

# NH's Changing TELECOM Landscape



FairPoint, Comcast and others offer businesses more choice.

BY THOMAS WAILGUM

**N**eil Giarratana could have lived anywhere in the United States. In 1999, he and his wife, with a newborn in the crib, undertook a nationwide search to find the "perfect place to raise their family," he says. Giarratana had grown up in Northern Virginia and as an adult had tired of the eight-lane highways and hour-and-a-half commutes.

He and his young family settled on Keene, NH. "We fell in love with this city," he says. Giarratana found a job with a network engineering firm in Keene, and today he is president of Lucidus Corp., an Internet strategy and services company spun off from that engineering firm in 2002. "I'm absolutely blessed," he says of his 20-minute commute, by foot, to work each day. "[The Keene area] has got all those 'way of life things' you want."

But while he will gladly wax on about the quality of life he now enjoys, Giarratana, like many other NH business owners located outside urban areas such as Manchester and Nashua, worries about the state's telecommunications infrastructure and the lack of state-wide broadband access for all.

For example, while Lucidus and other businesses in downtown Keene have access to broadband services, many of the surrounding communities in the Monadnock region, where employees live, do not, making working from a home an issue. They either have a painfully slow dial-up connection or nothing. Mary Ann Kristiansen, founder and executive director of

Keene's Hannah Grimes Center, which helps local entrepreneurs get on their feet, estimates that more than 50 percent of the homes in the Monadnock region do not have access to broadband. "We have people doing e-commerce, and graphic and Web site design on dial-up," Kristiansen says. "And where it used to be a pain, it's now starting to become impossible."

To Giarratana, the only thing missing in his idyllic NH life are those thick telecommunications pipes and wireless services that make broadband available to everyone. "You put the technical infrastructure in place," he says, "and there is no more perfect place in this country than this region, because you would have everything."

## The State of the State

Today, the Granite State's telecommunications infrastructure, including the array of companies offering voice and data services, is in flux. Verizon had long been the sole telecom option for NH businesses. But by 2006, it was clear to those living and working in non-urban areas that Verizon had no interest in expanding broadband to the underserved masses in the North Country and other rural areas clamoring for faster-than-dial-up connections.

"Verizon was not focused on New Hampshire, Vermont and Maine, and one of the main reasons was that there's not a lot of business up here," says Bruce Leichtman, an expert on the broadband industry and president of Leichtman Research Group in Durham. Leichtman calls the trio of states, with their lack of access to broadband in non-urban areas, "the poor sisters."

Surveys completed in 2004 and 2006 by the NH Department of Resources and Economic Development (DRED) on Internet availability for NH businesses revealed the bleakness of the situation for the have-nots: 67 percent of communities in Coos County were without cable or DSL; in Cheshire County, the number was 32 percent; and in Grafton County, it was 19 percent.

"It isn't just a North Country or Western New Hampshire discussion, or a rural versus urban discussion," says Michael Vlacich, the director of NH's Division of Economic Development. "There is affordable broadband access in areas of those regions, but it's not where the people in those regions expect it to be if we want to have continued economic growth."

Verizon's highly publicized \$2.4 billion proposed sale of its Northern New England assets to FairPoint Communications in 2007 created unrest among some NH residents, business owners and Verizon employee union representatives.

The scale of the transaction, including the amount of back-office technological change that would have to occur in the transfer, as well as the debt that FairPoint would be taking on, were also concerns. Before the sale, FairPoint had 300,000 access line equivalents—telecom terminology for telephone lines. After the sale finalized, FairPoint expected to have roughly 1.8 million access lines to manage and service. Two union groups mounted a noisy campaign to ensure they protected the 2,500 Verizon employees they represented.

"It was also fear," says Leichtman. "We had one of the biggest brands in the business



servicing us. So who is this unknown company from North Carolina? But it was absolutely seeing the glass as half empty, rather than half full." And that's because unlike Verizon (whose wireline business across all three states represented less than 4 percent of its annual revenues), FairPoint wanted to be here. Where Verizon didn't invest in expanding the telecom infrastructure and clearly saw no future, FairPoint saw only growth and possibilities.

"The three states will represent over 85 percent of our revenues, over 85 percent of our customers and over 85 percent of our assets," says Walter Leach, FairPoint's executive vice president of corporate development in charge of its mergers and acquisitions. "So when we had an opportunity from Verizon to acquire their business, we jumped at it."

The intended purchase fit FairPoint's business model like a glove: a wireline-based business serving some cities, but mostly rural, small areas often ignored by its competitors. "People ask us, 'Why do you want to buy wireline companies when everybody's going wireless?'" says Leach. "And in this region, given the topography and the lack of really good cellular coverage in many parts of state, we believe a wireline connection to the business and home will continue to be very important for a number of years."

### The Last Mile Is the Hardest Mile

The sale and transfer of ownership was slated for March 31, 2008. But a last-minute change in FairPoint's financing almost derailed the deal. Due to a confluence of

macroeconomic events, the interest rates of FairPoint's bonds increased dramatically, resulting in nearly \$28 million a year in additional costs for FairPoint.

After brief, but intense, discussions about the new bond figures, the three states' regulators approved the sale. "The bottom line is, we could not have picked a worse time to try to raise \$550 million in bonds," Leach told the *Concord Monitor*. Wall Street greeted the close of the deal with a frown: FairPoint's stock initially plummeted 25 percent on the first day. (As of mid-May, the stock price had recovered some of the ground it lost after the sale was finalized.)

Throughout the entire process, from late 2006 to the deal's completion, FairPoint remained resolute in its commitment to the three states. Executives publicly pledged to increase broadband availability and invest in the telecom networks and infrastructure in NH. And contractual stipulations require significant investments. For example, within 18 months of the deal's closing, FairPoint is required to have made broadband available to 75 percent of its NH customer base. In five years, that percentage soars to 95 percent. The potential fines for not meeting those goals are hefty: \$500,000 for every percentage point FairPoint does not achieve. "These are very clear requirements in terms of dramatically expanding broadband," Leach notes. "What that means is that roughly 50 percent more of the old Verizon customers will have access to a broadband product who otherwise would not have had access to it."

FairPoint is taking a pragmatic approach to achieve the goals. Leach says it will utilize Verizon's existing infrastructure, which is based on copper-pair wiring, for now. "Our view is, let's get broadband to as many people as we can first, instead of trying to build fiber to the premises," he says. Fiber, of course, is better than copper; but it is expensive to install, especially in the rugged terrain of the North Country. FairPoint executives say they plan to invest \$200 million to build out Verizon's existing infrastructure and create an advanced broadband network that will employ multi-protocol label switching (MPLS) and Internet protocol (IP) networking technologies.

FairPoint's plans have piqued the interest of small business owners in rural communities. "Just the basic access to broadband is the biggest challenge still for all our rural areas," says Veronica Francis, owner of Notchnet Web Services in Littleton, a Web hosting, management and design firm, and e-mail hosting provider to more than 200 businesses. (She is also a consultant to towns and businesses on Wi-Fi deployments through her other company, Wicked Wi-Fi Inc.) Francis describes friends and clients who are "suffering from dial-up" right now. One Notchnet customer is laboring to use her dial-up connection to forge an e-commerce-based business. "If she had high-speed broadband," Francis says, "it would probably boost her bottom line."

One of the main issues is the lack of a redundancy in Verizon's (now FairPoint's) North Country network. Ironically, the redundancy

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problem is, in part, due to one of the chief reasons people are so attracted to the North Country: the mountain scenery and breathtaking notches. "They're beautiful, but they're long, with no people living in the tough terrain," Francis says. "So to run fiber through those notches has just been too costly because there's no money to be made." The redundancy problem manifests itself in slower connection speeds for users as you head farther up into the northern parts of the state. "It's kind of like a one road in, one road out problem," he notes.

A spokesman for FairPoint acknowledges that "while the topography of certain areas in the North Country makes it difficult to create redundant paths for the interoffice network, FairPoint is committed to improving the network." Francis says that, from her point of view, FairPoint has been cooperative and engaged with North Country businesses and economic development groups so far. "They are researching and trying to explore and fill that redundancy gap," she says, "and it's a big deal."

Still, as Lucidus's Giarratana and others see it, even widespread broadband won't be enough to allow NH businesses to compete in the increasingly interconnected world as well as attract and retain the next-generation of workers. The real need, Giarratana says, is widespread, affordable availability of fiberoptic cable to offices so that telephony, data and video services will become standard and affordable business offerings. "I am thrilled that FairPoint appears to be bringing the broadband issue forward and helping get everyone connected," Giarratana says. "The challenge, however, is making sure we're not catching up just in time to be surpassed."

### Where's the Broadband At?

When it comes to Internet access and networking, one thing that all businesses need to know is that the term *broadband* can mean different things to different people in different industries. "You could drive a truck through the definition of broadband," Giarratana says. Connectivity terms that are often (and incorrectly) used interchangeably are: digital subscriber line (or DSL), cable modem, fiber, wireless and satellite. The speeds at which data flows through those types of connections can range from the slow (256 kilobits per second, or 256 Kbps) to the fast (50 megabits per second, or 50 Mbps). The Federal Communications Commission in Washington, D.C., for example, defines broadband service as data transmission speeds of 200Kbps in one direction (either downstream, meaning from the Internet to the user's computer, or upstream, from the user's computer to the Internet).

"So when [the FCC] says that this many counties have broadband, you do have to take that with a grain of salt," Notchnet's Francis says. To process large file transfers and video services, Internet connections need to reasonably deliver at least 1Mbps speeds and, more realistically, speeds of 10 Mbps, Francis notes. "But what we really need is 10 to 20 Mbps," she says.

DRED's Vlach says FCC data shows that as of June 2007, NH had 61 percent DSL avail-

ability to residential end users. But, generally speaking, coverage maps and lists of service providers are not always reliable or easy to come by. "The state did have in place an information source that allowed us to publicize what the available services were in the area, who the service providers were and how you could access them," Vlachich says. "Due to a lack of sustained effort and resources, that has dropped off."

A comprehensive report from DRED on the telecommunications infrastructure and the broadband needs of communities and businesses is due in June. Vlachich says some of this coverage information will be contained in the report. However, there is a basic, critical business need that's not being met. "We have business recruiters [that work to bring new companies here], and they can tell you what the sewer line looks like, what the electrical capacity is and what the water infrastructure is," Vlachich says. "But they can't easily tell a potential client, meaning a business coming here, what our cyber infrastructure is."

Jon Freeman is president and CEO of the nonprofit Northern Community Investment Corp. Since its founding in 1975, NCIC, as it's known, has provided nearly \$100 million in capital and professional assistance to a range of business and community development ventures in the northern parts of NH and Vermont. Freeman knows firsthand the difficulties in determining where broadband services are available.

"There's not good statistics," Freeman says. "The coverage maps in New Hampshire so far have been optimistic, indicating that there appears to be more coverage than there actually is." To help illuminate where the coverage really is, NCIC is partnering with FairPoint to develop a Web site and mapping program that will help identify the businesses and residential areas that need and want broadband the most. The end goal, Freeman says, is to provide better information to those businesses that have been so far out of the loop on telecom opportunities available "that they don't even realize what they are missing."

### The Importance of Choice

In the end, of course, NH business owners and residents had no choice but to accept Verizon's departure. "It's kind of like if you're dating someone, and if your date wants to break up with you, you can't keep them there," Leichtman says. "We were dating Verizon, and Verizon didn't want to date us any more."

There are many reasons to be optimistic. In addition to FairPoint's long-range plans to build out its network, a growing number of cable providers (Comcast and Time Warner Cable) and satellite companies (DirecTV and WildBlue) now offer business-class voice packages, high-speed broadband and fiber connections, Web-hosting and data center services. Several nascent wireless initiatives, such as the Wireless LINC program targeting underserved northern NH and Vermont communities, will eventually provide even more options. "This isn't a bad time at all for New Hampshire businesses," says Leichtman. "You have a phone company much more focused on them, because this is FairPoint's bread and butter. On the flip side,



### Can You Hear Us Now?

Rural communities in NH haven't been waiting on the FairPoint deal to start addressing broadband issues. "Verizon did not have a mission or focus to invest in the infrastructure of the [North Country] region because of its [lack of] return on investment," says Jon Freeman, president and CEO of the nonprofit Northern Community Investment Corp. (NCIC). So in 2006, NCIC joined with Littleton Industrial Development Corp. (LIDC) to bring high-speed wireless Internet access to the North Country and Northeast Kingdom of Vermont.

"We ended up with such a high percentage of businesses and homeowners unable to connect to the Internet, and we were seeing, at the same time, Internet-based business activity becoming more and more important for the future survival of businesses," Freeman says. Thus was born Wireless LINC, an open-access wireless network that, as of May 2008, was piloting tests in Lancaster.

What's been most impressive and somewhat surprising to Freeman is how FairPoint has been willing to partner on the Wireless LINC project. "We've been meeting with them regularly to say, 'Let's make sure your investment dollars and ours optimize the solution for the region,'" Freeman says.

Walter Leach, FairPoint's executive vice president of corporate development, says that FairPoint has created a vice president-level officer in charge of economic development initiatives. Programs such as Wireless LINC are important to both the region's and FairPoint's future, Leach says. FairPoint representatives are also involved in other regional groups, such as the Pinnacle Rural Broadband initiative in the Monadnock region. The key, all involved say, is to make each party's efforts complementary with the other and avoid duplicative, costly endeavors. Communication between the groups, which is already happening, is an important first step. ■



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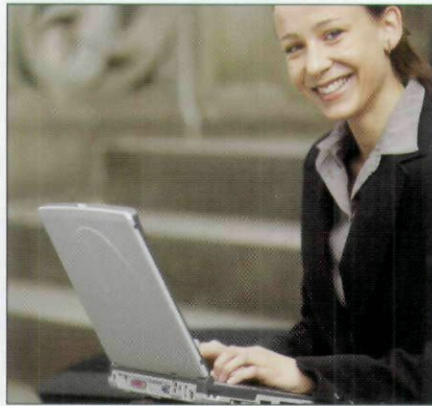
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Comcast and Time Warner are looking at the upside opportunity that comes with business services, and now have both the offerings and equipment to deliver it. So in many ways, this is what businesses in New Hampshire have been waiting for."

After expanding their residential services in NH, Comcast and Time Warner Cable are going hard after the small and midsize business market. The big sell for the cable companies is speedier transmission than what DSL offers. "The reality is we have one of the most advanced fiber networks in New Hampshire," says Mary McLaughlin, area VP for Comcast's Northern New England region. "Our network goes into nooks and crannies where other providers have chose not to offer small business services."

Lance Bell, VP of commercial services for Time Warner Cable Business New England, notes that providing data connections, from smaller businesses needing 5 Mbps all the way up to 100 Mbps fiber connections, is just one piece of its business offering. Time Warner Cable also provides co-location data center services, such as hosting e-mail servers as well as data storage options. "Basically, any mission-critical data that they want to store in a protected environment," Bell says. (Time Warner Cable's business-class voice offering, however, won't be available in NH until the fourth quarter of 2008.) Comcast offers a business-class bundle of voice, video and high-speed Internet connection services.

Both Comcast and Time Warner Cable won't say how many business customers they service today in NH. One problem that the cable operators have is that they can only offer their business services in communities where they already offer residential service. (Comcast is in more than 100 New Hampshire communities.



Time Warner operates in 49 NH communities.) Expanding into new territories and communities involves a purchase of the existing cable provider's business. "Where it makes financial sense, we will do that," Bell says. "We are a public company, and we have to look at return on investment." In addition, the cable providers have to educate businesses about their services offerings, or, as Comcast's McLaughlin puts it, "it's really about re-introducing ourselves to folks, who may already have us in their homes,

as their business [services] provider." Comcast introduced its business-class voice product in late March that offers a variety of features. Its business-class broadband services include Microsoft Communications Services that gives small businesses access to Microsoft's collaboration suite.

FairPoint's Leach is well-aware of the competition. "We're not naive about the competitive nature of the market," Leach says. "We know that we have to offer a product and offer customer service that creates a good alternative for these customers, who do have other alternatives." To that end, Leach says FairPoint has created a new sales force that specifically targets small and midsize businesses. FairPoint is also working to transform its image from a "Ma Bell" telephone company to an Internet-age services provider. "Business customers," Leach says, "will see and have access to better broadband products than they otherwise would have had from Verizon."

The bottom line for NH businesses is this: The only way to entice and drive providers to offer more advanced telecom services is by creating demand for them. "We still have not reached anywhere close to where we need to be to meet our demand point," Vlachich says. To business owners like Giarratana, NH's economic future is ultimately at stake. "The sustainability of our economy," Giarratana says, "is really at risk without the ability to compete in terms of network infrastructure—no matter what business you're in." ■

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