

Note: Since this is only an excerpt of the third-party valuation analysis, the market approach method and related assumptions have been omitted because they are not pertinent to the case study.

Exhibit 1

First Class Communications Inc.

December 31, 2012, ASC 350 Goodwill Impairment Analysis Summary — Step 1 Test

\$US in thousands

Reporting Unit	Market Approach	Income Approach		Weighting	Fair Value of Equity	Book Value of Equity		Step 1 Passed?
Retail	\$742,500	\$930,000	p.2	1/2 each	\$840,000	\$730,000	p.4	YES
Service	550,000	500,000	p.3	1/2 each	530,000	230,000	p.4	YES
Total	<u>\$1,292,500</u>	<u>\$1,430,000</u>			<u>\$1,370,000</u>	<u>\$960,000</u>		

Note: For the purposes of this case study, assume that the assumptions in this analysis were tested by the audit team's fair value specialists and no issues were noted.

Exhibit 3
First Class Communications Inc.: Retail Reporting Unit
December 31, 2012 Income Approach: Discounted Cash Flow Method
\$US in thousands

	Reported			Two-Year CAGR*	Entity Projections					Normalized	Terminal
	FYE 12/31/10	FYE 12/31/11	FYE 12/31/12		Year 1	Year 2	Year 3	Year 4	Year 5		
Revenue	\$1,125,000	\$1,160,000	\$1,200,000	3.3%	\$1,250,000	\$1,300,000	\$1,400,000	\$1,400,000	\$1,500,000	\$1,500,000	
<i>Revenue growth</i>		3.1%	3.4%		4.2%	4.0%	7.7%	0.0%	7.1%		
Operating expenses	1,045,000	1,075,000	1,090,000		1,140,000	1,160,000	1,200,000	1,225,000	1,260,000	1,260,000	
Operating income (EBITDA)	80,000	85,000	110,000	17.3%	110,000	140,000	200,000	175,000	240,000	240,000	
<i>Operating income growth</i>		6.3%	29.4%		0.0%	27.3%	42.9%	-12.5%	37.1%		
<i>Operating margin</i>	7.1%	7.3%	9.2%		8.8%	10.8%	14.3%	12.5%	16.0%	16.0%	
Less: depreciation and amortization	28,125	29,000	30,000		31,250	32,500	35,000	35,000	37,500	37,500	
Earnings before interest and taxes (EBIT)	51,875	56,000	80,000	24.2%	78,750	107,500	165,000	140,000	202,500	202,500	
Provision for income taxes	20,750	22,400	32,000		31,500	43,000	66,000	56,000	81,000	81,000	
Debt-free net income	31,125	33,600	48,000		47,250	64,500	99,000	84,000	121,500	121,500	
<i>Debt-free net income growth</i>		8.0%	42.9%		-1.6%	36.5%	53.5%	-15.2%	44.6%		
<i>Debt-free net margin</i>		2.9%	4.0%		3.8%	5.0%	7.1%	6.0%	8.1%	8.1%	
Cash flow adjustments: add/(deduct)											
Plus: depreciation and amortization	28,125	29,000	30,000		31,250	32,500	35,000	35,000	37,500	37,500	
Less: capital expenditures	(30,000)	(25,000)	(30,000)		(25,000)	(25,000)	(20,000)	(25,000)	(37,500)	(37,500)	
Less: incremental working capital	(4,000)	(4,000)	(5,000)		(5,000)	(5,000)	(10,000)	-	(10,000)	(10,000)	
Free cash flow to the firm	\$25,250	\$33,600	\$43,000	30.5%	\$48,500	\$67,000	\$104,000	\$94,000	\$111,500	111,500	\$114,845
<i>Present value factor (mid-year convention)</i>					0.9449	0.8437	0.7533	0.6726	0.6005		
Present value of discrete cash flows					\$45,828	\$56,528	\$78,343	\$63,224	\$66,956		
Total present value of discrete cash flows	\$310,879										
Present value of terminal value	766,270										Capitalization multiple Terminal value
Business enterprise value	\$1,077,149										<u>11.1111x</u> <u>\$1,276,054</u>
Less: interest-bearing debt	150,000	p.4									
Equity value	\$927,149										
Equity value (rounded)	\$930,000	p.1									

Assumptions:	
Discount rate	12.0%
Depreciation and amortization rate	2.5%
Incremental working capital rate	10.0%
Long-term growth rate	3.0%
Corporate income tax rate	40.0%

* Two-year CAGR: Compound annual growth rate of key financial metrics

Note: For the purposes of this case study, assume that the assumptions in this analysis were tested by the audit team's fair value specialists and no issues were noted.

Exhibit 4
First Class Communications Inc.: Service Reporting Unit
December 31, 2012 Income Approach: Discounted Cash Flow Method
\$US in thousands

	Reported			Two-Year CAGR*	Entity Projections					Normalized	Terminal
	FYE 12/31/10	FYE 12/31/11	FYE 12/31/12		Year 1	Year 2	Year 3	Year 4	Year 5		
Revenue	\$100,000	\$250,000	\$405,000	101.2%	\$450,000	\$500,000	\$550,000	\$600,000	\$640,000	\$640,000	
<i>Revenue growth</i>		150.0%	62.0%		11.1%	11.1%	10.0%	9.1%	6.7%		
Operating expenses	200,000	240,000	350,000		400,000	440,000	475,000	500,000	525,000	525,000	
Operating income (EBITDA)	(100,000)	10,000	55,000	NM	50,000	60,000	75,000	100,000	115,000	115,000	
<i>Operating income growth</i>		90.0%	450.0%		-9.1%	20.0%	25.0%	33.3%	15.0%		
<i>Operating margin</i>	-100.0%	4.0%	13.6%		11.1%	12.0%	13.6%	16.7%	18.0%	18.0%	
Less: depreciation and amortization	1,000	2,500	4,050		4,500	5,000	5,500	6,000	6,400	6,400	
Earnings before interest and taxes (EBIT)	(101,000)	7,500	50,950	NM	45,500	55,000	69,500	94,000	108,600	108,600	
Provision for income taxes	-	3,000	20,380		18,200	22,000	27,800	37,600	43,440	43,440	
Debt-free net income	(101,000)	4,500	30,570		27,300	33,000	41,700	56,400	65,160	65,160	
<i>Debt-free net income growth</i>		-104.5%	579.3%		-10.7%	20.9%	26.4%	35.3%	15.5%		
<i>Debt-free net margin</i>		1.8%	7.5%		6.1%	6.6%	7.6%	9.4%	10.2%	10.2%	
Cash flow adjustments: add/(deduct)											
Plus: depreciation and amortization	1,000	2,500	4,050		4,500	5,000	5,500	6,000	6,400	6,400	
Less: capital expenditures	(5,000)	(7,500)	(5,000)		(5,000)	(5,000)	(5,000)	(7,500)	(6,400)	(6,400)	
Less: incremental working capital	(400)	(15,000)	(15,500)		(4,500)	(5,000)	(5,000)	(5,000)	(4,000)	(4,000)	
Free cash flow to the firm	(\$105,400)	(\$15,500)	\$14,120	NM	\$22,300	\$28,000	\$37,200	\$49,900	\$61,160	\$61,160	\$63,606
<i>Present value factor (mid-year convention)</i>					0.9407	0.8325	0.7367	0.6520	0.5770		
Present value of discrete cash flows					\$20,978	\$23,310	\$27,405	\$32,535	\$35,289		
Total present value of discrete cash flows	\$139,517										
Present value of terminal value	407,787										
Business enterprise value	\$547,304										
Less: interest-bearing debt	50,000	p.4									
Equity value	\$497,304										
Equity value (rounded)	\$500,000	p.1									

Capitalization multiple	11.111x
Terminal value	\$706,737

Assumptions:	
Discount rate	13.0%
Depreciation and amortization rate	1.0%
Incremental working capital rate	10.0%
Long-term growth rate	4.0%
Corporate income tax rate	40.0%

* Two-year CAGR: Compound annual growth rate of key financial metrics

Exhibit 7
First Class Communications Inc.
Reporting Unit Balance Sheets
US\$ in thousands

	Balance Sheets as of 12/31/12			Common Size		
	Retail	Service	Total	Retail	Service	Total
ASSETS						
Cash and short-term investments	\$140,000	\$100,000	\$240,000	11.7%	25.0%	15.0%
Net accounts receivable	150,000	100,000	250,000	12.5%	25.0%	15.6%
Inventories	100,000	-	100,000	8.3%	0.0%	6.3%
Other current assets	40,000	30,000	70,000	3.3%	7.5%	4.4%
Total current assets	430,000	230,000	660,000	35.8%	57.5%	41.3%
Net PP&E	400,000	30,000	430,000	33.3%	7.5%	26.9%
Long-term investments	100,000	50,000	150,000 ^A	8.3%	12.5%	9.4%
Intangible assets	70,000	30,000	100,000	5.8%	7.5%	6.3%
Goodwill	180,000	50,000	230,000	15.0%	12.5%	14.4%
Other assets	20,000	10,000	30,000	1.7%	2.5%	1.9%
Total long-term assets	770,000	170,000	940,000	64.2%	42.5%	58.8%
Total assets	\$1,200,000	\$400,000	\$1,600,000	100.0%	100.0%	100.0%
LIABILITIES & SHAREHOLDERS' EQUITY						
Accounts payable	\$140,000	\$50,000	\$190,000	11.7%	12.5%	11.9%
Income taxes payable	80,000	20,000	100,000	6.7%	5.0%	6.3%
Short-term debt	150,000 ^{p.2}	50,000 ^{p.3}	200,000	12.5%	12.5%	12.5%
Other current liabilities	100,000	50,000	150,000	8.3%	12.5%	9.4%
Total current liabilities	470,000	170,000	640,000	39.2%	42.5%	40.0%
Other long-term liabilities	-	-	-	0.0%	0.0%	0.0%
Total long-term liabilities	-	-	-	0.0%	0.0%	0.0%
Total liabilities	470,000	170,000	640,000	39.2%	42.5%	40.0%
Preferred stock	-	-	-	0.0%	0.0%	0.0%
Common equity	730,000	230,000	960,000	60.8%	57.5%	60.0%
Total shareholders' equity	730,000 ^{p.1}	230,000 ^{p.1}	960,000	60.8%	57.5%	60.0%
Total liabilities and shareholders' equity	\$1,200,000	\$400,000	\$1,600,000	100.0%	100.0%	100.0%

^A This balance includes the JV balance of \$14,154.