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COMMENTARY

Remove the Rhetoric. Focus on Facts

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By Gene Johnson, CEO FairPoint Communications

The proposed merger of Verizon's land line operations in northern New England with FairPoint Communications is being rigorously reviewed by numerous state and federal agencies, all of which are charged with carefully examining every aspect of the proposed transaction.

At FairPoint, we have the utmost confidence in these agencies and their ability to review a complex business transaction that has the potential to significantly improve the telecommunications landscape throughout the tri-state region.

Unfortunately, opponents of this merger have distorted several facts causing unwarranted concerns about the financial condition of FairPoint Communications. And now they are using a recent Morgan-Stanley analysis to support their claims without providing the necessary context.

The following facts provide a starting point for understanding the context of our opponents' rhetoric. FairPoint is a publicly traded company, with its stock listed on the New York Stock Exchange. Our company currently has an enterprise value of approximately $1.25 billion, demonstrating significant financial resources and access to capital.

As a publicly-traded company, we are required by federal law to file comprehensive, detailed and verifiable reports regarding our financial condition with the Securities and Exchange Commission. Those reports are available for public inspection.

The Morgan-Stanley report focuses primarily on projections about what would happen to our revenues and dividend payments if this proposed merger is not approved. It says nothing about the proposed merged entity not being financially successful.

The report is an analysis if the merger is not approved, in which case the report is not relevant to the merger. The analysis claims to be based on "FairPoint's newly released standalone forecasts." This is false. There was no such forecast projecting how FairPoint would perform if the merger were not approved. Any such "forecasts" included in FairPoint's recent SEC filing were of the combined company.

The stock market saw through this report, with no effect on the resulting stock price. Since the report was issued a little over a week ago, FairPoint stock has outperformed the market (up 0.4 percent, or 7 cents, while the Dow Jones Industrials is down 1.4 percent).

Nothing the analyst wrote contradicted evidence from FairPoint that it will be financially stronger after the merger. The ability to maintain current dividend levels is not relevant to any discussions regarding the public's interest being served in this transaction.

Once this merger is completed, FairPoint will become the 8th largest telecommunications company in the U.S. (in terms of access lines), with approximately $1.5 billion in annual revenues, making it one of the largest companies in Vermont, Maine, and New Hampshire.

Concerns being raised about FairPoint's ability to "handle" the debt after the merger are also unfounded. In reality, this proposed transaction has a much more conservative financial structure than the typical home purchase. More than $1 billion of the purchase price will be equity, which equates to a hearty "down-payment" of roughly 37 percent.

Furthermore, the most critical factor to consider in any purchase is whether the purchaser has enough cash flow to cover the obligations. This is where our opponents really miss the point.

The combined company is expected to generate cash flow substantially greater than what will be needed to cover planned network investment, operations, all debt service and discretionary dividends to stockholders. There is also potential for increased cash flow depending on new services and additional efficiencies. The bottom line? FairPoint will be able to meet its obligations, and fund improvements in the acquired operations, as it has always said.

All relevant financial data regarding this proposed merger has been given to the regulatory agencies that have the responsibility to decide whether this proposal makes sense.

Once the rhetoric is set aside, we are confident the merger will be approved, giving us the opportunity to bring first-class, advanced telecommunications services to northern New England.