NON-CONFIDENTIAL VERSION

To

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL REPORT OF ACCION GROUP, INC.

Re: FAIRPOINT COMMUNICATIONS, INC. PLAN OF REORGANIZATION NHPUC Docket DT 10-025

May 17, 2010

Accion Group, Inc.
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I. EXECUTIVE SUMMARY OF FINDINGS

On April 19, 2010, Accion Group, Inc. (Accion), filed its report in this docket with the Public Utilities Commission (Commission) entitled "Report of Accion Group, Inc. Re: FairPoint Communication, Inc. Plan of Reorganization" (Accion Initial Report) [1]. Accion noted in the Initial Report that a supplemental report would be submitted after FairPoint Communications, Inc. (FairPoint or Company) provided its supplement to its Second Amended Plan of Reorganization (Plan Supplement) on April 23, 2010, and after FairPoint provided additional confidential information that was being prepared for the Staff of the Commission (Staff) for review by Accion. Accion Initial Report at 1.

FairPoint made a timely filing of the Plan Supplement and provided much of the information requested by Accion and the information was carefully reviewed. Based on that review, Accion believes that if FairPoint achieves the primary goals and objectives underlying the projections contained in FairPoint's Disclosure Statement filed in its Bankruptcy proceeding, and as further developed in the Plan Supplement, the reorganization will appropriately capitalize FairPoint and provide it with access to sufficient capital to execute the Company's post-bankruptcy business and operational plans. This includes meeting its obligations to customers in New Hampshire. Further, the financial reorganization details, and terms and conditions of the new credit facility provided in the Plan Supplement are, for the most part, consistent with expectations and typical post-bankruptcy credit terms.

The Plan Supplement included provisions that are worth noting as they address matters that could not previously be described, and those provisions are discussed in this Supplemental Report. Additionally, this Supplemental Report identifies areas that we believe should be given particular attention by the Commission as FairPoint nears the Effective Date of the Plan of Reorganization, and as it emerges from bankruptcy protection. Also, we note that despite repeated requests for operational details concerning how FairPoint management intends to execute a plan to reverse the downward revenue trajectory of the Company, the information we received was limited to financial projections alone.. We were provided with revenue projection details, without supporting detail on the business plan behind those projections. As we state repeatedly, if the Company achieves the projected revenue projections, the reorganization plan predicts a viable firm. We are unable to express support for the operational plan that must stand behind those projections.

The Plan Supplement changed the definition of certain components of FairPoint's debt financing, such as "excess cash flow", Earnings Before Interest, Taxes, Depreciation, Amortization and Restructuring costs (EBITDAR), and some unsecured debt terms. From our review and discussions with FairPoint personnel we believe these changes amount to fine tuning of the Plan and, in their entirety, do not materially increase the risk of the Company's ability to successfully meet its projections.

We also believe it is worth noting that FairPoint expressly reserves the right to continue to reject executory contracts and to make other changes to its Plan until the Effective Date of the Plan, as approved by the Bankruptcy Court. While this is a fairly standard reservation, we believe the Commission should condition any approvals of the Plan of Reorganization on its being confirmed and implemented without significant modification.

[1] The redacted version, without confidential information, was served on parties on April 20, 2010.

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II. REVIEW OF SUPPLEMENTAL PLAN

On April 23, 2010, FairPoint filed a supplement to its Plan of Reorganization, addressing the following ten items:

ITEM 1 Schedules of Contracts/Leases to be Rejected
ITEM 2 Form of Warrant Agreement
ITEM 3 List of New Board Members
ITEM 4 Form of Registration Rights Agreement
ITEM 5 Success Bonus Plan
ITEM 6 Long Term Incentive Plan
ITEM 7 Form of Credit Agreement
ITEM 8 Update on Amended Quarterly Reports
ITEM 9 Form of Amended Certificate of Incorporation
ITEM 10 Form of Amended Bylaws

In this section of Accion's Supplemental Report, we address Items 5, 6 and 7. Items 1 and 8 are discussed later in this Supplemental Report. Other Items do not materially affect the reasonableness of FairPoint's plan for future operations and are, therefore, not discussed. The items are discussed in numerical order, and not in order of significance to the Plan.

Item 3. Board of Directors

In its Supplemental Filing, FairPoint identified the seven individuals who will serve on its Board of Directors once its Plan of Reorganization is confirmed. The seven men, collectively, have extensive in the telephone, IT and finance industries. They have held executive positions in both publicly and closely help businesses. David Hauser, Chairman of FairPoint will continue to serve on the Board. Mr. Wayne Wilson, a New Hampshire resident, is also named as a Board member, satisfying a condition in the regulatory Agreement entered into by the Advocate Staff.

Following are the brief bios of the Board members submitted by FairPoint.:

> *Todd Arden* joined Angelo, Gordon in 2000, and currently is a Managing Director in its distressed securities group. Prior to joining Angelo, Gordon, Mr. Arden served as a Portfolio Manager/Analyst within AIG/SunAmerica's High Yield Group from 1998 to 2000. Previously, he was a Senior Equity Analyst at Troubh Partners from 1995 to 1997. Mr. Arden began his career as a Manager in Arthur Andersen's Financial Consulting Services practice from 1989 to 1995, concentrating in the distressed/litigation support area. He is a Chartered Financial Analyst and holds a B.A. from Northwestern University and an MBA from the Columbia University School of Business.

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Dr. Dennis J Austin has served as an independent telecommunications consultant since 2002. Dr. Austin previously served as a consultant at Bearing Point, formerly KPMG Consulting and formerly KPMG LLP, from 1995 to 2002, and as Vice President at San Francisco Consulting Group ("SFCG") from 1985 to 1995. Prior to joining SFCG, Dr. Austin was Vice President of Engineering with DataSpeed Inc. from 1983 to 1985 and Director of Switch Engineering, Network Planning and Design at GTE Sprint from 1977 to 1983. Prior to joining GTE print, Dr. Austin served as a member of the technical staff with Bell Telephone Labs from 1966 to 1977. Dr. Austin holds a Ph.D in Electrical Engineering from Stanford University.

David L. Hauser has served as FairPoint Communications' Chairman and Chief Executive Officer since July 1, 2009. Mr. Hauser will serve as Chairman of the Board of Directors and Chief Executive Officer upon emergence. Prior to assuming this role, Mr. Hauser had served as a director of FairPoint Communications since February 2005. Prior to becoming FairPoint Communications' Chairman and Chief Executive Officer, Mr. Hauser served as the Group Executive and Chief Financial Officer of Duke Energy Corporation, where he was employed for 35 years. Mr. Hauser is on the board of directors of Furman University and of Charlotte, North Carolina's Blumenthal Center for the Performing Arts, the board of trustees of University of North Carolina at Charlotte and is past chair of the University of North Carolina at Charlotte Business School Advisory Council. He is also a past board member of the North Carolina Zoological Society and is a member of the North Carolina Association of Certified Public Accountants. Mr. Hauser also serves as a director of Enpro Industries, Inc.

Edward D. Horowitz currently serves as the Chairman of Edslink, LLC, which he founded in 2000. Mr. Horowitz also served as the President and Chief Executive Officer, SES–Americom and as a member of the SES–Global Executive Committee of SES Luxembourg from 2005 to 2008, and was employed at Citigroup from 1997 to 2000, where he was the founder and Chairman of e-Citi and served as an Executive Vice President. Mr. Horowitz serves as a director of On Line Resources, the New York March of Dimes and the Kenan Institute of Ethics at Duke University and is a trustee of the New York Hall of Science. He received a B.S. in physics from the City College of New York and an MBA from the Columbia University School of Business.

Michael J. Mahoney previously served as President and Chief Executive Officer of Commonwealth Telephone Enterprises ("Commonwealth Telephone") from 2000 to 2007. Prior to joining Commonwealth Telephone, Mr. Mahoney served as President and Chief Operating Officer of RCN Corporation from 1997 to 2000 and as President and Chief Operating Officer of C-TEC Corporation from 1993 to 1997. Mr. Mahoney currently serves as a director of Level 3 Communications and as a trustee of Wilkes University. He received a B.S. in accounting from Villanova University.

Paul H. Sunu has served as Chief Financial Officer of Hargray Communications Group since 2008. Mr. Sunu previously served as Chief Financial Officer of Hawaiian Telcom from 2007 to 2008 and as Managing Director and Chief Financial Officer of Madison River Communications from 1996 to 2007. He currently serves as a director of Integra Telecom and Merscom, is a former board member of Madison River Communications, Centennial Communications, Hawaii Public Radio, the Honolulu Chamber of Commerce and the Love School of Business at Elon University, and has been nominated to serve as a director of Hawaiian Telcom upon its exit from Chapter 11. Mr. Sunu also served as an Adjunct Professor of Business at Elon University in 2007. He received a

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B.A. in public administration from the University of Illinois and a J.D. from the University of Illinois College of Law.

Wayne Wilson, a New Hampshire resident, has been an independent business advisor since 2002. From 1995 to 2002, Mr. Wilson served in various roles as President, Chief Operating Officer and Chief Financial Officer of PC Connection, Inc., a Fortune 1000 direct marketer of information technology products and services. From 1986 to 1995, Mr. Wilson was a partner in the assurance and advisory services practice of Deloitte & Touche LLP. Mr. Wilson currently serves as a director of ARIAD Pharmaceuticals, Inc., Edgewater Technology, Inc. and Hologic, Inc. He previously served as a director of Cytyc Corporation. Mr. Wilson received an A.B. in political science from Duke University, and an MBA from the University of North Carolina at Chapel Hill. He is a certified public accountant in New Hampshire and North Carolina.

ITEM 5 "Success Bonus Plan"

The Success Bonus Plan (Success Bonus) consists of a single cash bonus payment to be made to each Participant (as defined in the Plan Supplement) on or about the Effective Date of FairPoint's Plan of Reorganization. The compensation provided under the Success Bonus is intended to be in addition to bonus compensation payable to Participants under the Annual Incentive Plan. The Success Bonus offers a one-time cash incentive payment to Participants to motivate and reward them for achieving specific financial and operating goals in connection with the Company's financial restructuring. Essentially, the Success Bonus is intended to keep key personnel on the job in order to operate the Company while in bankruptcy and to implement the Plan of Reorganization. This type of incentive is customary in a major reorganization of this nature. We believe the size and terms of the Success Bonus are reasonable.

Bonus payments are to be calculated based on a formula using "Success Bonus Performance Measures" which include, Cumulative EBITDAR, "Calls answered within 20 seconds", "Monthly Average of Installation Appointments Not Met for Company Reasons" and "Monthly Average of Repair Appointments met on time". FairPoint estimates that the payments will total approximately $5.8 million.

The Company reserves the right to reduce or eliminate individual bonuses and to add eligible personnel to the list of eligible recipients. To date, FairPoint has declined to provide to Accion the list of eligible personnel covered by the Success Bonus, therefore, we are unable to advise the Commission of the personnel identified as eligible for such payments.

We believe an incentive program to assure continuity of the operations of the Company throughout the reorganization is a valid consideration. The Success Bonus structure and its cost appear to be reasonable in the context of this reorganization.

ITEM 6 "Long Term Incentive Plan"

FairPoint proposes to establish an equity-based incentive compensation plan to enhance the Company's ability to attract highly qualified personnel, to strengthen its customer retention capabilities, to enhance the long-term performance and competitiveness of the Company, and to align the interests

of Plan Participants with those of the Company's shareholders. The Long Term Incentive Plan (LT Incentive) is intended to serve as the sole source for all future equity-based awards to those eligible for participation. The LT Incentive will become effective on the Effective Date, as defined in the Plan of Reorganization.

There are four types of compensation that can be used as incentive bonuses: Stock Options, Restricted Shares, Restricted Share Units, and Performance Awards. The LT Incentive will be available to "Eligible Persons", who are defined as "any Investor Director Provider (a Director appointed by an Investor in its name), Director or Employee, and includes non-Employees to whom an offer of employment has been or is being extended".

The LT Incentive is funded with approximately 6.3 million shares and is to be administered by a committee appointed by the Board of Directors after the Effective Date. Incentive plans of this type are usual in publicly held corporations. We believe that this plan is reasonable and designed to advance the Company's fiscal and operational strategies and goals.

ITEM 7 "Form of Credit Agreement"

As noted in our Initial Report, the Credit Agreement was not available for review before April 23, 2010, when FairPoint released the Plan Supplement. The Agreement is substantially in the form described in FairPoint's filed testimony and as discussed by the Company at the Technical Session held on April 6, 2010. There were no changes in the covenants described and the interest rate conditions were unaltered. We continue to believe that the Credit Agreement is reasonable and comparable to agreements offered to similarly situated borrowers. We do, however, offer the following observations:

a) "Excess Cash Flow" and Cash Sweeps

The Plan Supplement provided additional definition of how the "Excess Cash Flow" provisions of the Credit Agreement, sometimes referred to as "the cash sweep" would operate, including the limits and restrictions on the sweep. The Credit Agreement requires FairPoint to make prepayments on this note equal to a portion of its "Excess Cash Flow". "Excess Cash Flow" is defined in the note. Actual operation of the "excess Cash Flow" provisions are complex and are based on FairPoint's Earnings before Interest, Taxes Amortizations and Restructuring Costs (EBITDAR) during the term of the Credit Agreement. Deductions from EBITDAR are made for certain costs and capital expenditures actually made. The "Excess Cash Flow" provisions also include a deductions from EBITDAR for capital expense carryovers dedicated to budgeted projects not actually paid in a calendar year and allowance for regulatory penalties paid or credited.

Amounts actually swept pursuant to these provisions are used to prepay principal amounts outstanding on the note. To the extent that FairPoint's debt coverage improves the provisions of the sweep allow FairPoint to retain more of its "excess Cash Flow".

The following paragraphs are excerpts from the Credit Agreement and more fully define the critical terms affecting the operation of the "cash sweep":

"Excess Cash Flow" means, for any fiscal year of FairPoint, an amount equal to

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(a) Consolidated EBITDAR for such fiscal year minus (b) the sum (for such fiscal year) of, without duplication: (i) Consolidated Interest Charges actually paid in cash by FairPoint and its Subsidiaries, (ii) optional, scheduled and mandatory principal repayments of the Term Loans pursuant to Sections 2.05(a) and (b) (other than (b)(i)) and 2.07, and all prepayments of the Revolving Credit Loans to the extent such prepayment is accompanied by a permanent reduction in the Revolving Credit Commitments, (iii) all Federal, state, local and foreign income taxes actually paid in cash by FairPoint and its Subsidiaries, (iv) Capital Expenditures actually made by FairPoint and its Subsidiaries in such fiscal year, and any Capital Expenditure Carryover Amounts for such fiscal year being carried over into the next fiscal year, (v) settlements or cure payments made by FairPoint or any of its Subsidiaries in relation to the Chapter 11 Cases in such fiscal year, (vi) cash contributions to the pension trust made in such fiscal year, (vii) cash payments related to OPEB made in such fiscal year, (viii) cash Investments made in such fiscal year pursuant to Section 7.03(j) and (p), (ix) the cash impact of any extraordinary loss in such fiscal year, (x) cash payments related to the Success Bonuses, (xi) to the extent included in the calculation of Consolidated EBITDAR, any cash received in such fiscal year related to current or future projects under the American Recovery and Reinvestment Act of 2009, (xii) Dividends paid in cash during such year pursuant to Section 7.06(d), (xiii) regulatory penalties, paid or credited pursuant to regulatory commitments for service quality indices and broadband availability to the extent such amounts were added back to the calculation of a "Consolidated EBITDAR" under and as defined in the DIP Credit Agreement in accordance with the terms of the DIP Credit Agreement during such Measurement Period, (xiv) cash payments related to the KEIP/Stay Bonus to the extent such amounts were added back to the calculation of "Consolidated EBITDAR" under and as defined in the DIP Credit Agreement in accordance with the terms of the DIP Credit Agreement during the portion of such Measurement Period that occurred prior to the Closing Date, (xv) the amount of any Cash Collateral required to be funded by FairPoint pursuant to Section 2.03(a)(ii)(F), (xvi) professional fees for advisors, accountants, legal counsel and U.S. Trustee fees paid in cash by FairPoint as a result of the Chapter 11 Cases, whether or not on behalf of FairPoint, to the extent such amounts were added back to Consolidated EBITDAR during such Measurement Period, (xvii) if applicable, any cash payments made to enter into or settle Swap Contracts to the extent not already included in Consolidated EBITDAR, (xviii) any amount required to be reserved in accordance with GAAP on account of prepetition claims that is in excess of the amount previously reserved for such claims pursuant to Section 9.21 of the Plan of Reorganization and (xix) the Clause (b) Carryover Amount (provided that any portion of the Clause (b) Carryover Amount that is not actually paid in cash in the first quarter of the immediately following fiscal year shall be deemed to be added back to such Excess Cash Flow effective on the tenth Business Day after the delivery of financial statements for the first fiscal quarter of the immediately following fiscal year pursuant to Section 6.01(b) or, if earlier, Section 6.01(c)) plus (c) the sum of (for such fiscal year) of, without duplication (i) interest and dividend income and (ii) if applicable, any cash payments received in connection with the entering into or settlement of Swap Contracts to the extent not already included in Consolidated EBITDAR. Notwithstanding the foregoing, to the extent FairPoint has not paid on the Closing Date amounts of the type described in clauses (v), (x), (xi), (xvi) and (xvii) above on the Closing Date but has reserved for such amounts against the "Cash Payment" (as defined in the Plan of Reorganization) to be made on the effective date of the Plan of

Reorganization (the "Reserved Amounts"), the Reserved Amounts shall be included in the calculation of Excess Cash Flow for the period in which such amounts are paid in cash (it being understood that if FairPoint has neither paid amounts of the type described in clauses (v), (x), (xi), (xvi) and (xvii) above on the Closing Date nor reserved for such amounts against the "Cash Payment" (as defined in the Plan of Reorganization) to be made on the effective date of the Plan of Reorganization but has instead accrued such amounts, such amounts shall be deducted for purposes of calculating Excess Cash Flow for the period in which such amounts are paid in cash).]

"Capital Expenditures" means, for any period, the aggregate of all cash expenditures (including in all events all amounts borrowed for the acquisition, repair, improvement, substitution or replacement of any capital asset and all amounts expended under Capitalized Leases but excluding any amount representing capitalized interest) by FairPoint and its Subsidiaries during that period that, in conformity with GAAP, are required to be capitalized or otherwise included in the property, plant or equipment reflected in the balance sheet of Consolidated FairPoint; provided that Capital Expenditures shall in any event exclude amounts expended from insurance proceeds resulting from the loss of, or damage, to property, plant or equipment or other capitalized assets reflected in the balance sheet of FairPoint and its Subsidiaries.

"Capital Expenditures Carryover Amount" means, with respect to any fiscal year of FairPoint, an amount equal to (a) the lesser of (i) for the fiscal year ending December 31, 2010, 15%, and for each fiscal year thereafter, 10%, of the Capital Expenditures limit for such fiscal year as set forth in Section 7.12 (without giving effect to any Capital Expenditure Carryover Amount) and (ii) an amount equal to (x) the Capital Expenditures allowed for such fiscal year as set forth in Section 7.12 minus (y) the actual aggregate amount of Capital Expenditures made by FairPoint and its Subsidiaries during such fiscal year; provided, that if planned Capital Expenditures cannot be completed in a fiscal year because of a force majeure, the percentage referred to in clause (i) for such fiscal year may be increased to a number, and on such conditions, as the Administrative Agent shall approve in its sole discretion upon receipt of documentation satisfactory to it plus (b) if, in the fourth quarter of such fiscal year, FairPoint and/or its Subsidiaries entered into binding contracts with respect to Capital Expenditures that are within the limits set forth in Section 7.12 but are contractually committed to be spent in the first quarter of the immediately following fiscal year (and subject to receipt of documentation satisfactory to the Administrative Agent prior to the end of such fiscal year), an amount equal to the lesser of (x) $5,000,000 and (y) the amount so contractually committed ("Clause (b) Carryover Amount") but only to the extent such Capital Expenditures are properly funded in the first quarter of the immediately following fiscal year.

Prepayments

(b) Mandatory (i) Within ten (10) Business Days after financial statements have been delivered pursuant to Section 6.01(a) and the related Compliance Certificate has been delivered pursuant to Section 6.02(b) commencing with the fiscal year ending December 31, 2010 (provided that it is hereby agreed to and understood that with respect solely to the fiscal year ending December 31, 2010, Excess Cash Flow shall be calculated for the period commencing on the Closing Date and ending on December 31, 2010), the Borrowers shall prepay an aggregate principal amount of Loans in an amount (if positive) equal to (x) if the Consolidated Total Leverage Ratio as determined as of the

last day of the fiscal year covered by such financial statements is greater than 2.00:1.00, 75% of Excess Cash Flow for such fiscal year and (y) if the Consolidated Total Leverage Ratio as determined as of the last day of the fiscal year covered by such financial statements is equal to or less than 2.00:1.00, 50% of Excess Cash Flow for such fiscal year; provided that the Borrowers shall prepay any amount added back to Excess Cash Flow in respect of a Clause (b) Carryover Amount, in accordance with the proviso contained in the parenthetical phrase in clause (xix) of the definition of "Excess Cash Flow," within ten (10) Business Days after the delivery of financial statements for the first fiscal quarter pursuant to Section 6.01(b) or, if earlier, Section 6.01(c).

b) Dividends

In addition to any restriction on the payment of dividends imposed on the Company by regulatory Orders or Agreements, the Credit Agreement restricts FairPoint's ability to issue dividends. The Agreement contains covenants that permit FairPoint to issue dividends only from its "Excess Cash Flow" after making any required prepayment, and only if its "consolidated total leverage ratio" is less than 2.00:1:00. "Consolidated Total Leverage Ratio" is defined as:

Consolidated Total Leverage Ratio" means, as of any date of determination, the ratio of (a) *Consolidated Funded Indebtedness as of such date to (b) Consolidated EBITDAR of* Consolidated FairPoint for the most recently completed Measurement Period.

c) Limits on Capital Expenditures

Section 7.12 of the Credit Agreement places certain restrictions on FairPoint's flexibility with regard to funding capital expenditures. The Company is prohibited from making or becoming legally obligated to make any Capital Expenditure, except for Capital Expenditures in the ordinary course of business exceeding, in the aggregate for FairPoint and its Subsidiaries the following amounts:

Fiscal Year	Amount
2010	$220,000,000
2011	$200,000,000
2012	$180,000,000
2013	$160,000,000
2014	$160,000,000

If FairPoint and its Subsidiaries do not utilize the entire amount of Capital Expenditures permitted in any fiscal year, as long as no Default or Event of Default exists, or is caused, FairPoint and its Subsidiaries may carry forward to the immediately succeeding fiscal year, the Capital Expenditures Carryover Amount for such fiscal year. Thus, FairPoint, during the period 2010 through 2014, may invest up to $920 million in capital projects unless it satisfies this agreement at an earlier date. We believe these limitations will not adversely affect the operating company's ability to meet its capital spending and other obligations, including those in the Regulatory Settlement.

d) Rejected Contracts

On April 23, 2010, FairPoint disclosed that it had rejected approximately 150 executory contracts relating to various vendors, service providers and customer contracts. To date we have received information relating to the rejection of customer agreements regarding payphone installations, which will be further discussed in the following section of this Report. We have not received information regarding the financial implications of the rejections of the various vendor and supplier contracts or with information regarding how, or if, FairPoint intends to replace the products and services provided pursuant to those rejected contracts.

III. LITIGATION TRUST

Attachment H to the Debtor's Second Amended Joint Plan of Reorganization (Plan), provides for a Litigation Trust (Trust) to be created and for such Trust to hold certain claims FairPoint may have against third parties. The Trust is to be funded once by FairPoint, in an unspecified amount to provide operational funds. FairPoint confirmed that claims in the Trust are limited to those concerning one creditor (Verizon), and that FairPoint's contribution to the Trust is capped at the initial contribution amount. In the event the Trust recovers monies, those proceeds will first be used to repay FairPoint for the initial contribution. Recoveries beyond FairPoint's contribution will be divided between two creditor classes. Secured creditors will receive 55% of any net recoveries and unsecured creditors will receive the remaining 45% of any net recoveries.

In large, complex bankruptcies use of a Litigation Trust is not unusual. Often it provides the additional inducement necessary to convince creditors to vote to confirm a Plan of Reorganization by transferring to creditors some contingent claims that will be resolved after the effective date of reorganization. Because the amount of FairPoint's contribution is capped,, we do not believe this arrangement will adversely affect FairPoint's ability to meet its obligations and commitments.

IV. PAYPHONES

The Plan Supplement provides a Schedule of Contracts/Leases to be rejected prior to emergence from bankruptcy. Included in this document are certain contracts between the Company and various property owners and managers, related to the base of payphones owned and operated at that time by the Company. After rejection, FairPoint intends to maintain the payphones, but to no longer compensate the property owner for having the units in place. We understand FairPoint has no plans to sell the payphone base to a firm prepared to continue servicing the units and the customer relationships.

These contracts typically provide for a specified payment to the property owner or manager as a form of consideration for the installation of the payphones on their property. This consideration is a primary driver in the property owner's motivation to allow the Company to install and operate the payphones. While it is difficult to determine the going forward position of the property owners regarding the payphones on their property, it is safe to say that a motivation for the provision of this property will be reduced or eliminated.

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The use of payphones has changed dramatically over the past ten years with current usage typically limited to an emergency or backup form of communication for many low income citizens. They also serve as a primary form of communication for inmates in state and federal correctional facilities.

The Company has stated that this decision was a result of their inability to accurately account for the incentives paid to property owners as required in their contracts with the Company.

FairPoint chose to reject a total of 786 payphones serving 555 locations in Maine, Vermont and New Hampshire. Of the approximate 1,800 payphones in New Hampshire, FairPoint chose to reject contracts covering 153. Calls are made by payphone users and payment is in the form of coin (cash) or non-coin (credit cards or collect calls). FairPoint advised us that the Company does not have records for collect and credit card revenues for payphones. In 2009 FairPoint received approximately **$**[redacted] in coin revenues. We believe the revenue impact of rejecting these contracts is insignificant.

However, due to the rejection of these contracts and the loss of the property owners' motivation to provide space and care over the payphones it is difficult to determine how the locations will be serviced and maintained and how this decision might impact the required services levels related to these payphone locations. Should the property owners be unwilling to allow FairPoint to keep its payphones as currently located without any monetary compensation from FairPoint, FairPoint will need to remove the payphones. Accion notes that FairPoint would need to comply with all notice provisions regarding removal of payphones, including the 30 day notice requirement and that there could be potential public interest payphone issues as a result of the removal of the payphones.

V. REVENUE

Attainment of the Company's projections related to revenue continues to be in question.

As stated in the Business Plan Review provided to Deloitte by FairPoint, the financial advisors to the New Hampshire PUC Advocate Staff, the Company comments that their forecasts are ***driven by*** "units" (individual revenue measurement units), and "ARPU"(Average Revenue per User).

See the language below extracted from the Report of Accion Group submitted April 19, 2010, relating to the review of the Company's revenue projections. While the projections show the revenue decline flattening in 2010 and then increasing slightly in the projected out years, the Company has yet to provide information relating to its planned initiatives expected to result in these changes to revenue.

Language from the Report of Accion Group

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 ARPU. Projections assume that it will continue to lose local and long distance voice customers to wireless substitution, wireline competition from competitive local

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exchange carriers and cable operators and as dial-up customers replace their service with DSL technology which does not require a land line

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. 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.

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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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. This is in addition to the fact that the Company has experienced significant degradation in service levels from the cutover 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. 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 sales management is able to determine the "costs to generate a new customer". We believe that this is an essential metric that should be accurately and constantly measured in order to ensure that the sales force is targeting those customers who will positively contribute to the Company's projections.

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 received the information, thus our assumptions are not presented with the knowledge of exactly "how" the Company plans to generate this revenue growth.

The commentary (above) relating to the attainment of projected revenue, does not take into consideration the recent restatements of financial results, that resulted in a reduction of revenue for the three and six months ended March 31, 2009 and June 30, 2009 of 5% and 4.5% respectively. These restatements effectively widen the gap from actual results to projected results. The latest financial results provided to us were for the third quarter of 2009. We have not been provided with year-end financial statement, or first quarter 2010 financial statements. To the extent that the Company's actual results missed the projects due to the restatements of 2009 revenues, we would have additional concern as to the Company's ability to meet its revenue targets.

VI. PLEDGING VT TELCO AS SECURITY

In the request for Approvals filed by FairPoint on February 24, 2010, the Company requested permission to pledge the membership interest it holds in VT Telco for a new term loan as part of the Bankruptcy Reorganization. We understand that the assets of VT Telco are not used to serve customers in New Hampshire, and that pledging the membership interest is necessary to complete the reorganization. It is common for a company emerging from bankruptcy to pledge of its assets as security for credit extended to facilitate reorganization. The proposed pledge would be consistent with that practice and we do not consider it to be adverse to achieving a viable company in New Hampshire.

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Further, it appears to be a required step in order to secure the new Credit Agreement and to win the support of FairPoint's secured creditors.

VII. CONCLUSION

The Supplemental filings do not materially alter our previous findings and conclusions. We continue to believe that the Plan presents a financial restructuring that seems reasonable. At the same time, it must be understood that the success of the reorganization, and the Company, is largely driven by the attainment of revenue projections which seem aggressive given the recent results of the business as well as the significant reduction in demand for certain types of telecommunications services. . Further, the Company has yet to provide evidence of specific planned initiatives intended to support their projected revenues. As stated in our initial report, we believe the Commission should establish strict milestones for tracking FairPoint's progress in meeting revenue and other operational projections, and closely monitor those milestones.

The credit facility terms and conditions appear to be fair and reasonable, and appear to provide the Company with ample cash resources, sufficient financial flexibility and access to capital.

We believe the Success Bonus Plan is customary for a restructuring of this nature and the metrics used to measure performance seem appropriate. We are, however, awaiting information regarding the identity of eligible personnel. The Long Term Incentive Plan also appears to be designed to reward the achievement of clearly defined metrics and desired results.

Revenue attainment continues to be the most significant challenge we have identified. While the projections used by the Company in its Plan of Reorganization show the Company establishing stability in revenue performance, the plan lacks specificity regarding actions and or initiatives that the company plans to take to ensure that the projected revenue levels and related metrics are realized.

The rejection of payphone contracts is likely to have a small but negative impact on revenue, and a potential reduction in access to payphone locations which may be contrary to NHPUC Quality of Service Standards. We believe the arrangement contemplated by FairPoint, consisting of maintaining the payphones without compensating the site owner, will ultimately have a negative impact on the phone locations and their usability. In our opinion, a potential solution would be to sell the payphone business line to a suitable payphone operator.

In the course of the bankruptcy FairPoint reduced its debt obligations by more than $1.5 billion and rejected numerous vendor contracts to limit future obligations. The Regulatory Settlement with the Advocate Staff of the Commission FairPoint would modify FairPoint's obligation to New Hampshire customers thereby further enabling FairPoint to manage its expenses on an ongoing basis.

Further, FairPoint committed to honor the terms of the Settlement Agreement with its wholesale customers found in Exhibit 2 to the Settlement Agreement Among the Joint Petitioners and the Commission Staff, dated as of January 23, 2008 (the "2008 Settlement Agreement"), in NHPUC Docket DT 07-011.

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While the modifications noted above should enhance the Company's ability to meet its obligations and commitments, the reorganized Company's success is largely dependent on management being able to attain revenue projections in an industry that is undergoing significant change, including the dramatic reduction in usage of various forms of telecommunication services. We believe FairPoint will remain financially viable, but at risk, for a number of years.

The Second Amended Plan of Reorganization, as modified by the supplement filed with the Bankruptcy Court on April 23, 2010, has yet to be confirmed by that court. As we have stated repeatedly, even once a plan is confirmed the Company has significant challenges before financial projections can be realized. For these reasons, we recommend that the Commission condition any approval in the following ways:

- The Second Amended Plan of Reorganization is confirmed by the Bankruptcy Court without any significant changes from the plan presented to the Commission, as modified by the supplement filed with the Bankruptcy Court on April 23, 2010;
- When the First Quarter 2010 operational and financial results are made available to the Commission, they are determined to be consisted in all significant ways with the projections presented in the Disclosure Statement;
- The plan confirmed by the Bankruptcy Court does not reject any terms of (a) the 2008 Settlement Agreement, as modified by the 2010 Regulatory Settlement, (b) the 2010 Regulatory Settlement with any conditions or restrictions the Commission may include, or (c) Stipulated Settlement Terms by and among FairPoint Communications, Inc., Freedom Ring Communications, LLC d/b/a BayRing Communications, LLC, segTEL, Inc., Otel Telekom, Inc. and National Mobile Communication Corporation d/b/a Sovernet Communications", filed as Exhibit 2 to the 2008 Settlement Agreement in NHPUC Docket DT 07-011;
- In the event regulatory approvals in Vermont or Maine include conditions or requirements that the Commission believes would be appropriate in New Hampshire, FairPoint agrees to extend those conditions or requirements to its operations in New Hampshire; and,
- In addition to the Commission's monitoring of broadband implementation, for at least one year after the Effective Date the Company should retain a monitor selected by the Commission to closely monitor the implementation of all steps taken by FairPoint to achieve the revenue projections and operational improvements.

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