor to FairPoint Communications, Inc. ("FairPoint") in its announced proposed merger with Verizon Communications Inc.'s New England wireline operations subsidiary. Morgan Stanley is also providing financing services to FairPoint in connection with the proposed transaction.*

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*FairPoint has agreed to pay fees to Morgan Stanley for its financial services, including transaction fees and financing fees that are subject to the consummation of the proposed transaction.*

*Please refer to the notes at the end of this report.*

	<p><b>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.</b> For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

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(as of April 30, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>850</b>	<b>38%</b>	<b>291</b>	<b>42%</b>	<b>34%</b>
<b>Equal-weight/Hold</b>	<b>1008</b>	<b>45%</b>	<b>303</b>	<b>44%</b>	<b>30%</b>
<b>Underweight/Sell</b>	<b>368</b>	<b>17%</b>	<b>97</b>	<b>14%</b>	<b>26%</b>
<b>Total</b>	<b>2,226</b>		<b>691</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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**Overweight (O).** The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**Equal-weight (E).** The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**Underweight (U).** The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**More volatile (V).** We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

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**Attractive (A):** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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**Industry Coverage: Telecom Services**

Company (Ticker)	Rating (as of)	Price (05/21/2007)
<b>Vance Edelson</b>		
AMDOCS (DOX.N)	E (12/18/2006)	\$37.94
American Tower Corp. (AMT.N)	O (05/12/2005)	\$41.34
Crown Castle Corp. (CCI.N)	E (02/09/2007)	\$36.31
Level 3 Communications, Inc. (LVL.T.O)	E-V (06/29/2006)	\$5.53
SAVVIS Inc. (SVVS.O)	O-V (01/30/2007)	\$51.2
SBA Communications (SBAC.O)	O (10/05/2005)	\$30.77
TELUS Corp. (TU.N)	E (09/08/2006)	\$58.27
Time Warner Telecom Inc. (TWTC.O)	O (03/27/2006)	\$18.91
<b>Simon Flannery</b>		
AT&T, Inc. (T.N)	O (03/08/2006)	\$40.55
Alltel Corporation (AT.N)	E (03/08/2006)	\$69.66
BCE Inc. (BCE.N)	++	\$36.04
CenturyTel (CTL.N)	E (08/01/2006)	\$48.16
Cincinnati Bell Inc. (CBB.N)	E-V (11/03/2006)	\$5.82
Citizens Communications (CZN.N)	E (05/07/2007)	\$15.63
Clearwire Corporation (CLWR.O)	++	\$18.53
Embarq Corporation (EQ.N)	E-V (02/09/2007)	\$64.84
Leap Wireless (LEAP.O)	O-V (04/28/2006)	\$86.65
Qwest Communications Int'l (Q.N)	U (03/18/2002)	\$10.01
Rogers Communications, Inc. (RCIb.TO)	O (04/27/2005)	C\$44.24
Sprint Nextel Corporation (S.N)	U (02/24/2004)	\$21.4
Telephone & Data Systems (TDS.A)	U (07/23/2003)	\$59.13
US Cellular Corporation (USM.A)	E-V (08/13/2003)	\$75.15
Verizon Communications (VZ.N)	E (01/19/2005)	\$42.54
<b>Raina Smyth</b>		
FairPoint Communications (FRP.N)	++	\$18.15
Iowa Telecom (IWA.N)	U (04/17/2006)	\$21.99
Windstream Corp. (WIN.N)	O (04/17/2006)	\$14.93

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