NON-CONFIDENTIAL VERSION

To

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

REPORT OF ACCION GROUP, INC.

Re: FAIRPOINT COMMUNICATIONS, INC.
PLAN OF REORGANIZATION

NHPUC Docket DT 10-025

April 19, 2010

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EXECUTIVE SUMMARY

Accion Group, Inc. (Accion) was engaged on behalf of the Non-Advocate Staff (Staff or Non-Advocate Staff) of the New Hampshire Public Utilities Commission (Commission or PUC) to perform certain review and analysis work related to FairPoint Communications, Inc. (FairPoint, or the Company). On October 26, 2009, FairPoint Communications and all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York. This report contains findings related to the current operations of FairPoint, its Plan of Reorganization submitted to the United States Bankruptcy Court (Plan), and various post-bankruptcy projections prepared by the Company. The report reflects Accion's initial review of the reasonableness of the proposed reorganization of FairPoint as it concerns the Company's service in northern New England.

We are aware that concurrently with the filing of this report other parties to this docket may be filing testimony. We are also aware that FairPoint intends to file a supplement to its Second Amended Plan of Reorganization on April 23, 2010, which is to be filed in this docket pursuant to the Regulatory Settlement sponsored by the Advocate Staff. Further, we understand that at the same time FairPoint will identify which, if any, executor contracts will be rejected as a part of that Plan. We have been advised by the Company that, among other matters, that supplement will address the Company's intentions regarding the rejection of certain executory contracts, notably its contracts with several of its wholesale customers and with several of its other commercial creditors. The supplement will also provide final details relating to the financial agreements the Company proposes to enter into to implement its planned reorganization. We further note that the Company may file additional testimony in this docket on April 30, 2010, and the docket will include the Plan Supplement. Also, we will review the additional confidential data FairPoint is to provide for our review. Accordingly, this report is preliminary and will be completed once the final Plan and the remaining data are available for our review.

In light of the potential that the Company's final Plan of Reorganization may change, and on the potential that new information will become available to Accion that might affect Accion's evaluation of the integrity of FairPoint's Plan of Reorganization, we have presented only preliminary findings, conclusions, and observations in this report. We reserve the right to amend or alter any or all of the findings, conclusions, or observations presented herein.

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This review focused on the following areas:

1. The Company's Plan of Reorganization, [1] including related amendments and disclosure statements
2. The Company's post-bankruptcy financial structure and plan for operations
3. Pre-petition operations and financial structure
4. Plans related to the provisioning and build-out of the fiber optic network(s), including the quality of installations
5. A review of the fiber optic deployment undertaken by FairPoint, including our investigation of a complaint regarding deployment already installed. Our review is Attachment A to this report

In conducting its review and in reaching its conclusions, Accion has relied on both public and confidential testimony filed in this proceeding, information provided to it by FairPoint and from public information available at the time this Report was prepared. This information consisted of data provided by the Company in response to requests for data made by the Non-Advocate Staff, testimony filed by the Company in this proceeding, the Company's Second Amended Plan of Reorganization and Second Amended Disclosure Statement filed on March 10, 2010, in the United States Bankruptcy Court, Southern District of New York, Case No. 09-16335 (BRL), the settlement entered into by the Company with the Advocacy Staff of the New Hampshire Public Utilities Commission and the State of New Hampshire (the State), on information provided to Accion during Technical sessions scheduled in this docket on March 25, April 6, and April 8, 2010, and other public information relating to the operations of the Company and the telephone industry in general. We also relied on information provided to Accion by the Non-Advocate Staff.

Based on our review we have formed the following conclusions. Each conclusion will be discussed in greater detail later in this report:

1. Assuming that the primary goals and objectives of the projections contained in the Disclosure Statements are achieved, we believe that the post-bankruptcy capital structure will provide the Company with access to sufficient capital to execute against its post-bankruptcy business and operational plans, and provide reliable and adequate service to New Hampshire customers.

[1] The term "plan", when used in the report, includes the Initial Joint plan of Reorganization and Second Amended Joint Plan of Reorganization and related Disclosure Statements.

2. The Company's projections related to revenue appear to be the most significant challenge and, as a result, pose the highest degree of risk to long-term success. This conclusion is based on the following factors:

   a. Steady decrease of land line and related access services

   b. The timeline and build out of networks to support the Company's estimated growth in broadband and other non landline based services

   c. The impact of a new sales force, and

   d. Customer retention efforts, which is a new initiative for the Company

3. The Company's support systems will continue to require work in order to recover from the issues related to the cutover from Verizon's service platform

4. Further expense reductions will need to be taken to meet projected expense levels

5. Management will continue to be preoccupied with the processes and procedures involved in completing the integration of all services previously provided by Verizon and other third party vendors. These efforts may distract management from focusing on the changes needed to stabilize revenue, and design, develop, and implement new services to grow non-landline based services and to maximize customer retention

The Reorganization Plan represents a comprehensive approach to restructuring the financial obligations of FairPoint. It will result in a company with a significantly deleveraged balance sheet, debt at manageable levels and on reasonable terms, adequate liquidity and, if it performs as projected, with reasonable access to capital markets.

The Plan is based on assumptions that appear to be consistent with current economic forecasts. Several assumptions relating to the Company's revenue opportunities may be optimistic, and, unless realized, may impair the Company's future financial performance. This matter is discussed elsewhere in the Report in detail.

PROJECT SCOPE AND APPROACH

Accion approached the examination from the viewpoint of a prospective acquirer of FairPoint. Our review of the reorganization plan, the projected revenue sources, and levels of projected funds were examined to assess whether they are, in our opinion, reasonable and whether sufficient funding will be available for the Company to meet its obligations and commitments. We also reviewed the Regulatory Settlement presented by the Advocate Staff in this docket (Regulatory Settlement) to determine the scope of obligations in New Hampshire. Additionally, we reviewed the operations plan, the management structure in order to form an opinion on whether the Company is likely to be

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successful, and whether it will have the ability to meet its obligations to both its creditors, and new shareholders, while maintaining the ability to meet the Company's broadband build out commitments and service obligations arising from regulation of FairPoint's utility service and orders of the Commission. Finally, we investigated the complaint alleging FairPoint had improperly deployed and installed fiber optic cable.

To conduct our review and form our observations and conclusions, we used the following materials and methods:

1. Selected public documents filed with the SEC and other sources
2. Selected documents filed with the Bankruptcy Court relating to the Company's declaration of bankruptcy, which included, but was not limited to, its Joint Plans of Reorganization and Disclosure Statements
3. Testimonies given by members of Company management
4. Testimonies given by other consultants and advisors
5. The regulatory settlement between Advocate Staff and FairPoint;
6. Requests for additional information from Non-Advocate Staff and interested parties and the response from Company management, and
7. Information provided in technical sessions held with Company management and other interested parties

SUMMARY OF FINDINGS

Plan of Reorganization

The Plan of Reorganization will result in FairPoint emerging from bankruptcy with a capital structure that will provide the Company with sufficient resources and adequate access to capital at reasonable rates to execute on its proposed Plan of Reorganization, even if all assumptions supporting the Plan are not exactly met. This assessment is predicated on reasonable Company performance as it emerges from bankruptcy, that is, performance at or near levels predicted in its projections. Significant deviations from results projected, such as earnings deficiencies of [REDACTED]% or more from projected levels could, however, impair the Company's ability to provide service at reasonable or expected levels. The capital structure of the Company when it emerges from bankruptcy appears to be in a form that will

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allow the Company sufficient resources to execute on its proposed Plan of Reorganization, if realistic assumptions are met.

The Company's Pro forma sources of Capital Structure (adjustments not presented below) are as follows[2] in Chart 1:

Chart 1

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CAPITAL SOURCE	30-Jun-10	REORGANIZED
Cash	$51,041	$40,000
Revolver	$150,905	
Term Loan A	$496,626	
Term Loan B	$1,342,909	
New Senior Secured Credit Facility		$1,000,000
Net Obligations Under Interest Rate Adjustment	$98,777	
Total Credit Agreement Secured Debt	**$2,089,217**	**$1,000,000**
Capitalized Lease Obligations	$6,968	$6,818
Total Secured Debt	**$2,096,185**	**$1,006,818**
Senior Notes	$98,676	
Exchange Notes	$475,961	
TOTAL DEBT	**$2,670,822**	**$1,006,818**

Revenue

The attainment of revenue projections appears to be the Company's most significant challenge. Projected revenues are the aggregation of revenues from the Company's primary lines of business; Local and Long Distance, Network Access and Data Services. In summary,

1. Local and Long Distance – Revenue in this category is derived by multiplying voice subscribers by average revenue per unit ("ARPU). Projections assume that it will continue to lose local and long distance voice customers to wireless substitution, wireline competition from competitive local exchange carriers and cable operators and as dial-up customers replace their service with DSL technology which does not require a land line

[2] **SECOND AMENDED DISCLOSURE STATEMENT FOR DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE at 276.**

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2. Network Access - Revenue in this category is comprised of interstate switched and special access, intrastate switched and special access and receipts from the universal service fund. [3] Interstate and intrastate switched access revenues are projected to decline, as switched access minutes of use across the network declines and rates per minute decrease. Special access revenues such as DS3 and OCNs are assumed to increase substantially throughout the projection period

3. Data Services - Revenue in this category is comprised of services such as broadband services. The Company is projecting considerable growth in data subscribers although flat ARPU throughout the projection period. The Company believes that the completion of the build out of the network and the addition of a new sales force will help achieve projected performance in this service area.

Chart 2

Revenue Sources

(Per Quarterly Report period ending September 2009)

REVENUE SOURCE	% TOTAL REVENUE
Local and Long Distance	53%
Network Access	33%
Data Services	10%
Other Services	4%
Total	**100%**

It is apparent that this distribution of revenue sources will shift in time, with local and long distance customers' revenues decreasing. The ability of FairPoint to meet system needs through development of alternative revenue sources is dependent upon the Company's ability to effectively execute its operational restructuring. As discussed elsewhere, the support system of FairPoint is, at present, underdeveloped and failures in this area would adversely impair successful completion of the restructuring. Similarly, as is typical with major restructuring, the senior management post-bankruptcy may change following emergence from bankruptcy, which will also define the commitment and ability to successfully complete needed operational improvements.

[3] While we reviewed the data, we understand that the FairPoint system in New Hampshire does not receive universal service fund receipts.

Support Systems

The Company experienced significant issues in many support systems immediately after the cut-over from Verizon and the expiration of the TSA between the two parties.

The primary issues related to the following services:

1. New order processing for wholesale and retail customers
2. Data accuracy
3. Field service
4. Billing

These issues have caused a significant amount of concern on the part of the Company's wholesale customers and have put an operational strain on most of the support functions of the business. In our opinion, these issues also have the potential to negatively impact the ability to execute the Plan of Reorganization.

Company management has taken action on these issues and represented during the technical sessions that they are making steady progress. Details on specific actions and progress of initiatives designed to address each issue are covered in the Detailed Observations section below in this report. We believe it is possible for FairPoint to successfully reorganize and, thus, provide the level of service to which it has committed.

At the same time, there are many opportunities for underperformance and we view the first six months after emergence from bankruptcy as a critical period for this reorganization. In particular, development of an effective marketing program, customer retention initiatives, and determination of management personnel should be given high priority by FairPoint, and the Commission should monitor these areas very closely. In addition to the monitoring the Commission has been doing since FairPoint acquired the system, we strongly urge the Commission to establish firm performance benchmarks and schedules in these are other areas, and use its oversight authority to monitor and enforce performance. While we believe these areas need special consideration, we believe it is unnecessary to condition any approvals to recognize the Commission's existing authority and the commitments made by FairPoint to cooperate with the Commission.

Expense Reductions

The Company's Plan of reorganization calls for expense reductions in most areas of the business. It appears to us that these expense adjustments, both up and down, are driven by the following factors:

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1. Reduction of variable expenses related to the decline in landline subscriber base
2. Reduction in headcount due to the decrease in cut-over issues over time
3. There will be an addition to headcount due to the build-up of a new sales force to focus on the wholesale and business customer bases
4. Reduction of expenses related to certain contracts that will be either rejected or renegotiated in the bankruptcy process, and
5. Reduction and in time elimination of some third party relationships that are currently in place to address operational issues

We found the identified adjustments to be appropriate and the plan of execution, as provided by FairPoint was adequate. As noted, FairPoint will provide additional detail regarding expense reduction will be provided in the final Plan. Additionally, some managerial responsibilities that will affect costs are underdeveloped, such as the areas that will be under the direction of the newly appointed CIO. Likewise, while the plan identified likely areas of cost reduction, details will not be available until after the Company files with the bankruptcy court on April 23, 2010, and some will not be finalized until after the Plan of Reorganization is effective. Further details on this topic are provided in the Detailed Observations section below in this report.

Management

The Company has experienced some degree of turnover and has recruited to fill some critical positions in the past few months.

Alfred Giammarino, the Company's Chief Financial Officer resigned effective on March 31, 2010. Lisa Hood, the incumbent Controller will assume Mr. Giammarino's responsibility until a decision is made regarding his replacement.

On March 16, 2010, the Company hired Kathleen McLean as the Chief Information Officer. Ms. McLean brings a great deal of experience in information technology as well as business operations of a major telecommunication firm. She most recently held the position of Senior Vice President of Customer Service in Verizon Partner Solutions and previously held the position of Vice President of Architecture and Technology for Verizon.

We are unaware of any other planned changes in the senior management and, thus, during our review we assumed that other senior management currently remains in place. At the same time we recognized that additional changes in senior management may well occur post-bankruptcy.

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DETAILED OBSERVATIONS

Plan of Reorganization

The following discussion is based on Accion Group's review of FairPoint's Second Amended Plan of Reorganization and Second Amended Disclosure Statement, testimony filed in this docket by the Company witness Giammarino and the State of New Hampshire witness Lisciandro, various responses to data requests provided to the Non-Advocate Staff of the Commission and from information gathered during technical sessions attended by the Company, Advocate Staff and Non-Advocate Staff and various intervenors. We are aware that FairPoint will submit a Final Amended Plan of Reorganization to the Bankruptcy Court on or about April 23, 2010, (Final Plan), and we anticipate that the Company will provide written explanation of that filing on or before April 30, 2010. This report will be supplemented to incorporate observations based on our review of the April 23, 2010 filings.

As described by the Company in testimony filed by then CFO Alfred Giammarino, [4] FairPoint had three basic objectives in designing its proposed Plan of Reorganization: to balance the interests of all stakeholders; to meet its obligations to its customers; and, to establish a financial structure that would "insure FairPoint's financial viability". Based on our review, if the Plan is approved, and if each of the assumptions upon which the Plan is premised is materially realized, we believe the Plan will allow the Company to reorganize in a manner that will achieve those objectives and result in a financially viable entity with good long term prospects.

Achieving the assumed levels of performance that will support the Plan is, however, critical to the Plan succeeding. In Accion Group's opinion the Company will face significant operational challenges in several critical areas, including revenue generation, technology build out, enhancing the existing infrastructure and adequately reducing operating expenses, and cost containment. These areas are discussed elsewhere in this report.

Upon the Company's emergence from bankruptcy it is anticipated that the capital structure will be substantially deleveraged and the balance sheet will be further improved through conversion of a substantial portion of the Company's pre-petition indebtedness into "New Common Stock" as is defined in the plan. Upon confirmation of the Plan of Reorganization, the total debt will be reduced by approximately 63%, from $2.7 billion to $1 billion. Annual interest costs will be reduced substantially to

[4] As noted earlier, Mr. Giammarino resigned from the Company on March 31, 2010. Counsel for FairPoint advised Accion that Mr. Giammarino's testimony will be adopted by other witnesses to be presented by FairPoint.

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approximately $62 million annually by 2013. The Plan submitted, if approved by creditors, results in a company with an implied capital structure of 50% debt and 50% equity. It would have the effect of substantially deleveraging the Company's balance sheet by converting approximately $1.7 billion of debt to equity and/or warrants and by refinancing approximately $1 billion of 13 1/8% debt with a new Term Note at a variable rate of LIBOR plus 4.5% or approximately 6.5% at today's rates.

The New Common Stock will be distributed as follows:

1. Class 4 Prepetition Credit Agreement Claims (holders of FairPoint's $2.1 billion Term Loan notes) will receive a pro-rata portion of 47,241,436 shares
2. Each holder of an Allowed Class 7 Unsecured Claim, (approximately $635 million in unsecured claims) if such holder votes in support of the plan, will receive a pro-rata portion of (i) 4,203,352 shares, and (ii) New Warrants to purchase 7,164,804 shares.
3. If this class 7 holders vote to reject the Plan, they will receive no distribution under this Plan and in that case class 4 holders will be issued 58,484,587 shares of common stock.

The New Common Stock will have a par value of $0.01 per share

In addition, holders of FairPoint's $2.1 billion Term Loan notes will also receive pro rata shares of the new $1 billion 5 year Term Loan note, and a cash distribution,

Upon discharge from bankruptcy the Company will have access to a $75 million secured revolving line of credit.

Certain creditor's claims, as defined in the Plan, will be either reinstated or satisfied in full. Other specified creditors will receive no compensation. A portion of the equity will be reserved for payments to be made pursuant to a Long Term Incentive Compensation Plan. Current equity owners will not recover anything pursuant to this plan.

Upon discharge, Creditors will control up to 98% of the Company's stock and will provide $1,000 million of debt financing. The creditors will be entitled to all cash in excess of $40 million held by the Company on the day of discharge after satisfaction of cash requirements. Subsequent to discharge, holders of the new term notes will be entitled to future periodic cash sweeps of "Excess Cash" .Details regarding these "Cash Sweeps" are discussed in the pre filed testimony of Company Witness Alfred Giammarino. Cash swept will be used to prepay outstanding Term Loan debt. The Company has not as yet negotiated the precise definition of "excess cash" with creditors, and we will review this detail when the Final Plan is provided after April 23, 2010.

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A new Board of Directors will be established, consisting of nine Directors. Eight Directors will be nominated by representatives of the Company's creditors accepting the Plan. FairPoint's Chief Executive Officer will also serve on the Board. Candidates nominated to serve on the Board may include residents of Maine, New Hampshire, and Vermont. As provided in the Regulatory Settlement presented by the Advocate Staff, at least one director of the new board must reside in northern New England. [5]

As demonstrated by both Mr. Giammarino's testimony and by the testimony of Mr. John Lisciandro, on behalf of the State of New Hampshire and the Advocacy Staff, the plan, if approved should provide the Company with adequate financial resources and flexibility to provide the expected level of service to New Hampshire customers, if the assumptions underlying the plan are achieved and the Company can execute the performance requirements it has set out. Mr. Giammarino stress tested the forecast financial projections prepared by the Company and demonstrated that based on the Company's assumptions, even if the Company's underperforms by up to [redacted] percent, it will remain solvent and will retain the ability to attract capital at reasonable rates. Mr. Giammarino adjusted the Company's forecast Earnings Before Income, Taxes, Depreciation, Amortization (EBITDA) by both [redacted]% and [redacted]%, and demonstrated that the Company would remain in compliance with each of the covenants contained in its debt instruments. We reviewed his methodology and found his conclusions to be reasonable, based on the stated assumptions.

Noting that he believed the Company's revenue assumption to be "somewhat optimistic", when conducting his testing of FairPoint's projections Mr. Lisciandro adjusted the Company's revenue forecasts based on a review of peer group projected revenue growth rates. His analysis also demonstrated that FairPoint would remain a viable entity if that revenue deficiency was to occur and that the Company would need to experience a revenue [redacted]% more than his stress parameters before any debt covenant would be violated, all other things remaining equal. Accion Group reviewed those analyses and found them to be appropriate for the purposes they were employed to demonstrate.

Further details of the Plan and the specific recovery of each class of creditor are described in detail in the Company's filed Amended Plan and Disclosure Statement as well as in the Company's filed testimony.

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[5] Regulatory Settlement Section 4.4.

Capital Structure

As noted above, the plan is designed to result in a capital structure consisting of approximately 50% debt and 50% equity at the time the Company is discharged from bankruptcy. Equity will consist of 75,000,000 authorized shares at $0.01 par value. If each class of creditors votes to approve the plan approximately 51.5 million shares will be distributed and warrants for approximates 7.2 million shares will be issued. Debt will consist of $1 billion in senior secured notes and a secured revolving line of credit of $75 million. The Company has forecast that the Company's credit will be rated as investment grade by 2011. It does not anticipate, however, anticipate the need to seek outside financing before 2014, corresponding with the end of the period during which the $1 billion term loan is to be amortized. According to the Company's forecasts, all required capital needs will be internally generated.

If FairPoint is able to achieve and maintain its projected capital structure it should be able to compete with other investment grade entities for needed capital and should be positioned to meet to the Commission's required Service Quality Standards, to fulfill all of its service commitments and provide its customers with reliable service on an ongoing basis. Maintaining its capital structure is dependent, however, on the Company being able to achieve its revenue goals, manage its expenses and to complete the expansion of its infrastructure build out on time and on budget.

Equity Ownership and Conditions

FairPoint's stock will be distributed to creditors pro rata depending on the size of a creditors authorized claim. Actual allocations will depend on whether unsecured creditors vote to approve the plan or not. Assuming all creditor classes vote to accept the plan, holders of the Company's $2.1 billion Prepetition Credit Agreement claims will receive approximately 47 million common shares. Unsecured creditors representing approximately $635 million in claims will receive approximately 4.2 million shares plus warrants to purchase an additional 7.2 million shares during the 7 year period following discharge. The value of the warrants will be based on a formula that assumes the Company will have an enterprise value of approximately $2.3 billion. Future equity issuances through the Company's Long Term Incentive plan could dilute the holdings of the post-bankruptcy shareholders and give management a larger ownership interest.

In the event that unsecured creditors vote to reject the Plan, they will receive no compensation. In that case, holders of Prepetition Credit Agreement claims would, in that case, be issued approximately 58.5 million shares.

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FairPoint intends that Company shares will be publicly traded. There are no special restrictions attached to share ownership. All shares may be freely traded.

Under the Plan, dividends may be paid at any time, unless such payment would violate a covenant in the Company's Term Loan Agreement or are otherwise prohibited. [6] Pursuant to the terms of the Term Loan Agreement, dividends may not be paid unless FairPoint's leverage ratio at the beginning of a year is below 2.0, and may then be for no more than the Company's available "excess cash" as that term will be defined. According to Company testimony, it does not expect its leverage ratio to be less than 2.0 until at least 2012.

The Company's plan does not place any unusual or restrictive conditions on the equity it proposes to issue. This aspect of the Company's plan is consistent with other plans we have reviewed and should not present future concerns.

Debt Instruments

As noted above, upon confirmation and discharge, FairPoint will enter into a new $1 billion 5 year Term Loan. The New Term Loan will include the following terms:

1. The Loan shall be secured by the same or substantially the same collateral as the collateral which secure the current DIP Financing, except to the extent prohibited by law or regulation
2. 5 year maturity
3. Interest at LIBOR + 4.50%, with a LIBOR floor of 2.00%
4. No upfront fee
5. Mandatory prepayments at par, upon conditions to be determined in the Plan
6. Optional prepayment at any time
7. Amortization schedule-paid quarterly upon the first full quarter following confirmation
    a. Year 1- 1% annually
    b. Year 2- 1% annually
    c. Year 3- 5% annually

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[6] We note that the Plan recognizes the Regulatory Settlement by making it an attachment to the Plan. Accordingly, we believe that should FairPoint violate the quality of service commitments of the Regulatory Settlement, dividends could not be paid until after the Company pays penalties to the State of New Hampshire. Further, we note that the Regulatory Settlement does not include the restriction on dividends for failure to make a timely deployment of broadband technology, as provided in the settlement agreement approved by the Commission in 2008 Section 4.8. It is our understanding that could fail to meet its commitments to the Commission regarding broadband deployment, and pay a dividend, and subsequently pay a penalty to the State. That penalty could come as late as three years after the payment of dividends.

d. Year 4- 15% annually
e. Year 5- the remainder- 5% per quarter for the first 3 quarters with a 63% bullet payment in the 4th quarter

8. A cash sweep provision is included for all Excess Cash Flow above $40 million
9. Dividends may be paid from excess cash flow if the Company's consolidated total leverage ratio complies with certain covenants in the Term Loan Agreement. These covenants are discussed in testimony filed by Company Witness Giammarino and State Witness Liscandro
10. Financial covenants will include interest coverage and leverage ratio tests. Assuming that the projections are achieved there is ample cushion in these covenants

Actual documentation of the debt instrument was not made available for our review. Based on the information provided, we find the basic terms to be at or near "market" for a transaction of this nature.

The covenants are reasonable and if FairPoint performs as it predicts, should not be violated at any time during the term of the Note.

The amortization schedule gives the Company an opportunity to implement the operational changes it has described before it faces significant principal payments requirements. The Company has predicted that at the termination of the Note it will have both significant cash reserves and will be an investment grade security, allowing it to refinance the remaining principal at reasonable rates and on reasonable terms. We would anticipate that FairPoint would seek to refinance this agreement at its earliest opportunity.

Annual interest payments are anticipated to be reduced as a result of this Note by approximately 69% from over $208 million in 2010 to approximately $65 million on a pro forma basis.

Annual interest payments are anticipated to be reduced significantly as a result of this new Term Loan Agreement from over $165 million in the first eight months of 2009 to approximately $62 million in 2013.

Based on the projected interest and debt coverage ratios prepared by the Company, it appears that FairPoint will fully comply with each of the covenants contained in the New Term Loan Agreement in each year.

The interest rate is in line with rates charged to similarly situated entities but does present a risk of significant cost increases if interest rates rise sharply in the future. In light of the significant free cash flow forecasted by FairPoint, this risk appears to be manageable.

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The authorized cash sweeps present an unresolved concern. To date, the specifics of the definition and formula used to calculate "excess cash" have not been fully negotiated. We are concerned that unless they provide that FairPoint "excess cash" does not include committed or budgeted funds a situation could arise under which holders of the secured note would be entitled to sweep cash held by FairPoint that resulted from a need to defer or delay capital projects or anticipated operational needs. According to FairPoint, this issue is being addressed and will be resolved prior to the Company issuing its Plan Supplement on April 23, 2010.

In addition to the New Term Loan, FairPoint has negotiated a $75 million Revolving Line of Credit. Forecasts prepared by the Company do not anticipate significant draws on this line during the period under review. The line provides additional liquidity which can be used for working capital purposes.

Sources and Uses of Cash

During the period 2010- 2013, FairPoint projects that it will significantly increase its annual free cash flow and will increase cash on hand from $135 million to $407 million.[7] During that same period it will expend approximately $700 million on capital projects and will reduce its $1 billion Term Loan Agreement debt. Pursuant to its amortization schedule and through cash sweeps made in accordance with the terms of the Term Loan Agreement. This matter is further discussed in the confidential testimony filed by Mr. Giammarino and Mr. Liscandro.

As noted previously, obtaining these results will depend on FairPoint's ability to achieve the operational and performance levels it has assumed and on factors beyond the Company's control. Most notable among those factors is FairPoint's ability to generate the revenue it has forecast and its ability to realize the cost savings it has projected.

PROJECTED OPERATIONS

Revenue

The Company projects overall revenue to continue to decline through 2010 and then increase in 2011 and 2012 by 4% and 2% respectively. Revenue for 2013 is projected to be flat when compared with 2012. While the projections show modest growth there are significant risks to the achievement of this level of performance.

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[7] SECOND AMENDED DISCLOSURE STATEMENT FOR DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE at 274

As presented below, revenue derived from Local and Long Distance services currently represent over 50% of total revenue (See chart 2). This category is expected to continue to decline through the projection period. The drivers of the decline in this category are the loss of customers to other wireless services, competition from competitive local exchange carriers, cable operators and alternative technologies. Add to this the fact that the Company has experienced significant degradation in service levels from the cut-over from Verizon. Thus, it is difficult to predict what portion of the churn in this category is attributable to normal lines loss due to competition or choice of alternative service from that of loss due to service issues.

The same logic would apply to Network Access as it related to Interstate and Intrastate Access. Other special access is expected to increase throughout the period but that category of revenue represents a small portion of total revenue.

Data Services are projected to grow significantly throughout the projection period, however this is somewhat conditioned on the timeliness and effectiveness of the build out of the Network. See Chart 2.

It was also noted in the technical sessions held in on April 6 and 7, 2010, the measurement of certain basic growth criteria was not yet in place. Specifically it does not appear that [redacted]. We believe that this is an essential metric that should be measured accurately and constantly [redacted].

It should also be noted that Accion asked management to provide as list of actions planned to support the planned growth in certain revenue sources. As of the date of this report, Accion has not yet received that information, thus our assumptions are not presented with the knowledge of exactly "how" the Company plans to generate this revenue growth.

Support Systems

Since the expiration of the Transition Services Agreement (TSA) with Verizon on February 1, 2009, FairPoint has experienced significant issues in many support systems. To accommodate the acquisition of the Verizon system in northern New England, FairPoint built a new support systems intended to meet the specific needs of the former Verizon customers. FairPoint attempted to implement a novel system to meet the communications and functionality needs it foresaw and to accommodate its expected significant increase in the volume of transactions. Those efforts were

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unsuccessful as the systems did not perform at the level required. While FairPoint has undertaken efforts to correct these system failings, there are three areas that we consider to be mission critical that remain in need of improvement.

The Company experienced issues related to the processing of new orders through the Company's wholesale and retail business units, the scheduling and dispatching of field service, inbound customer service, billing and collections and data accuracy. In addition, as witnessed in the technical session held on April 7, 2010, certain CLECs have described issues related, to what appears to be a disconnection between the Company and CLECs regarding the timeliness and status of service and work orders. The CLECs in attendance at this session referenced certain work orders that the Company had "marked" as closed yet the CLEC held the order as open. Management noted that there is a process being developed to eliminate this miscommunication.

In the second quarter of 2009, third party vendors were engaged to assist management in the identification of specific weaknesses in the support systems. Accenture was engaged to work with the Company's IT organization to identify weaknesses and aide in the creation of a defined project list with resolutions for each weakness.

As of April 2010, the Company has worked to rectify many of the defined weaknesses. Vicki Weatherwax, in her testimony provided details related to the work performed as of that date and a review of what is yet needed to be accomplished to resolve the systems and processes issues.

The Company expects to maintain certain engagements with third party vendors for a period of time to ensure that the defined issues are fully resolved and are at satisfactory services levels.

The overall growth of the Company and their ability to execute on the plans noted in the Joint Plan of Reorganization are dependent on the satisfactory resolution of the issues noted above and referenced in the Testimonies of various members of senior management.

Expense Reductions

The Company's projections show an increase in Cost of Goods Sold ("COGS"), and decrease in Operating Expenses.

COGS, which primarily includes access charges paid to other telephone companies and long distance carriers for voice traffic and third party ISP service costs for data customers, is expected to

increase throughout the period as a result of planned revenue growth. This increase is partially offset by reductions in certain COGS expenses related to the loss of landlines and other services.

Other Operating Expenses are expected to decline in 2010 and 2011 and then be flat in 2013, subject to slight increases due to modest inflation. The projections assume that all integration and cutover costs are eliminated in 2010.

Projected Operating Expense reductions are as are set forth in the Chart 3, below.

Chart 3

EXPENSE CATEGORY	AMOUNT OF REDUCTION
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
REDACTED	REDACTED
Other expenses	REDACTED
Total	REDACTED

Company management reported in the technical session held in April 2010 that current run rate expenses (that is, the expenditure rate compared with projected expenditures) are approximately $[redacted] [redacted]. This does not include the reductions noted in the table above.

Based on this information and our review of the detailed expenses, and barring any unforeseen material event, we believe that expenses should perform at or near projected levels.

Management

Since the Company filed its Bankruptcy petition, it has undergone significant changes in its management. The CEO, CFO and numerous operating executive positions have been filled by personnel

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either new to the Company or new to the position. Based on our experience in other reorganizations we would anticipate that post emergence, additional changes may well be forthcoming.

FairPoint Management will face the traditional issues related to emergence from bankruptcy, as well as the immediate need to continue the build-out of the network to support the growth of broadband and other related services, cost reductions in most areas of the business, reduction of staff, critical work on support systems to shore up the operating infrastructure, and a concentrated effort on the mitigation of as much of the decline in landline and related subscriber bases as possible.

A distraction from focus on the items mentioned above could pose significant risk to the execution of the plan and ongoing operational and financial results. While not stated by FairPoint, it is customary that senior management is changed after a company emerges from bankruptcy, especially when creditors acquire a controlling ownership interest in the entity, such as here. We are unable to predict the quality of future management, or if they will share the commitment of the present management to fulfill commitments and obligations on the same schedule or with the same enthusiasm of the present management. The recent departure of a Chief Financial Officer with only two days notice to the Commission is the sort of development the reorganized company should avoid. We strongly recommend that the Commission require prior notification before any additional senior management changes are instituted.

In light of the fact that the Company's management will be faced with several critical issues that will have significant impact on the successful execution of the Plan of Reorganization and future operations of the business, we urge the Commission to require the Company to advise the Commission of any proposed senior management changes. Further, we urge the Commission to require FairPoint to provide information regarding the reason for such change, along with biographical information regarding any executive assigned to fill vacated or newly created positions.

OTHER CONSIDERATIONS

Disaster Recovery

The Company's technology is not currently supported by a disaster recovery facility. We recommend that the Company undertake a detailed business continuity and disaster recovery analysis that evaluates the needs of each business unit and their reliance on the supporting systems. Critical business applications that will be included as part of the business continuity and disaster recovery

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analysis should be identified with the appropriate recovery time objectives. This process will help determine the size, infrastructure requirements, and availability of a disaster recovery facility.

Fiber Optics Financial Commitment

In Attachment A we discuss the deployment undertaken to date, and the ways FairPoint has addressed installation difficulties. Here we discuss our opinion of FairPoint's ability to achieve the level of deployment that the Commission expects, with the terms of the reorganization of the Company.

In the 2008 Settlement Agreement, FairPoint committed to delivering 1.5 mbps to 95% of its New Hampshire access lines. From our review we believe FairPoint will have the ability to achieve that goal, and we recognize that deployment of broadband is not normally regulated in New Hampshire. To review the build out plan we met with FairPoint personnel in a non-public session. The FairPoint personnel present at the meeting testified that in order to meet their service commitment of 95% of access lines by 2013, they need to purchase and install an additional [redacted] miles of fiber optic cable and equipment in New Hampshire. This will be accomplished over the next two years with [redacted] miles per year. FairPoint's initial commitment to the Commission was to invest $56.4 million in fiber optic cable. We understand that approximately $40 million of that investment has yet to be made. Relying totally on their testimony as to what is required to meet their goals, we see no reason the goals cannot be met within their timeline.

CONCLUSION

The Plan of Reorganization and related financial projections presented by the Company seem reasonable based on the following assumptions:

1. Approval by creditors of the proposed post bankruptcy capital structure
2. Maintaining stability in critical management and staff positions
3. Successful and timely build-out of the new network which will support the growth expectations in broadband and other services
4. The effectiveness of the new sales force
5. The effectiveness of the new retention programs aimed at mitigation of landline loss
6. Timely completion of the IT projects targeted at stabilization of the service levels of the business and projects designed to accomplish near and long term growth plans

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7. No significant downturns in the economy or other market conditions that could have a material impact on the Company

The Plan of Reorganization represents a comprehensive approach to restructuring the financial obligations of FairPoint. It will result in a company with a significantly deleveraged balance sheet, debt at manageable levels and on reasonable terms, adequate liquidity and, if it performs as projected, with reasonable access to capital markets.

We have not made any analysis of, nor do we make any recommendations relating to, the allocation of rights among creditors, and the resulting ownership interests post-bankruptcy, because we do not believe that such an allocation will have a material effect on the future success of FairPoint as an entity serving New Hampshire.

The Plan is based on assumptions that appear to be consistent with current economic forecasts. Several assumptions relating to the Company's revenue opportunities may, however, be optimistic and unless realized may impair the Company's future financial performance. Similarly, the Company has incorporated in its projected financials, operating cost savings that have not as yet been attained. The Company has reported to Accion Group [redacted].

From our review of FairPoint's reorganization plan, and the plan for deployment of additional fiber optic cable, it appears that the deployment can be accomplished for the projected cost, and there should be sufficient internally generated cash to complete the deployment.

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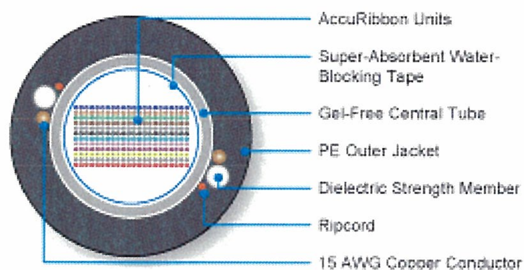
Fiber Optics Review

As part of our review of the FairPoint reorganization, and at the request of and in response to the New Hampshire Public Utility Commission's inquiry into an anonymous email dated February 20, 2010, Accion reviewed the integrity of FairPoint's new fiber deployment within the state of New Hampshire. The email expressly calls out an issue with the use and mixing of different types of fiber. Specifically, inter-mixing the newer "dry cell" fiber with the older style "gel filled" fiber.

The fiber cable make up in both circumstances is fundamentally the same with the exception of the dry/gel component. The fiber itself is housed in a central tube within the fiber sheath. The central tube can support varying amounts of individual fibers from 6 individual fibers up to 864 fibers. Surrounding these individual systems is a PVC casing, which further protects the fiber from damage.



The email specifically points to alleged deficiencies within the central tube of the fiber assembly and the dry verses wet cable properties. Both types of fiber cable use these two very different methods in an effort to prevent water migration into the fiber duct, should the outer casing protecting the fiber become compromised. The gel filled cable, by the fact that it effectively surrounds the fiber with a non-water soluble liquid, keeps water from entering the central tube. The dry cell fiber provides the same protection by using super absorbent water blocking tape. When water comes in contact with this material, the material expands and provides a block to the moisture.

Fundamentally, the individual fiber strands within each type of cable are exactly the same, and there is no evidence that the mixing of these two types of fiber cable will introduce any deficiencies in fiber performance, either separately or together. The main purpose of the dry cell fiber construction is to help speed the installation of splice locations as they are required throughout the network.

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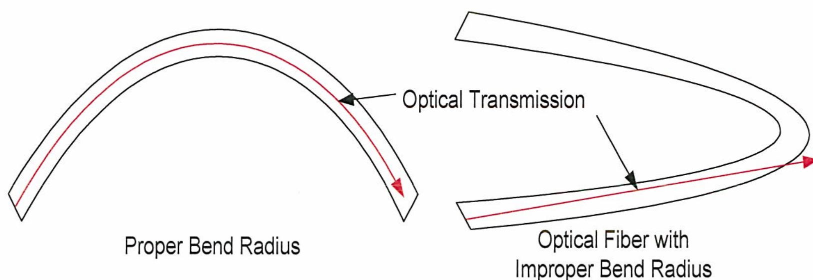
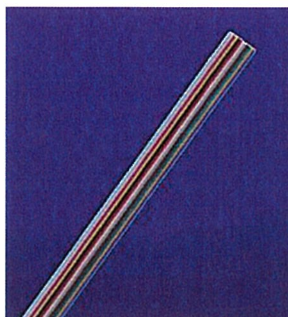
Our review of the information provided regarding the installation and materials used found no credible evidence that the fiber cable and/or the intermixing of the two types of fiber cable will produce any negative effects on the performance of the fiber within the cable. The cable deployed by FairPoint is used throughout the industry and rated for use in the winter conditions experienced in New Hampshire. The temperature rating for proper operation of the fiber as stated by the manufacturer is -40 to +70 degrees C.

The email goes on to mention potential micro bending issues which, could present serious issues with the performance of the fiber and as such became the primary focus of my questioning of FairPoint. Micro bending is a condition where an individual fiber, group of fibers or the whole fiber sheath is bent at an angle that compromises the flow of light. As fiber is essentially a duct that allows for the transportation of light down its core, it needs to be properly installed and stored so as to avoid severe bends. When fiber bends at angles beyond its specified bend radiuses, instead of the light traveling within the core of the fiber, it will pass through the core into the outer cladding and effectively out of the fiber itself. This phenomenon produces an extraordinary amount of noise at the irregularity and is more prevalent in higher wavelength applications, the kind of applications being deployed by FairPoint at this time. In other words, micro bends would render a fiber practically useless if not corrected.

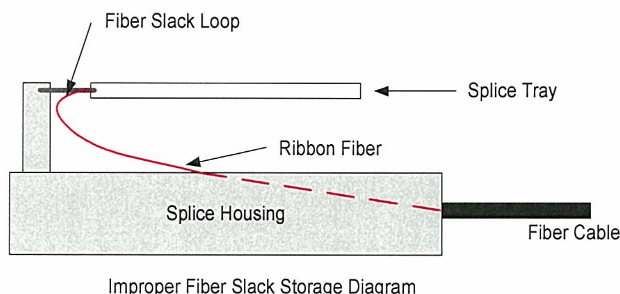


The testimony given by Mr. Lippold and discussions with Mr. Lippold focused around this issue. Mr. Lippold during the technical session quickly identified an installation issue that could be responsible for the micro bend and therefore the anonymous email. Mr. Lippold described that when preparing splice points within a fiber route; cables were brought into a splice housing and broken out for splicing. This involves opening the central tube and exposing the fibers, in this case ribbon fibers which are groups twelve individual fibers attached together with mastic to form a flat ribbon.



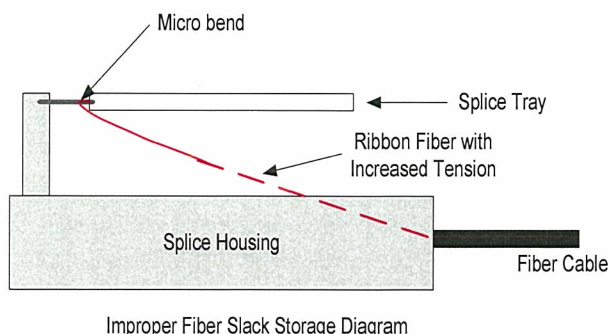
Ribbon Fiber

Mr. Lippold went on to describe that during the installation process, the technician routed the fiber directly from the fiber cable to a fiber splice tray which created a straight path from the cable to the tray as shown in the diagram.



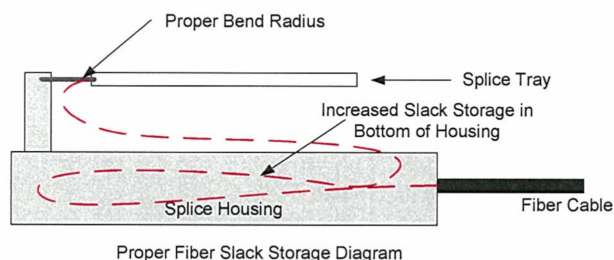
Improper Fiber Slack Storage Diagram

At the tray, the fiber was secured within the tray as per industry practices. The problem occurred when the main cable began to relax on the pole line. As it began to relax (or sag), it had the effect of pulling back on the fiber. This caused added tension on the fiber at the splice point, with the fiber retracting back into the central tube, creating a micro bend at the splice tray as shown in the diagram below.



Improper Fiber Slack Storage Diagram

FairPoint began to have issues with the performance of the fiber and as such reached out to the manufacturer for their assistance in pinpointing the problem. When the cause of the micro bend was found, a simple fix was employed that restored the full integrity of the fiber. Technicians were sent to pull one full loop of fiber out of the splice tray for storage underneath the splice tray. This allows for ample movement of the fiber in the event of movement within the central core.



Proper Fiber Slack Storage Diagram

Mr. Lippold went on to explain that this was not a wide spread issue, and that for the most part it was contained to one office within their New Hampshire operation. FairPoint personnel went on to say that their staff has since been trained in the proper installation procedures and that there are no known micro bend issues in existence at this writing. In addition, FairPoint senior management committed to establish a protocol for a systematic review of every installation completed before the problem was discovered, and to make appropriate re-racking of cable as needed. It is expected that review will be completed in approximately six months.

Based on our review we believe the identified problem was due to installation error resulting from improper training of personnel. Further, we found that FairPoint, in an effort to protect its own interests, took proper steps to correct the deficiencies. Accordingly, we believe this is not a systemic problem and it should not reoccur. We believe the issue described in the anonymous email should not have any impact on FairPoint utilizing its installed base of fiber or in deploying its broadband initiatives.

In the 2008 Settlement Agreement, FairPoint committed to delivering 1.5 mbps to 95% of its New Hampshire access lines. From our review we believe FairPoint will have the ability to achieve that goal, and we recognize that deployment of broadband is not normally regulated in New Hampshire. This is an area of rapid change, and achievable speeds are increasing. Accion was not engaged to review the adequacy of the 1.5 Mbps standard and we offer no assessment on that topic. Our conclusion as to

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FairPoint's ability to deliver broadband coverage is, therefore, determined by the Commission's requirements, and not on a review or comparison of speeds delivered elsewhere or on any other deployment standard.