

Telecommunications Services
Wireline
 Industry Brief

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Intercarrier Compensation Reform: Potential Impact From an FCC Order

- ◆ The Federal Communications Commission (FCC) is currently considering a proposal to reform intercarrier compensation in almost all of its forms. The Commission faces a November 5th deadline by the courts to respond to a Voice over Internet Protocol (VoIP) ruling and is attempting to deal with all these issues at one time.
- ◆ When it is all said and done, we believe this order will not have the support needed at the commission to pass. But the likelihood in the current political environment is much higher than we have seen in the past, so we believe it is prudent to explore the potential impact.
- ◆ The net effect of the order appears to be a decline in access-based revenue, without a replacement mechanism that would have a materially negative impact on free cash flow (FCF) and capital availability. We estimate the average company in the group impacted by the ruling would experience a 10% revenue decline and a 38% decline in FCF. We would also expect multiple contraction and skepticism towards investing in the group by debt and equity investors for some time should the order pass.
- ◆ The order is almost certain to be appealed by the courts, and we estimate at least 3 years before any resolution would be met and then an estimated 10-year phase-in of the program. Realistically, this would have a tremendous backlash from the states, in our opinion, which would claim the FCC lacks legal ground to preempt their statutory authority to regulate intrastate rates. Next, the carriers, Congress, and consumer advocates are all likely to weigh in with suits of their own, making this order is very unlikely to ever come to fruition. However, in the current environment, the impact to investors could be very negative; thus, we are outlining the impacts as we see them in this report.

The Order as it is Rumored To Be. Attempting to comply with a court ordered November 5th deadline for Intercarrier compensation reform, FCC Chairman Martin has reportedly issued a report and order, order on remand, and further notice of proposed rulemaking on the topic, also incorporating changes to the Universal Service Fund (USF). The proposal, which has not been released publically, would call for the unification of interstate and intrastate rates to a state-structured reciprocal compensation regime. Carriers would be permitted to make up some of the shortfall with a \$1.50 increase on residential subscriber line charges (SLCs) and \$5 increase on business lines. The order also goes further, requiring broadband build-out commitments in rural areas to continue to get USF money, which would include wireless eligible telecommunication carriers (ETCs) as well, while removing the identical support rule and require these wireless ETCs to justify their costs. The order also has provisions to deal with “phantom traffic” and requiring labeling and other protections to ensure arbitrage is eliminated. Lastly, the order attempts to adjust the

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collection mechanism for USF to be based on phone numbers rather than long distance and international calling revenue. In one fell swoop, the FCC appears to be taking all of the areas of controversy within the industry and wipe them out, but we do not believe it will be that simple. The real issue here is the apparent lack of financial modeling that has been done in conjunction with an order that has significant economic and public policy implications.

The biggest issue that investors should be focused on is the unification of access rates as it could have a materially negative impact on the revenue and FCF of most of the public rural Incumbent Local Exchange Carriers (ILECs) that we have in our coverage universe. Access is and always has been a bigger subsidy driver for these carriers than USF, but as it is generally less well understood, its application varies widely by state. The FCC (according to the many reports we have read on the subject) appears to be looking to unify both interstate rates (currently \$0.055 per minute) and intra-state rates which vary from the interstate rate to well over \$0.10 per minute in some cases. These access charges that are used to compensate carriers for calls that originate and terminate on their network serve a dual purpose in that the rates (particularly the widely varying intra-state rates) help pay for the wear and tear on the network of calls originating from other carriers. The secondary reason for these rates is to support the public policy goal of supporting the cost of providing service to customers that otherwise it would not be economical to service.

This is the concept of “rate balancing” where state Public Utility Commissions (PUCs) would examine overall network traffic volume and adjust per-minute access rates so the carrier would be able to, on average, make a profit and for investors to earn an acceptable return. This way, some customers are still extremely profitable while others are very unprofitable, but on average, the access fills in the gaps and it works out. The trade off is that the public policy of affordable and highly reliable phone service to all Americans is realized. This has given rural schools, hospitals, governments, and citizens (sometimes known as voters) high quality phone service with reasonable basic local rates. The access charges are then passed onto the customers by the long distance provider (via per-minute rates or bundled pricing) for each minute of long distance calls made based on the rate for the originating and terminating access to the carriers on each end of the call.

Competition and the evolving nature of long distance voice calling, the Internet, email, and other means of communication including wireless have altered this “balanced” access mechanism considerably. Over time, we do agree that this implicit support needs to be moved to a more explicit support (we have always advocated a state universal service fund in each state to replace the intra-state access). However, the idea that the access can be lowered at least 90% overnight and only be replaced with a \$1.50 increase in the residential SLC and a \$5 increase in the business SLC does not hold water.

In the table below, we very conservatively demonstrate that the rural ILECs in our coverage universe would stand to lose about \$1.05 billion in revenue from switched access per line net of an average \$2.38 increase in the SLC (using a weighted average of a higher SLC increase for business lines). We also point out this is a static analysis, assuming no additional customers leave as a result of the higher SLC, which is highly likely (particularly for business customers in more competitive areas) and would make the total impact even worse.

All Carriers End of Q2	
Total Lines	15,635,085
Revenue	\$16.682 billion
10% Access Assumption	\$1.668 billion
90% Minimum Decline	\$1.501 billion
Minimum Decline per line	\$96
Decline per month	\$8.00
Net decline after \$2.38 SLC Increase	\$5.62
Annual Loss	\$1.054 billion

Source: Company reports and Raymond James Estimates

Take the other 900 ILECs and other carriers, and the number is substantially higher than the FCC chairman’s \$500 million estimate he has said publicly. Additionally, the customer would then see the price of their local bill go up, inciting backlash for the rate increase they do not understand and possibly pushing customers away to voice over Internet Protocol (VoIP) or wireless. This only further increases the cost pressure on the carrier and jeopardizing the service for the vast majority of the carriers customers that do not choose to move to another platform. One other thing to point out, the total access exposure varies widely

from less than 1% of revenue to close to mid-teens percentage, and the net FCF impact averages 38% but is over 80% to some carriers, making dividend cuts a reality. Lastly, this risk is particularly acute for the 20% to 30% of estimated customers where there are no real viable competitive alternatives to the local service provider, and clearly no replacement for a similar broadband provider.

The Cash Flow Death Spiral. We believe the impact to the group from such a move by the FCC would be swift and negative. We estimate that this sort of drop in revenue (not even factoring in potential additional line losses and wireless substitution, capex to support broadband mandates, etc.) would flow directly through to EBITDA and FCF, making valuation assumptions change accordingly. Next would be multiple contraction resulting in a very significant decline in equity prices. In the current environment, the ratings agencies cannot afford to be late to another troubled sector and are likely to downgrade the entire group on concerns that debt service may be unfeasible, which would have an immediate impact on debt costs and the ability to raise capital and in turn would likely result in lower investment, even lower revenue, and lower FCF. We would expect this to put significant pressure on the group. Given the severity of the potential action, we can only assume the FCC has done extensive financial modeling on this although we have mixed reports on the knowledge of the financial impact from all parties involved.

This, of course, would be an extreme outcome, but a logical conclusion of the draft order as we understand it to be written currently. We would encourage investors to look at these names carefully and call for additional time to work out a reasonable solution that can serve all the public policy needs, keep telecom voice and data services affordable and (more importantly) available for all Americans, and protect the ability to earn a reasonable rate of return on their investment.

What is Likely To Happen. Clearly one likely scenario is that the Chairman lacks the votes necessary to push this through and has to settle for a short answer to the court imposed deadline on VoIP traffic it currently faces. This is increasingly likely, in our opinion, given the pressure and information that is being lobbied at the FCC and Capitol Hill currently. If the order is passed, there will immediately be a large number of lawsuits filed to have the order stayed pending court appeal. Everyone from the companies themselves to state utility commissions to consumer advocates will likely want to see this one blocked or at least thought out in a more deliberate and equitable fashion.

We estimate a court appeals process could take 3 years to go through all of its iterations. Then, the 10-year phase-in period we understand is currently being discussed would begin, so it could be at least 4 years before any real negative cash flow implications of this order are actually felt by the carriers. The problem is we do not believe investors will have the patience to wait this out and would expect a Wall Street-style, worst-case scenario trading and valuation range to be imposed until clarity is given at least 3 years out. So, while the order will mean nothing in the near term and at least through 2 rounds of appeals and re-writing (if it ever means anything at all), the impact could be very negative.

Does Anyone Win? Yes, the regional Bell operating companies (RBOCs) should come out way ahead on this, even though the USF side is likely to be a bit of a drain on AT&T and Verizon. The access revenue they will pocket without any requirements to give it back will be very significant, and this is the reason we have heard all of the RBOCs being very silent in this fight so far. This is also one of the main reasons we hear the competitive local exchange carriers (CLECs) arguing against this as they see the RBOCs getting ahead while they, potentially, do not. The real question for the CLECs is: "What cost savings they would enjoy and would that make them net beneficiaries, too?" We believe it might, but this is really an immaterial event for them, in our opinion, as we have not been able to gather any actual numbers.

Who Really Loses? We believe the mid-sized price cap carriers (CTL, FTR, WIN, IWA, CNSL, and FRP) have the most to lose and stand to have an "unfunded obligation." This means they have regulatory-imposed obligations be the carrier of last resort (COLR) in their service territory but will not be able to service those obligations without losing money. Our recent meetings in Washington indicate this is a point of sympathy that may help the carriers avoid the issues they face. One major aspect of our analysis is the conservative application of the \$2.38 weighted average SLC increase across all access lines. We would argue that the access changes impact all lines relatively impartially, but the competitive dynamics in a significant percentage of rural markets may make a \$5 SLC increase (or higher) for a local small business and a very visible \$1.50 SLC increase on residential customers untenable, exacerbating the impact of lost access revenue. Other price increases would face state PUC scrutiny as well.

We see Embarq as being the least impacted by these changes. We estimate Embarq's FCF impact would be about 18%, taking their payout to about 47% of our 2009 FCF estimate. The real question here would be whether or not the rating agencies would cut Embarq below investment grade, which would increase their cost of debt and further pressure FCF. This is clearly a possibility, and given that the true stripes of the rating agencies have come to light again, we would expect them to react quickly with industry wide

downgrades. Iowa Telecom appears to have the most to lose with a potential reduction of over 53% of its FCF, which would necessitate a dividend cut, in our opinion, given our 2009 payout ratio estimate of 74%.

Incumbent Local Exchange Carriers (ILECs)

Company Name	Ticker Symbol	(in \$thousands)				Levered		Net Access Lost (\$m)	As a % Revenue	As a %FCF
		Revenue 2008E	Revenue 2009E	EBITDA 2008E	EBITDA 2009E	FCF Per Share(1) 2008E	FCF Per Share(1) 2009E			
Cincinnati Bell (MO2)	CBB	1,416	1,468	484	508	0.62	0.71	13.1	0.9%	8.6%
CenturyTel, Inc. (MO2)	CTL	2,603	2,581	1,258	1,223	5.20	5.25	230.0	8.8%	26.6%
Frontier Communications (MO2)	FTR	2,266	2,258	1,240	1,237	1.45	1.45	216.1	9.5%	29.0%
Consolidated (MO2)	CNSL	423	421	181	183	2.19	2.46	22.5	5.3%	29.6%
Embarq (SB1)	EQ	6,209	6,004	2,659	2,622	6.31	7.07	278.0	8.1%	18.3%
Iowa Telecom (MP3)	IWA	245	254	129	131	2.06	2.20	35.4	14.4%	53.5%
Windstream (MO2)	WIN	3,231	3,263	1,678	1,686	1.67	1.70	259.8	8.0%	26.5%
<i>Fairpoint</i>	<i>FRP</i>	<i>1,454</i>	<i>1,440</i>	<i>560</i>	<i>555</i>	<i>1.53</i>	<i>1.76</i>	207.5	14.3%	82%
								Mean	9.8%	37.9%
								Median	8.8%	29.0%

Source: Company reports and RJ estimates, mean and median exclude CBB. FRP is not covered by Raymond James.

Who Is Not Impacted? We believe that **Alaska, Otelco, and Cincinnati Bell** would be the least impacted carriers if Martin's proposal were to be passed by the FCC. We believe Alaska would be spared on two fronts, first because its rate of return status would allow for cost recovery and second because there is rumored to be an exemption for Alaska and Hawaii. Otelco should also see little to no impact because its rate of return and would have access to cost recovery mechanisms to compensate for lost access revenue. Cincinnati Bell should be spared because it has a small percentage of access revenue in relation to its overall more diversified revenue stream. If Cincinnati Bell were successful in implementing SLC increases combined with potential cost savings from terminating access costs outside of its region, it could make the company a net beneficiary of the ruling. Thus we believe it should be a non-issue.

The Policy, The Process, and the Reformers. This is a typical Washington political situation in our opinion. It is hard to explain the sudden urgency of the commission to move on a highly complex set of issues after 10 years, giving only 2 weeks and throwing out other programs that at least had some semblance of agreement within the industry and the states. Such a move appears irresponsible to us given the potential financial impact and the current market conditions, but this may just be its undoing. Our visits to Washington over the past 2 weeks where we have spoken with Senate, House, and FCC representatives about this tells us there is as much uproar about "the process" as anything else.

As we said earlier in this report, we believe this is not likely to pass, particularly given the significant amount of pushback that it is getting in spite of the process was apparently crafted to avoid such scrutiny late in a heated election. However, this does appear to have a much more reasonable chance of passing than any other fringe reform that we have heard rumors of over the last nine years, so we are giving it its due attention. We believe investors should think through the implications of the order prior to November 4th, particularly in this current environment.

Wireline Telecommunication Services
Comparable Company Analysis (in millions, except per share)

Incumbent Local Exchange Carriers (ILECs)															Levered		Levered		Dividend Yield	Enterprise Value Multiples:			
Company Name	Rating	Ticker Symbol	10/26/08 Price	Market Cap	Enterprise Value	Revenue 2008E	Revenue 2009E	EBITDA 2008E	EBITDA 2009E	EPS 2008E	EPS 2009E	FCF Per Share(1) 2008E	FCF Per Share(1) 2009E	P/E Multiples: 2008E	P/E Multiples: 2009E	FCF Multiples: 2008E	FCF Multiples: 2009E	Revenue 2008E		Revenue 2009E	EBITDA 2008E	EBITDA 2009E	
AT&T Corp.	2	T	\$24.68	146,130	221,310	124,529	129,773	43,876	43,825	2.86	2.97	1.42	2.38	8.6x	8.3x	17.4x	10.4x	5.4%	1.8x	1.7x	5.0x	5.0x	
Qwest	4	Q	\$2.29	4,012	17,478	13,320	12,620	4,500	4,260	0.40	0.31	0.86	0.92	5.7x	7.4x	2.7x	2.5x	14.0%	1.3x	1.4x	3.9x	4.1x	
Verizon	3	VZ	\$25.08	71,654	136,243	74,590	83,030	23,990	27,160	2.49	2.71	1.07	2.05	10.1x	9.3x	23.4x	12.2x	6.9%	1.8x	1.6x	5.7x	5.0x	
Alaska Communications	2	ALSK	\$9.23	409	945	379	390	129	138	0.25	0.47	1.24	1.39	36.9x	19.6x	7.4x	6.6x	9.3%	2.5x	2.4x	7.3x	6.8x	
CenturyTel, Inc.	2	CTL	\$29.50	3,077	6,075	2,603	2,581	1,258	1,223	3.29	3.24	5.20	5.25	9.0x	9.1x	5.7x	5.6x	9.5%	2.3x	2.4x	4.8x	5.0x	
Cincinnati Bell	2	CBB	\$1.94	482	2,458	1,416	1,468	484	508	0.43	0.53	0.62	0.71	4.5x	3.7x	3.1x	2.7x	NA	1.7x	1.7x	5.1x	4.8x	
Frontier Communications	2	FTR	\$7.71	2,474	7,045	2,266	2,258	1,240	1,237	0.64	0.67	1.45	1.45	12.0x	11.5x	5.3x	5.3x	13.0%	3.1x	3.1x	5.7x	5.7x	
Consolidated	2	CNSL	\$9.48	280	1,151	423	421	181	183	0.70	0.86	2.19	2.46	13.5x	11.0x	4.3x	3.9x	16.4%	2.7x	2.7x	6.4x	6.3x	
Embarq	1	EQ	\$29.74	4,425	10,345	6,209	6,004	2,659	2,622	5.31	5.45	6.31	7.07	5.6x	5.5x	4.7x	4.2x	9.2%	1.7x	1.7x	3.9x	3.9x	
<i>Failpoint</i>		<i>FRP</i>	<i>\$4.51</i>	<i>401</i>	<i>2,731</i>	<i>1,454</i>	<i>1,440</i>	<i>560</i>	<i>555</i>	<i>0.50</i>	<i>0.47</i>	<i>2.23</i>	<i>2.16</i>	<i>9.0x</i>	<i>9.6x</i>	<i>2.0x</i>	<i>2.1x</i>	<i>22.8%</i>	<i>1.9x</i>	<i>1.9x</i>	<i>4.9x</i>	<i>4.9x</i>	
Iowa Telecom	3	IWA	\$14.88	478	998	245	254	129	131	0.82	0.82	2.06	2.20	18.1x	18.1x	7.2x	6.8x	10.9%	4.1x	3.9x	7.8x	7.6x	
Otelco	2	OTT	\$10.15	134	291	71	71	34	33	0.09	(0.03)	1.76	1.76	NMF	NMF	5.8x	5.8x	16.6%	4.1x	4.1x	8.5x	8.8x	
Windstream	2	WIN	\$7.66	3,237	8,547	3,231	3,263	1,678	1,686	1.09	1.14	1.67	1.70	7.0x	6.7x	4.6x	4.5x	13.1%	2.6x	2.6x	5.1x	5.0x	
Mean:														11.7x	10.0x	7.2x	5.6x	11.5%	2.4x	2.4x	5.7x	5.6x	
Median:														9.0x	9.2x	5.3x	5.3x	10.9%	2.3x	2.4x	5.1x	5.0x	
Competitive Local Exchange Carriers (CLECs)															Levered		Levered		Dividend Yield	Enterprise Value Multiples:			
Company Name	Rating	Ticker Symbol	Price	Market Cap	Enterprise Value	Revenue 2008E	Revenue 2009E	EBITDA 2008E	EBITDA 2009E	EPS 2008E	EPS 2009E	FCF Per Share(1) 2008E	FCF Per Share(1) 2009E	P/E Multiples: 2008E	P/E Multiples: 2009E	FCF Multiples: 2008E	FCF Multiples: 2009E	Revenue 2008E		Revenue 2009E	EBITDA 2008E	EBITDA 2009E	
Obeyond	3	CBEY	\$9.32	276	233.1	351	450	62.0	77.6	0.15	0.29	(0.34)	0.07	62.1x	32.1x	NMF	NMF	NA	0.7x	0.5x	3.8x	3.0x	
Cogent	2	CCOI	\$4.12	187	359	216	255	64	84	(0.56)	(0.03)	0.51	0.96	NMF	NMF	8.1x	4.3x	NA	1.7x	1.4x	5.6x	4.3x	
<i>ITC Dellacom</i>		<i>ITCD</i>	<i>\$1.35</i>	<i>109</i>	<i>355</i>	<i>507</i>	<i>520</i>	<i>84</i>	<i>93</i>	<i>(1.04)</i>	<i>(0.47)</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NA</i>	<i>0.7x</i>	<i>0.7x</i>	<i>4.2x</i>	<i>3.8x</i>	
TW Telecom	2	TWTC	\$5.09	759	1,810	1,164	1,232	394	422	0.08	0.24	0.23	0.62	63.6x	21.2x	22.1x	8.2x	NA	1.6x	1.5x	4.6x	4.3x	
Paetec	3	PAET	\$1.10	190	991	1,623	1,733	247	286	(0.25)	(0.02)	0.19	0.37	NMF	NMF	5.8x	3.0x	NA	0.6x	0.6x	4.0x	3.5x	
<i>XO Holdings</i>		<i>XOHO</i>	<i>\$0.18</i>	<i>33</i>	<i>545</i>	<i>1,450</i>	<i>1,500</i>	<i>115</i>	<i>125</i>	<i>(0.45)</i>	<i>(0.40)</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NA</i>	<i>0.4x</i>	<i>0.4x</i>	<i>4.7x</i>	<i>4.4x</i>	
Level 3	4	LVL3	\$0.75	1,169	7,218	4,295	4,315	983	1091	(0.32)	(0.22)	(0.10)	0.04	NMF	NMF	NMF	NMF	NA	1.7x	1.7x	7.3x	6.6x	
Mean:														62.9x	26.7x	12.0x	5.2x	NA	1.0x	1.0x	4.9x	4.3x	
Median:														62.9x	26.7x	8.1x	4.3x	NA	0.7x	0.7x	4.6x	4.3x	
Cable Providers															Levered		Levered		Dividend Yield	Enterprise Value Multiples:			
Company Name	Rating	Ticker Symbol	Price	Market Cap	Enterprise Value	Revenue 2008E	Revenue 2009E	EBITDA 2008E	EBITDA 2009E	EPS 2008E	EPS 2009E	FCF Per Share(1) 2008E	FCF Per Share(1) 2009E	P/E Multiples: 2008E	P/E Multiples: 2009E	FCF Multiples: 2008E	FCF Multiples: 2009E	Revenue 2008E		Revenue 2009E	EBITDA 2008E	EBITDA 2009E	
<i>Cablevision</i>		<i>CVC</i>	<i>\$14.02</i>	<i>4,135</i>	<i>14,755</i>	<i>7,158</i>	<i>7,775</i>	<i>2,284</i>	<i>2,470</i>	<i>0.63</i>	<i>1.13</i>	<i>1.70</i>	<i>2.63</i>	<i>22.3x</i>	<i>12.4x</i>	<i>8.2x</i>	<i>5.3x</i>	<i>NA</i>	<i>2.1x</i>	<i>1.9x</i>	<i>6.5x</i>	<i>6.0x</i>	
<i>Charter Communications</i>		<i>CHTR</i>	<i>\$0.40</i>	<i>149</i>	<i>20,553</i>	<i>6,526</i>	<i>7,130</i>	<i>2,316</i>	<i>2,567</i>	<i>(2.93)</i>	<i>(2.28)</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NA</i>	<i>3.1x</i>	<i>2.9x</i>	<i>8.9x</i>	<i>8.0x</i>	
Comcast	3	CMCSA	\$13.07	38,818	69,269	34,302	36,637	13,254	14,291	0.91	1.08	0.88	1.06	14.4x	12.1x	14.9x	12.3x	1.9%	2.0x	1.9x	5.2x	4.8x	
<i>General Communications</i>		<i>GNCMA</i>	<i>\$5.69</i>	<i>300</i>	<i>1,019</i>	<i>561</i>	<i>616</i>	<i>168</i>	<i>192</i>	<i>0.25</i>	<i>0.45</i>	<i>NMF</i>	<i>NMF</i>	<i>22.8x</i>	<i>12.6x</i>	<i>NMF</i>	<i>NMF</i>	<i>NA</i>	<i>1.8x</i>	<i>1.7x</i>	<i>6.1x</i>	<i>5.3x</i>	
Knology	2	KNOL	\$4.21	150	726	412	432	137	150	(0.24)	0.14	1.18	1.53	NMF	NMF	3.6x	2.8x	NA	1.8x	1.7x	5.3x	4.8x	
<i>Mediacom Communications</i>		<i>MCCC</i>	<i>\$3.27</i>	<i>318</i>	<i>3,525</i>	<i>1,396</i>	<i>1,481</i>	<i>506</i>	<i>541</i>	<i>(0.36)</i>	<i>0.16</i>	<i>NMF</i>	<i>0.43</i>	<i>NMF</i>	<i>20.4x</i>	<i>NMF</i>	<i>7.6x</i>	<i>NA</i>	<i>2.5x</i>	<i>2.4x</i>	<i>7.0x</i>	<i>6.5x</i>	
RCN	3	RCNI	\$5.40	202	881	734	761	188	206	(2.20)	(2.21)	0.44	0.87	NMF	NMF	12.3x	6.2x	NA	1.2x	1.2x	4.7x	4.3x	
Time Warner	2	TWC	\$18.30	17,899	30,513	17,300	18,606	6,259	6,885	1.15	1.21	1.61	1.13	15.9x	15.1x	11.4x	16.2x	1.1%	1.8x	1.6x	4.9x	4.4x	
Mean:														18.8x	14.5x	10.1x	8.4x	0.0x	2.0x	1.9x	6.1x	5.5x	
Median:														19.1x	12.6x	11.4x	6.9x	0.0x	1.9x	1.8x	5.7x	5.1x	

(1) FCF Per Share is defined as EBITDA, less cash operating taxes, less capital expenditures, less changes in net working capital, less tax-effected interest expense; all divided by diluted shares outstanding
Bold names denote Raymond James coverage under Frank Louthan, with RJA ratings in parenthesis.
 Verizon's revenue and EBITDA includes 55% of Verizon Wireless; TWTC includes Xspedius estimates and assumes convertible debt is converted; Paetec, Consolidated, and Knology Pro forma for planned acquisitions
 Source: Reuters, Raymond James Estimates, and Company Reports. Estimates for companies not covered by Raymond James are mean estimates from Reuters, RJ and company management.

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- Strong Buy (SB1)**..... Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
- Outperform (MO2)**..... Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.
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