



BUILDING A BETTER BALANCE SHEET

MONDAY MARCH 15, 2010

2:30PM-3:15PM



MODERATOR/SESSION LEADER
KEITH WILSON, EVP, & CFO, PAETEC

SPEAKERS

TIM MEDINA, CFO & TREASURER,
TELEPACIFIC COMMUNICATIONS
KURT VAN WAGENEN, PRESIDENT & CEO,
FIBERTOWER

TOM WESTDYK, MANAGING DIRECTOR,
CIT COMMUNICATIONS MEDIA & ENTERTAINMENT



PLEASE SILENCE YOUR CELL PHONES



THANK YOU!



Balance Sheet Liquidity Drivers:

- 1. Working Capital*
- 2. Debt Structure*
- 3. Equity Structure*



Working Capital:

- *Most underappreciated component*
- *Sources of Operating Cash*
- *Uses of Operating Cash*

- *Growth = use*
- *Stability = neutral*
- *Deceleration = source*



Debt Structure

- *Critical component to building your business*
- *Typically greatest source of risk*
 - *Financial Tests*
 - *Subjective governors*
- *Do current levels provide adequate flexibility to meet “what if’s”*



Equity Structure

- *Longer term perspective*
- *Structure of equity is critical*
 - *Board Rights*
 - *Liquidity Rights*
 - *Veto Rights*
 - *Investor Horizon*



PAETEC Communications

*Working Capital Case Study
2001-2003*

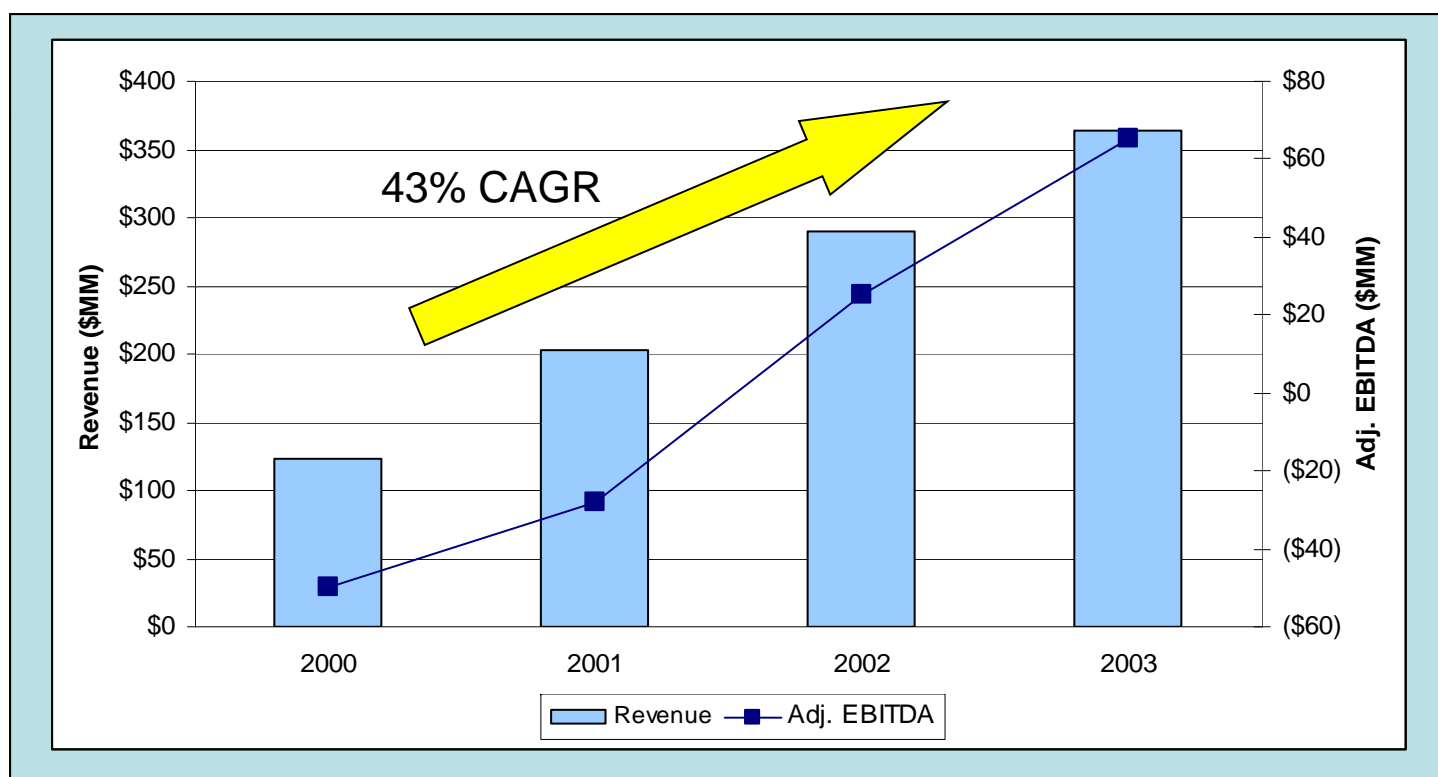


2000-2003 Economy

- *CLEC Bankruptcies*
- *Internet Bust*
- *Capital Shortage*



PAETEC (2000-2003)



For the reconciliation of Adjusted EBITDA, See Appendix



Challenge With Funding Shortage

- *Revenue growth - maybe need funding*
- *Revenue slowdown - reduce cash burn*
- *Is there another answer?*



Working Capital

- *6 Days of AR turns improvement in 2003*

Changes in Working Capital

(\$millions)

	2001	2002	2003
Accounts Receivable	(\$11)	(\$14)	\$4
Accounts Payable	(\$0)	\$1	(\$0)
Accrued Liabilities	\$5	\$7	\$7
Change in W/C	(\$6)	(\$6)	\$11



Takeaways:

- *Continued to drive the growth trajectory*
- *Leveraged into long-term cost structure*
- *Did not need to access expensive capital*
- *Managed Working Capital to generate a source of cash*



Tim Medina

*CFO and Treasurer
Telepacific Communications*

Working Capital Case Study:



Fastest Growing Regional CLEC in the Country; Operating Exclusively in California and Nevada



- Headquartered in Los Angeles, the largest CLEC providing integrated voice and data telecommunications services to the under-served small and medium-sized business (“SMB”) customer segment in CA and NV
- Over 1.1 million SMB access lines equivalents (“ALEs”) serving greater than 39,000 SMB customers
- Facilities-based network with 18 switches, >40,000 fiber strand miles, and 273 owned collocations covering over 530 wire center locations
- Only telecom player with contiguous coverage of the entire states of CA and NV making it an ideal provider for statewide multi-location SMBs
- Largest CLEC with two times the market share of next largest CLEC competitor
- TelePacific serves 99% of its customers on its network
- No UNE-P exposure in core SMB customer base
- Approximately \$350 million of equity invested to date

Targeted Customer Focus

- Focused on serving SMBs that have 20 to 1,000 employees and require over 9 ALEs
- Average customer spends \$950 per month and signs 2 or 3 year contracts
- Industry leading customer churn of 1.3%
- Customer service focus results in over 93% satisfaction rating

Strong Operating Performance

(\$ in millions, except ALEs)

	FYE December 31,			
	2006A	2007A	2008A	2009E
Ending ALEs	880,891	946,236	1,029,276	1,113,779
% Growth		7.4%	8.8%	8.2%
Revenue	\$407.6	\$426.2	\$443.9	\$452.2
% Growth		4.6%	4.2%	1.8%
Adjusted EBITDA	\$60.0	\$95.0	\$116.1	\$120.3
% Margin	14.7%	22.3%	26.2%	26.6%
% Growth		58.3%	22.2%	3.6%



Accounts Receivable (A/R)

- **Goal:** reduce # of days that revenues are in A/R by collecting revenues faster, a source of operating cash
- **Pre-requisites:** daily tracking of collections vs. projections; executive visibility of trends, results vs. projections and analysis of variances to establish a baseline knowledge of the cash value
- **Influence change:** internal audits help identify drags on A/R & opportunities for improvement; incorporate A/R impact analysis into enterprise project planning



Accounts Payable and Other Current Liabilities

- **Goal:** improve A/P terms, a source of operating cash
- **Pre-requisites:** payment terms form a key part of the procurement planning process; use a vendor negotiation calendar; research key vendors to understand their situations; evaluate back-up vendors
- **Influence change:** with adequate planning, letters of credit, deferred payment terms, variable payment terms by vendor category, vendor financing and capital leases can be used to create operating cash.



Case Study: Creative Use of Letters of Credit (1/2)

- TelePacific needed to make up to \$10m of purchases on a deferred payment basis but could not add indebtedness due to leverage covenants
- An LC program was established through a bank with cash collateral from equity sponsors; sponsors earned a fee paid in stock for the use of their cash as collateral for 12 months.
- TelePacific executed purchase agreements with a deferred payment schedule. LCs were issued to the vendors. They could draw on the LC if payments were not made. If vendors drew on an LC, TelePacific would have to issue stock to sponsors of the same value.



Case Study: Creative Use of Letters of Credit (2/2)

- Outcome:
 - vendor balances secured by the LCs were all paid in full on time;
 - no stock had to be issued to sponsors (other than to pay fees) as no LCs were drawn;
 - this concept avoided the indebtedness definition in Company's credit agreement.
 - LC program enabled TelePacific to create a >\$10m source of operating cash flow in Fall 2008



FiberTower Corporation
Comptel Spring 2010
Building a Better Balance Sheet

March 15, 2010

Case Study: 2009 Debt Restructuring

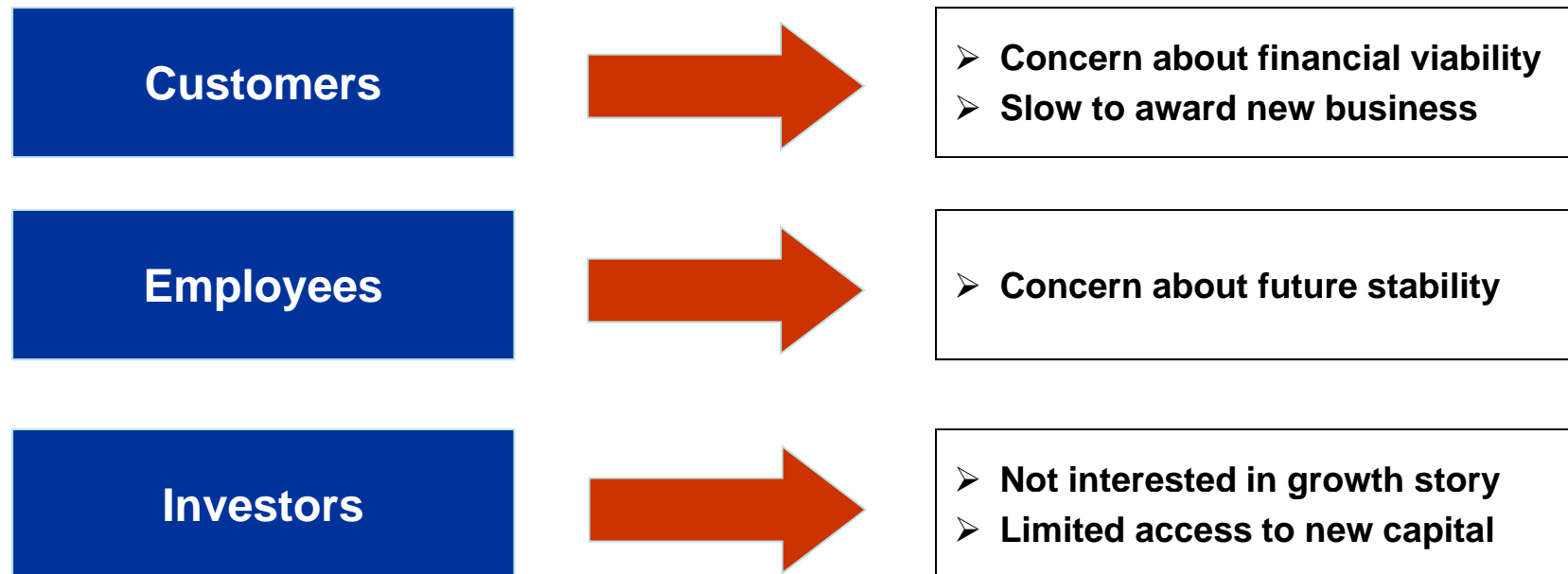


Situation Overview – YE 2008

- ▶ Highly Levered Balance Sheet → \$430M Debt
- ▶ Company Not Yet Profitable
- ▶ FTWR Stock Trading At Low levels
- ▶ Tight Credit Markets & Poor Economy
- ▶ Had \$154M Cash → Needed Cash To Grow

Wireless Backhaul Market Hot → What Do We Do?

Business Impact of Debt



Concerns Impacting Our Ability To Seize Market Opportunity



Proactively Address Balance Sheet

Components	Objectives
▶ Open Market Debt Purchases	<ul style="list-style-type: none"> • Use some cash to buy back \$100M in debt at attractive prices
▶ Bondholder Negotiations	<ul style="list-style-type: none"> • Utilize optimal combination of debt, equity & cash to renegotiate debt
▶ Future Interest Payments	<ul style="list-style-type: none"> • Minimize future cash outlays
▶ Debt Maturities	<ul style="list-style-type: none"> • Extend debt maturities as much as possible without affecting costs
▶ Financial Flexibility	<ul style="list-style-type: none"> • Provide future access to capital markets to fund additional growth

Multi-Step Process

Step 1: Debt Buy Backs

- ▶ Open market purchases
- ▶ \$141M Par in Q1/Q2
- ▶ Approximately \$.36 / \$1.00
- ▶ Quietly

< ----- *Exchange Process* ----- >

Step 2: Bondholder Discussions

- ▶ Began & concluded negotiations with multiple large bondholders
- ▶ Represented >50%
- ▶ Negotiations took approximately 3 months

Step 3: Tender Offer

- ▶ Announced public debt tender offer
- ▶ Exchange remaining 49.9% of notes
- ▶ Tendering bondholders would senior interim note with redemption rights

Step 4: Redemption

- ▶ Interim notes redeemed once three conditions met:
 - 90% tender minimum
 - Shareholder vote
 - FCC approval
- ▶ Cash, new debt, equity



Balance Sheet Impact: YE 2008 vs. YE 2009

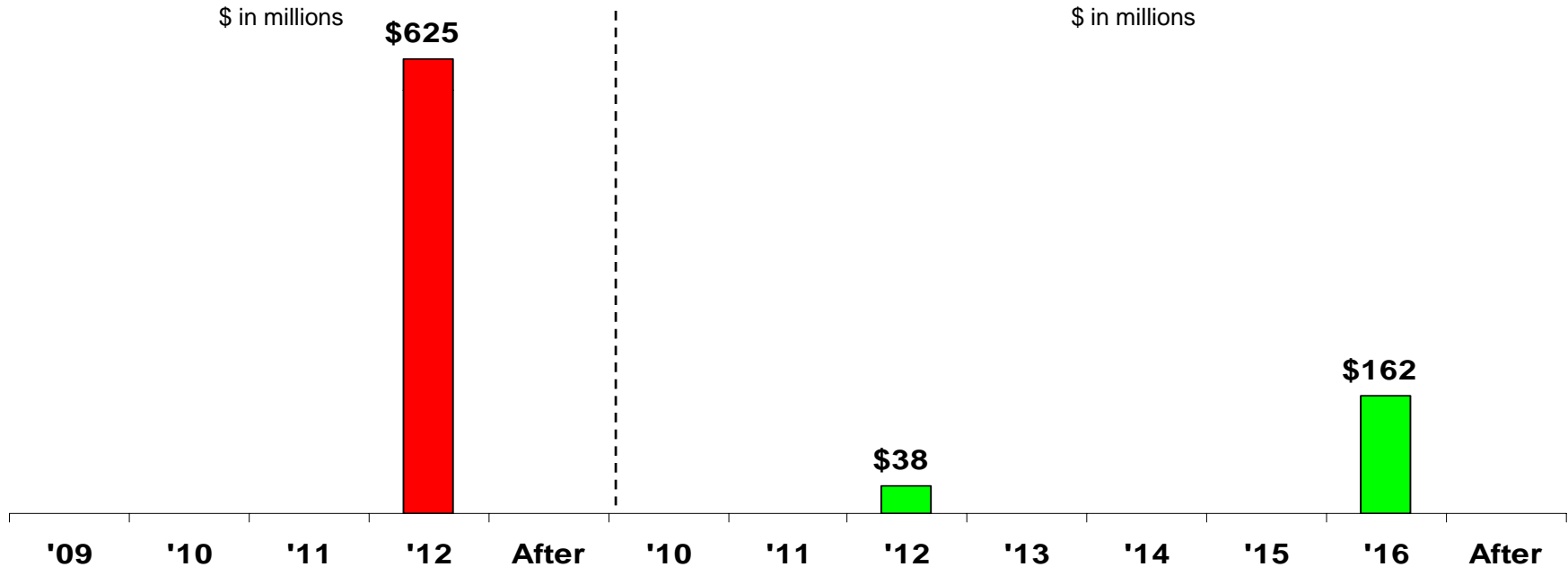
	2008	2009	Change
Cash (Unrestricted)	\$154.4	\$50.7	(\$103.7)
Other Asset	<u>547.1</u>	<u>533.7</u>	<u>(13.4)</u>
Total Assets	\$701.5	\$584.4	(\$117.1)
Total Debt	\$430.3	\$154.5	(\$275.8)
Other Liabilities	101.3	97.6	(3.7)
Shareholders Equity	<u>\$169.9</u>	<u>\$332.3</u>	<u>\$162.4</u>
Total Liabilities/Equity	\$701.5	\$584.4	(\$117.1)

Positioned as a "new" Company with improved financial viability

Impact of 2009 Debt Reduction Activities

Debt Maturity Schedule at Q4 '08*

Debt Maturity Schedule Today*



- ▶ Decreased cash interest payments that would have begun in May 2011 by > 86%
- ▶ Extended average debt maturities to almost 6 years

*Chart assumes all pay-in-kind (“PIK”) options exercised and the Notes due 2012 mature at 125.4% of par.



Key Take-Aways

▶ Lessons Learned

- ✓ Being proactive can produce positive outcomes
- ✓ Challenging economy and credit markets can create opportunities
- ✓ Stimulus Act allowed deferral of cancelled debt income
- ✓ There are various tools and approaches to reduce debt
- ✓ Have a plan, but be flexible with execution
- ✓ Focus and conviction are essential, you will face skeptics
- ✓ Customers care about your balance sheet

▶ Expect Complicating Factors

- Complex regulatory & accounting rules
- Change of control impact
- Shareholder & FCC approval



CONTACT TODAY'S SPEAKERS

Keith Wilson
keith.wilson@paetec.com

Tom Westdyk
Tom.westdyk@cit.com

Tim Medina
tmedina@telepacific.com

Kurt Van Wagenen
kvanwagenen@fibertower.com



Thank You For Attending!



Appendix

THE HUB OF COMMUNICATIONS BUSINESS

COMPTTEL PLUS Spring 2010 Convention & EXPO • March 14–17, 2010 • Gaylord Opryland • Nashville

Appendix

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net (Loss) Income	\$ (70,719)	\$ (62,521)	\$ (22,438)	\$ 34,475
Add back non-EBITDA items included in net income (loss):				
Depreciation and amortization	16,816	22,864	20,566	19,871
Interest expense, net of interest income	4,293	11,685	14,317	10,384
Provision for income taxes	-	-	-	685
EBITDA	\$ (49,610)	\$ (27,972)	\$ 12,445	\$ 65,415
Cumulative effect of a change in accounting principle	-	-	12,976	-
Adjusted EBITDA	\$ (49,610)	\$ (27,972)	\$ 25,421	\$ 65,415