

## **First Communications, Inc. Announces Audited Results for The Year Ended December 31, 2009**

AKRON, OH, May 6, 2010 – Today First Communications, Inc. (AIM: FCOM) (the “Company”), a leading Midwest competitive local exchange carrier providing data and voice services, announces the following developments:

- Finalization of its December 31, 2009 financial statements, as audited by its independent accountants;
- An increase in EBITDA to \$14.1 million in 2009, up from \$0.8 million in 2008;
- The sale of \$15.0 million of its minority owned equity in Diamond Communications Holdings LLC, (“Diamond”); and
- The extension of its credit facility (the “Facility”) to March 31, 2012.

The Company confirms that it has today posted its audited financials to its shareholders and that these audited financials will shortly be available on its website.

### **Discussion of 2009 Results**

Items of note in the year ended December 31, 2009 results:

- Revenues for 2009 of \$173.6 million (compared to \$153.5 million for 2008);
- Increase in gross margin percentage from 30.6% to 38.4% from 2008 to 2009;
- EBITDA (as defined below) of \$14.1 million for 2009, compared to \$0.8 million for 2008; and
- Higher net income primarily resulting from higher EBITDA as discussed above and the gain associated with the Tower Asset Contribution discussed in the footnotes to the audited financial statements.

Note: The results for the year 2008 include a full 12 month contribution from First Communications, LLC (“FC LLC”), and Xtension Services, Inc. (“Xtensions”), and just over 9 months contribution from First Telecom Services, LLC (“FTS”) and a 3 months contribution from First Global Telecom, Inc. (“Globalcom”). Additionally, the 2009 financial statements include \$5.8 million of revenue and \$3.7 million in EBITDA earned from the towers assets before the contribution thereof on August 20, 2009 to an affiliate of Diamond.

EBITDA is defined herein as net income (loss) before depreciation and amortization, impairment of goodwill and other intangibles, interest expense, and provision for (benefit from) income taxes, and before a one-time gain related to the Company’s 2009 Contributed Assets and related financing as discussed in the footnotes to the audited financial statements.

## Selected Financial Information

FIRST COMMUNICATIONS, INC.  
SELECTED FINANCIAL INFORMATION  
For the Years Ended December 31, 2009 and 2008  
(all numbers in 000's)

	Year Ended December 31,		
	2009	2008	Variance
Revenues, net	\$ 173,574	\$ 153,507	\$ 20,067
Gross Margin	66,587	46,917	19,670
Gross Margin %	38.4%	30.6%	
SG&A Expenses	52,547	46,675	5,872
SG&A as a % of Revenues	30.3%	30.4%	
Other Income (Expense)	48	593	(545)
EBITDA	14,088	835	13,253
Depreciation and Amortization	13,556	19,031	(5,475)
Interest Expense	8,284	9,777	(1,493)
Gain on Exchange of Asset	(26,998)	-	(26,998)
Loss on Extinguishment of Debt	4,725	-	4,725
Impairment of Goodwill and Intangible Assets	-	53,500	(53,500)
Income Tax Expense (Benefit)	310	(5,278)	5,588
Net Income (Loss)	\$ 14,211	\$ (76,195)	\$ 90,406

### Operational Highlights and Current Outlook:

Ray Hexamer, CEO of First Communications commented:

"After a disappointing year in 2008, we made significant progress in 2009's difficult economic environment by realigning our resources while investing in new product and sales resources. We also finished the first of a three year capital project in lighting and expanding our expansive fiber network. The continued double digit growth in bandwidth demand has placed a premium on many of our unique fiber routes throughout the Midwest and Northeast.

A primary goal of 2009 was reducing the financial leverage of the business and providing adequate liquidity for our fiber expansion. That was accomplished through the contribution of our tower business, discussed in the footnotes to our audited financial statements, along with the expansion of EBITDA.

2009 operating highlights include the following:

- Added 968 new route miles to our expansive fiber network and completed the low latency core network from Chicago to New York;

- Core growth revenue as a percentage of total revenue (excluding wholesale revenues) grew from 50% in Q1 to 61.8% in Q4 of 2009; and
- Added Lyle Patrick as our CFO and key personnel to bolster our finance department.

With the above results setting a stage for further cash flow momentum in 2010, we plan to continue to execute on our plan of growing core revenues in our key Midwest markets while deploying discretionary capital into our fiber network as it becomes a more substantial contributing segment of our Company.”

## **Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### *Revenues*

First Communications, Inc. reported revenues of \$173.6 million for the year ended December 31, 2009, compared to \$153.5 million reported for the year ended December 31, 2008. The growth in revenue has resulted from the inclusion of financial results from FTS and Globalcom offset to some degree by declines in legacy residential and voice services compared to the previous year. Additionally, the Company's strategy has been to increasingly focus on the small and medium sized commercial market in key geographical areas, and the supply of higher margin services including dedicated T1 integrated voice and data On-Net services, while de-emphasizing some of its legacy voice services.

### *Gross Margin*

The Company’s gross margin increased from 30.6% in 2008 to 38.4% in 2009 due to the supply of higher margin services including dedicated T1 integrated voice and data services On-net, as discussed above.

### *Sales, General and Administrative Expenses*

As a percentage of revenues, the Company’s selling, general and administrative expenses for the year ended December 31, 2009 decreased to 30.3% compared to 30.4% for the year ended December 31, 2008. The decrease in expenses as a percentage of revenues primarily relates to headcount reductions and other related expense reductions.

### *Depreciation and Amortization of Other Intangibles*

Depreciation and amortization charges decreased from \$19.0 million for the year ended December 31, 2008 to \$13.6 million for the year ended December 31, 2009. The decrease is primarily due to the write down of intangible assets in 2008, thus reducing amortization going forward.

### *Interest Expense*

Interest expense decreased from \$9.8 million for the year ended December 31, 2008 to \$8.3 million for the year ended December 31, 2009, primarily related to the reduction in bank debt.

### *Gain on Exchange of Asset/Loss on Extinguishment of Debt*

In 2009, the Company had a gain of \$27.0 million related to the transaction for the Contributed Assets and the related Facility restructuring, which also resulted in a reduction in the amount of debt expense being deferred of \$4.7 million.

### *Impairment of Goodwill and Other Intangibles (Customer Lists)*

As a result of general market conditions related to borrowing costs and a more recent analysis of the discounted cash flow supporting the Company’s goodwill balance using updated assumptions, a non-cash impairment to goodwill was recorded of \$28.2 million in 2008. Additionally, a similar impairment occurred related to the valuation of certain of the Company’s customer lists (recorded as other intangibles), resulting in a charge of \$25.3 million, also in 2008. There was no impairment in 2009.

### *EBITDA, Income from Operations, and Net Income*

The Company's EBITDA increased from \$0.8 million for the year ended December 31, 2008 to \$14.1 million for the year ended December 31, 2009. The Company's income from operations increased from a loss of \$72.3 million for the year ended December 31, 2008 to income of \$0.5 million for the year ended December 31, 2009. The Company reported a \$14.2 million net income for the year ended December 31, 2009 compared to a loss of \$76.2 million for 2008. As noted above, the increase in EBITDA related primarily to higher revenues, and related margins, with the increase in income from operations primarily resulting from higher EBITDA and the impairment of goodwill and intangible assets in 2008. The increase in net income results from the above, as well as the gain on exchange of assets in 2009.

### *Cash*

Cash balances amounted to \$0.3 million as at December 31, 2009 compared to \$0.3 million at December 31, 2008.

### *Capital Expenditures*

Capital expenditures for the year ended December 31, 2009 were \$12.0 million related to the expansion of the Company's network, network and system upgrades, installation costs and capitalized labor.

## **Significant Subsequent Events**

### **Diamond Stock Sale**

As discussed in Note 2 to the audited financial statements, we currently own class A and B membership Units (the "Units") in Diamond. On April 30, 2010, we entered into an agreement pursuant to which we disposed of a portion of the Units for \$15.0 million. The total number of our units of membership interest in Diamond was reduced with this transaction from approximately 13.6% to approximately 3.8%. This transaction has not affected our current right to receive additional units in Diamond under an earn-out formula that was part of the Contribution Agreement by and between the Company, Diamond, and others, pursuant to which FTS contributed its wireless tower assets to Diamond and Diamond provided a limited guaranty of a certain amount of the Company's debt in exchange for the Units.

### **Amendment to Facility**

Effective as of April 30, 2010, the Company entered into an 'Amendment No. 3' to its Facility (the "Amendment No. 3"). With the sale of the Diamond Units discussed above, \$7.5 million of the proceeds were used to reduce the Term Loan of the Company, in inverse order of maturity, with amounts outstanding under the Revolver also reduced by \$7.5 million, although the Revolver is available for future drawdown. Overall, the Facility has been reduced to \$ 76.3 million, and as of April 30, 2010, the outstanding bank debt of the Company was \$ 68.6 million, both after assuming the pay down amounts discussed above, and the regular principal payment of \$1.25 million as of March 31, 2010.

As part of the Amendment No. 3, the Company's lenders agreed to waive all identifiable, existing defaults under the Facility. The following is a summary of some of the key terms of the Amendment No.3:

### Equity Offering

- The Company intends to initiate an Equity Offering (the "Offering"). Within 120 days of April 30, 2010, the Company shall be required to have received \$4.0 million of net proceeds pursuant to the Offering, with \$2.5 million of such contributions used to repay the Term Loan, in inverse order of maturity, and \$1.5 million shall reduce the Revolver, although that amount is available for future drawdown. Two of the

existing shareholders of the Company have committed the initial \$4.0 million of equity requirement.

- The Company will seek to extend the Offering above the required \$4.0 million to raise Excess Net Proceeds (the "Excess Net Proceeds"), with 50% of such additional contributions to be used to repay the Term Loan, in inverse order of maturity, and 50% to be retained by the Company for corporate purposes.

#### Maturity Date

- The maturity date of the loans under the Facility has been extended to March 31, 2012.

#### Covenants

- The Facility has a maximum leverage test, a minimum fixed charge test, a minimum liquidity requirement, and a capital expenditure limitation.
- Maximum leverage (total debt to EBITDA) of 4.25 to 1.0 at June 30, 2010, 3.75 to 1.0 at September 30, 2010, 3.50 to 1.0 at March 31, 2011, and 3.25 to 1.0 at September 30, 2011 and thereafter.
- Minimum fixed charge coverage of 1.0 to 1.0 at June 30, 2010, 1.05 to 1.0 at September 30, 2010 and 1.1 to 1.0 at December 31, 2010 and thereafter.
- Until the \$4.0 million in equity discussed above is received, \$2.5 million is to be deposited in a fully blocked account which is not available to be withdrawn; after receipt of the equity, the blocked account is subject to withdrawal, and a minimum liquidity amount of \$1.25 million is to be maintained.
- During any fiscal year, no more than \$10.0 million is to be incurred for capital expenditures. Notwithstanding the above, Excess Net Proceeds can be used to spend additional capital expenditures above the \$10.0 million.

#### Pricing and Fees

The Facility will be priced at LIBOR plus 600 bps, and will apply to the Term Loan and the Revolver. There is a 100 bps commitment fee on the undrawn Revolver. Upon raising an additional \$6.0 million of equity within 120 days of the effective date of the Amendment No. 3, the pricing will be reduced to LIBOR plus 500 bps, and the commitment fee will reduce by 50 bps.

#### Scheduled Amortization

All scheduled payments will be reduced from \$1.5 million to \$1.25 million per quarter through maturity.

#### Existing Subordinated Note Payments

As discussed in Note 9 to the audited financial statements, we have a \$6.0 million subordinated note (the "Note") with a shareholder. As part of the Amendment No. 3, previously scheduled monthly principal and interest payments of \$83,000 beginning on January 31, 2011 will continue to be allowed as part of the Amendment No. 3, with the one-time payment previously scheduled for December 31, 2010 (\$442,000 in principal and \$880,000 in interest) to be deferred until April 1, 2012. In consideration for the deferral, interest on the sub-note has increased from 11% to 12%.

#### **About First Communications**

First Communications is a leading integrated telecommunications carrier based in the Midwestern United States. Founded in 1998, First Communications has built a highly

reliable fiber-based infrastructure which it uses to provide small and medium business, enterprise, and carrier customers superior voice, internet, and transport services. First Communications' mission is to provide secure and reliable next-generation services that support the critical communications needs of its commercial customers. For more information visit First Communications on the Internet: <http://www.firstcomm.com>

### Forward-looking Statements

This press release contains statements relating to future results of First Communications and statements which may be identified by the use of the words "may", "intend", "expect" and like words that are "forward-looking statements". Actual results may differ materially from those projected as a result of certain risks and uncertainties.

### For Further Information:

#### First Communications, Inc.

Joe Morris

Tel: (330) 835-2472

#### Collins Stewart Europe Limited - Nominated Adviser and Broker

Piers Coombs/Stewart Wallace

Tel: +44 (0) 207 523-8350

## December 31, 2009 AND 2008 CONDENSED FINANCIAL STATEMENTS

### FIRST COMMUNICATIONS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS As of December 31, 2009 and 2008 (in thousands)

	December 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 278	\$ 328
Accounts receivable - trade, less allowance for doubtful accounts of \$1,609 and \$2,055 at December 31, 2009 and 2008, respectively	15,959	20,934
Income tax receivable and deferred	867	2,473
Inventory	3,023	2,802
Prepaid expenses and other	2,567	2,263
TOTAL CURRENT ASSETS	22,694	28,800
PROPERTY AND EQUIPMENT, NET	43,525	40,881
OTHER ASSETS		
Goodwill	105,202	105,202
Other intangible assets, net	22,915	69,518
Investments	20,000	-
Deposits and other assets	2,316	6,492
TOTAL OTHER ASSETS	150,433	181,212
TOTAL ASSETS	\$ 216,652	\$ 250,893

**FIRST COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2009 and 2008**  
**(in thousands, except for per share data)**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 15,000	\$ 9,500
Revolver	9,000	10,000
Accounts payable – trade	17,333	13,253
Accrued expenses	12,382	23,616
Deferred tax liability, net	-	221
Deferred revenue	6,965	4,769
<b>TOTAL CURRENT LIABILITIES</b>	<b>60,680</b>	<b>61,359</b>
<b>NON-CURRENT LIABILITIES</b>		
Revolver	10,824	8,755
Long-term debt, net of current maturities	50,000	104,000
Note payable	6,000	-
Deferred tax liability, net	1,390	538
Deferred revenue	13,490	14,685
Other long-term liabilities	814	2,313
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>82,518</b>	<b>130,291</b>
<b>TOTAL LIABILITIES</b>	<b>143,198</b>	<b>191,650</b>
<b>REDEEMABLE PREFERRED STOCK, \$0.001 par value; 10,000,000 shares authorized, 15,000 shares issued and outstanding at December 31, 2009 and 2008 (liquidation preference of \$1,000 per share, before accrued dividends)</b>	17,380	15,468
<b>SHAREHOLDERS' EQUITY</b>		
Series A Common Stock, \$0.001 par value; 60,000,000 shares authorized, 26,902,000 shares issued and outstanding	27	27
Additional paid in capital	119,482	119,482
Retained (deficit)	(63,435)	(75,734)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>56,074</b>	<b>43,775</b>
<b>TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY</b>	<b>\$ 216,652</b>	<b>\$ 250,893</b>

*Note: Certain 2008 current liabilities have been reclassified to conform with the 2009 presentation*

**FIRST COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the years ended December 31, 2009 and 2008  
(in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
REVENUES, NET	\$ 173,574	\$ 153,507
COST OF FACILITIES, exclusive of depreciation and amortization stated below	106,987	106,590
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	52,547	46,675
IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS	-	53,500
DEPRECIATION AND AMORTIZATION	13,556	19,031
OPERATING INCOME (LOSS)	484	(72,289)
OTHER INCOME (EXPENSE), NET		
Interest expense	(8,284)	(9,777)
Gain on exchange of assets	26,998	-
(Loss) on extinguishment of debt	(4,725)	-
Other	48	593
OTHER INCOME (EXPENSE), NET	14,037	(9,184)
INCOME (LOSS) BEFORE INCOME TAXES	14,521	(81,473)
INCOME TAX EXPENSE (BENEFIT)	310	(5,278)
NET INCOME (LOSS)	\$ 14,211	\$ (76,195)

*Note: Actual results for 2008 represent a full year's results for FC LLC and Xtensions and the performance of FTS and Globalcom from the date of acquisition.*

**FIRST COMMUNICATIONS, INC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2009 and 2008  
(in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 14,211	\$ (76,195)
Depreciation and amortization	13,556	19,031
Deferred taxes	217	(4,951)
Impairment of goodwill and intangibles assets	-	53,500
(Gain) on exchange of assets	(26,998)	-
<b>Changes in Operating Assets and Liabilities</b>		
Account receivable - trade, net	4,975	4,062
Inventory	(221)	104
Prepaid expenses	(310)	(122)
Deposits and other assets	299	(54)
Accounts payable – trade	3,708	2,684
Income taxes payable	2,020	(2,256)
Accrued expenses	(11,295)	8,280
Deferred revenue	1,530	(5,810)
Other long-term liabilities	(1,497)	2,313
<b>CASH FLOW PROVIDED BY OPERATING ACTIVITIES</b>	<b>195</b>	<b>586</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(11,969)	(6,042)
Acquisition of assets and assumption of liabilities, net of cash acquired	-	(104,837)
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>	<b>(11,969)</b>	<b>(110,879)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	-	120,000
Conversion of payable to long-term note	6,000	-
Reduction in redeemable preferred stock	-	(25,000)
Payment of deferred financing costs	-	(5,309)
Loss on extinguishment of debt	4,725	-
Net borrowings and payments on revolver	9,499	18,130
Payments on debt	(8,500)	(6,500)
<b>CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>	<b>11,724</b>	<b>101,321</b>
<b>NET (DECREASE) IN CASH</b>	<b>(50)</b>	<b>(8,972)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>328</b>	<b>9,300</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 278</b>	<b>\$ 328</b>