STATE OF VERMONT

PUBLIC SERVICE BOARD

Joint Petition of Northern New England Telephone Operations LLC, Telephone Operating Company of Vermont LLC, d/b/a FairPoint Communications, Enhanced Communications of Northern New England, Inc., and FairPoint Vermont, Inc. (collectively, "FairPoint"), for (1) approval of an indirect acquisition of a controlling interest; (2) approval of a Settlement between the Department of Public Service and FairPoint; (3) approval of the modification of certain Certificates of Public Good issued in Docket 7270; and (4) approval of certain other transactions)	Docket No. 7599

REDACTED

SUMMARY OF PREFILED TESTIMONY OF AJAY SABHERWAL AND LISA R. HOOD:

Mr. Sabherwal and Ms. Hood explain in detail FairPoint's efforts to respond to the concerns of the Public Service Board, as stated in the Board's Order of June 28, 2010. The witnesses explain, among other things, how FairPoint developed a comprehensive "bottom-up" forecast effort based upon current and historical financial results, and the resulting projections for the period 2010 through 2015, with the primary focus being on the period 2010-2013. In addition, Mr. Sabherwal and Ms. Hood explain how FairPoint verified the reasonableness of the forecast results through the assistance of two outside consulting firms. The witnesses also describe FairPoint's anticipated liquidity over the forecast period and its agreement with the secured lenders to revise the post-exit Credit Agreement to provide FairPoint additional financial flexibility to run the business in light of the Forecast results.

In addition, through this Prefiled Testimony, FairPoint provides additional information with respect to (i) Silver Oak Capital, LLC, and its affiliates; (ii) FairPoint's post-exit corporate governance structure; (iii) recent internal management changes; and (iv) FairPoint's anticipated post-exit Board of Directors. Based upon the totality of this new testimony and the evidence previously admitted into evidence in this Docket, FairPoint seeks prompt Board approval of the requests made in the Joint Petitioners' Second Amended Petition, dated May 24, 2010, and as updated.

REDACTED

Mr. Sabherwal sponsors the following exhibits:

Exhibit FP-AS-1C	Financial Forecast, October 20, 2010 (Confidential)
Exhibit FP-AS-2C	Review and Findings of Altman Vilandrie & Co. (Confidential)
Exhibit FP-AS-3	FairPoint Communication, Inc.'s Ninth Amended and Restated Certificate of Incorporation

Ms. Hood sponsors the following exhibits:

Exhibit FP-LH-4.	Amended Quarterly Report on Form 10-Q for the Fiscal Quarter Ended June 30, 2010

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REDACTED

PREFILED TESTIMONY OF AJAY SABHERWAL AND LISA R. HOOD

I. INTRODUCTION AND QUALIFICATIONS

Q1. Mr. Sabherwal, please state your full name and your business address.

A1. My name is Ajay Sabherwal. My business address is 521 East Morehead Street, Suite 500, Charlotte, NC 28202.

Q2. By whom are you employed and in what capacity?

A2. I am employed by FairPoint Communications, Inc. ("FairPoint Parent", and FairPoint Parent together with all of its direct and indirect subsidiaries, collectively referred to herein as "FairPoint") as Executive Vice President and Chief Financial Officer.

Q3. Please describe your duties and summarize your professional experience, education and training?

A3. I joined FairPoint in July 2010. I am responsible for FairPoint's financial reporting and control, investor relations and treasury functions. I report directly to the Chief Executive Officer. I began my telecommunications career in 1989 in Canada with CNCP Telecommunications (the predecessor company to AT&T Canada) where I was a senior manager of business planning. Subsequently, I joined Deacon Barclays deZoete Wedd as a telecommunications equity analyst and thereafter joined Canadian Imperial Bank of Commerce. In 1999, I became Chief Financial Officer at Choice One Communications (the predecessor company to One Communications) in Rochester, New York. Most recently, I served as Chief Financial Officer at Aventine Renewable Energy and Mendel Biotechnology.

I hold a Bachelor's degree in Mechanical Engineering and a Master's degree in Economics from the Birla Institute of Science and Technology in India. I earned a Master of Business Administration degree from the Manchester Business School in Manchester, England.

Q4. Have you submitted pre-filed testimony in Docket No. 7599 previous to this submission?

A4. No.

Q5. Ms. Hood, are you the same Lisa R. Hood who testified previously in Docket No. 7599?

A5. [Ms. Hood] Yes.

Q6. What is your present position with FairPoint?

A6. Effective September 13, 2010, I have been appointed as Senior Vice President of Financial Initiatives for FairPoint. Previously, I had served as interim Chief Financial Officer following the departure of FairPoint's prior Chief Financial Officer. With the appointment of Mr. Sabherwal as Chief Financial Officer, I am no longer serving in that capacity. I also previously served as FairPoint's Senior Vice President and Controller.

Q7. What are your present duties as Senior Vice President of Financial Initiatives and who do you report to?

A7. I report directly to Mr. Sabherwal. In my new role, I will work on special projects such as financial systems integration and cost reduction initiatives. In order to leverage the recent work performed on FairPoint's financial forecast, I also will lead the 2011 budget process.

II. PURPOSE OF TESTIMONY

Q8. What is the purpose of your testimony?

A8. [Mr. Sabherwal/Ms. Hood] In its Order entered on June 28, 2010 in this Docket (the "June Order"), the Vermont Public Service Board (the "Board") determined that FairPoint had not provided the necessary evidence for grant of the approvals requested by FairPoint in connection with its emergence from bankruptcy under its proposed bankruptcy reorganization plan. The Board permitted FairPoint to submit a revised proposal that addresses the Board's concerns and demonstrates the financial soundness of the reorganized company. For example, on page 65 of the June Order, the Board stated: "FairPoint also must ensure that its analysis uses reasonable and supportable inputs for future revenue." With respect to operating expenses, the Board similarly ruled on page 66 of the June Order: "...FairPoint must demonstrate the reasonableness of its operating cost assumptions..." Indeed, the Board stated in its conclusion on page 95 of the June Order that "[i]f FairPoint had demonstrated that it would be financially sound, [it] would likely have granted the regulatory approvals FairPoint sought." Our testimony addresses those concerns and demonstrates the financial soundness that the Board was seeking by presenting a current financial forecast with detailed information regarding the inputs into the Forecast (hereinafter defined), including the assumptions used in deriving forecasted costs and revenue. The Forecast projects significantly lower EBITDA (earnings before interest, taxes, depreciation and amortization) compared to the originally filed projections.

In addition, based upon the Forecast, FairPoint and its secured lenders recently agreed to revise the post-exit Credit Agreement. The revised terms and FairPoint's ability to satisfy its covenant obligations under the Credit Agreement are described in detail in this testimony. In general, the revised terms relax the financial covenant obligations in the post-exit Credit Agreement and provide FairPoint with adequate cushion when the revised covenants are tested against the newly forecasted financial results. The revised post-exit Credit Agreement also defers portions of the scheduled principal repayment of the post-exit long term debt; $175.0 million of principal repayment originally due during years 1 through 4 of the post-exit credit facility has been deferred to year 5 of the term. These revisions are in addition to the $1.7 billion reduction in FairPoint's pre-petition secured and unsecured debt contemplated by the Plan of Reorganization (hereinafter defined).

We also provide further information regarding Silver Oak Capital, LLC ("Silver Oak"), an investor expected to hold approximately 15% of the common stock of the reorganized company, and that entity's ownership structure. In doing so, this testimony responds to the Board's statement on page 39 of the June Order that further information regarding Silver Oak is needed for the Board to approve Silver Oak's anticipated indirect acquisition of 10% or more of the common stock of FairPoint Parent.

Finally, this testimony provides updated information regarding the composition of FairPoint's anticipated Board of Directors at emergence. This information supplements the information previously provided to the Board during the earlier phase of these proceedings.

With this submission, we believe FairPoint has demonstrated its financial soundness, has submitted adequate information regarding Silver Oak, and has provided the Board with all of the data necessary for its consideration and approval (without conditions) of FairPoint's Second Amended Petition, dated May 24, 2010.

Q9. Before you describe the current financial forecast and the additional issues referenced above, can you please update the Board on any recent management changes?

A9. [Mr. Sabherwal] Yes. In addition to my joining FairPoint as Executive Vice President and Chief Financial Officer, there are two recent senior management changes. The first is the hiring of Paul Sunu as FairPoint's Chief Executive Officer. Mr. Sunu also was appointed to FairPoint's Board of Directors. Mr. Sunu has extensive experience in the telecommunications industry and most recently served as Chief Financial Officer of Hargray Communications, a provider of voice, high-speed data and video services. He also previously worked as the Chief Financial Officer of Hawaiian Telcom from 2007-2008 and was a founder, Chief Financial Officer and a member of the Board of Directors of Madison River Communications. He began his career with Arthur Young & Company in Chicago, and then spent the better part of two decades at tax, investment and management consulting firms. Mr. Sunu currently serves on the Board of Directors of Integra Telecom. In addition to being a Certified Public Accountant, he earned a Juris Doctor degree from the University of Illinois - College of Law.

Ray Allieri recently ended his the employment with FairPoint. Jeffrey Allen is now overseeing the Northern New England consumer and business sales teams. Mr. Allen also will direct FairPoint's marketing efforts as the company launches the carrier Ethernet products for large and wholesale customers, and the increased focus on small-to-medium businesses throughout the region.

Ken Amburn has been named Executive Vice President of Operations, effective October 18, 2010. With 42 years in the telecommunications industry, Mr. Amburn's background includes managing many areas of regulated and competitive telecommunication companies including integration of existing and acquired properties. Mr. Amburn previously worked at Citizens Utilities where, as Vice President-East Region, he oversaw the successful integration of properties acquired from GTE in West Virginia, New York and Tennessee. He also spent two decades at Centel in North Carolina, Nevada and Texas. There, he became

Vice President Sprint/Centel-Texas Region, after Centel merged with Sprint. After his tenure with Sprint/Centel, Mr. Amburn served as an Executive Vice President of Network Construction Services (a telephone equipment design and installation based company operating on military bases) where he was responsible for operations including: engineering, business development and sales. Most recently he was Chief Operating Officer at Madison River Communications, where he developed and implemented the integration plans for the acquisition of properties in Illinois, Alabama and Georgia.

In addition, with Ms. Hood's role changing as she described above, on September 13, 2010, John Hogshire joined FairPoint as Vice President and Controller, reporting to me. Mr. Hogshire is responsible for the timely and accurate closing of FairPoint's accounting records, and for ensuring compliance with the Sarbanes Oxley Act of 2002, various regulatory matters, and federal and state income taxation rules, regulations and statutes. Mr. Hogshire has an extensive background in finance and accounting, and brings 23 years of telecommunications experience to the position. He most recently served as Director of Accounting for Aviat Networks (formerly Harris Stratex Networks) prior to which he was Vice President and Controller for Madison River Communications for nine years. Mr. Hogshire also worked with Sprint for 10 years, leaving that company as Manager of Revenue Accounting. As the Manager of Revenue Accounting, Mr. Hogshire supervised a staff of over 70 exempt and non-exempt employees. Mr. Hogshire is a Certified Public Accountant.

III. EXECUTIVE SUMMARY RE: FORECAST

Q10. Mr. Sabherwal, please summarize the forecast efforts and the forecast results.

A10. [Mr. Sabherwal] The Forecast is reflected in "FairPoint Communications, Inc. - Financial Forecast - October 20, 2010" (the "Forecast"), a copy of which is attached to this prefiled testimony as confidential **Exhibit FP-AS-1C**. While the Forecast provides updated financial information for the fiscal years 2010 through 2015, this testimony primarily focuses on the period 2010 through 2013.

We prepared the Forecast with the benefit of, among other things, six months of actual performance data during 2010 and utilized a bottom-up approach based on information solicited and secured from all relevant FairPoint departments. FairPoint also received assistance with this project from our financial advisory firm in the Chapter 11 bankruptcy process, Rothschild Inc. ("Rothschild"). One major element of any forecast is the determination of future demand. While we based our forecast on inputs such as current trends and our understanding of the market and industry, FairPoint sought to further substantiate the reasonableness of its assumptions through an independent verification of NNE demand. We did so by retaining Altman Vilandrie & Company ("AV&Co") for this purpose. To be clear, FairPoint did not retain AV&Co for purposes of being a witness in these proceedings. It is a normal business practice for professionals in my field and companies like FairPoint to commission and then rely upon studies and analysis such as the one prepared by AV&Co in order to reach our own conclusions and confirm our own analysis. Because the AV&Co assessment may be useful to the Board in understanding or confirming our NNE revenue Forecast, I hereby submit that assessment as FairPoint's **Exhibit FP-AS-2C (Confidential)**.

Despite such assistance, the Forecast is an internal management tool belonging to FairPoint, not its financial advisor or consultant, and represents an updated view of the business based on a recent and detailed review of the performance of the business and the underlying business drivers. We believe this effort has produced a realistic view of FairPoint's financial outlook through the period ending December 31, 2015, utilizing reasonable and fact-based assumptions for revenue generation and expenses. The Forecast demonstrates that FairPoint's financial situation is sound, albeit not without challenges stemming from competition.

From an Income Statement perspective, revenue and gross margin remain **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.** The Forecast demonstrates that reorganized FairPoint will generate positive cash flow and be in a position to service the contemplated post-exit debt structure.

Q11. Have FairPoint's secured lenders in the Chapter 11 bankruptcy case reviewed the Forecast?

A11. Yes. FairPoint presented the Forecast to its secured lenders in FairPoint's Chapter 11 bankruptcy case. In response, the secured lenders agreed to revise the financial covenants contained within FairPoint's proposed post-exit Credit Agreement and to push out significant principal amortization of post-exit long term debt. In summary, the revisions to the financial covenant obligations, when applied to FairPoint's forecasted financial results, provide FairPoint with approximately **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXX **END CONFIDENTIAL** in cushion during each quarter for fiscal years 2011 through 2013. Based upon the forecast results, it is anticipated that FairPoint will not breach its covenant obligations (as revised), the total leverage ratio covenant or the interest coverage ratio covenant at any point in time during the forecast period. These revisions, which provide further financial flexibility to FairPoint, are in addition to the approximately $1.7 billion in debt that FairPoint's creditors have agreed to exchange for equity in connection with FairPoint's Chapter 11 restructuring.

Q12. Will the secured lenders reduce further FairPoint's anticipated post-exit debt level below the previously disclosed amount of approximately $1.0 billion?

A12. No. Given the outcome of the Forecast and the revisions to the post-exit Credit Agreement, there is no need to reduce further the amount of the secured, long-term debt that will be owed by FairPoint at emergence. The secured lenders already have agreed to reduce substantially FairPoint's pre-petition secured debt by approximately $1.2 billion, which, together with the $500.0 million unsecured debt reduction, means that FairPoint will have approximately $1.0 billion in secured debt plus a $75.0 million revolving credit facility at emergence. The Forecast shows that this post-exit level of debt can be supported by the business.

It also is worth noting that to address a concern raised in the June Order - ensuring FairPoint's financial viability and sustainability - the secured lenders have agreed to relax the financial covenants and provide a greater liquidity cushion by deferring certain required amortization payments during the five-year term of the post-exit Credit Agreement. The revised covenant obligations are based on forecast results, which have substantially reduced EBITDA metrics as compared against prior projections (*i.e.*, forecasted revenue is lower and forecasted expenses are higher than in prior projections). Thus, there is no reason for the secured lenders to reduce further the long term debt for FairPoint to meet its future financial, regulatory and business objectives and obligations.

In addition, the Forecast compares FairPoint's anticipated post-exit leverage and fixed charge ratios with those of its peers in the telecommunications industry. Debt is a component in the capital structure of each of these companies. As demonstrated in the Forecast, FairPoint's forecast leverage ratio is comparable to the leverage ratios of Frontier and Windstream. FairPoint's projected fixed charge ratio is reasonable when compared to CenturyLink, Consolidated, Frontier and Windstream. This comparison further supports FairPoint's position that the company can support the contemplated post-exit debt level.

IV. FINANCIAL SOUNDNESS OF REORGANIZED FAIRPOINT

A. General Overview of Forecast

Q13. Please describe in general the steps taken by FairPoint to address the Board's concerns regarding the prior financial projections and how you believe the current submission demonstrates the financial soundness of the reorganized company.

A13. [Mr. Sabherwal/Ms. Hood] The financial projections initially offered by FairPoint in support of its request for approvals in this Docket were derived by taking actual historical results for a period of time in 2009 and applying forecast trends to project future revenue, expenses and capital expenditures. Following the evidentiary hearings, the Board directed FairPoint to prepare a series of additional financial scenarios applying assumptions from the Board. In responding to those requests, FairPoint sought to explain why many of the assumptions were not appropriate or applicable; but, in deference to the Board's requests, FairPoint prepared the scenarios as directed. Those scenarios were admitted into evidence as confidential Exhibits Board-1, Board-2 and Board-3, and, under certain assumptions, those scenarios showed FairPoint to be at risk of violating certain of the financial covenants contained in the post-exit Credit Agreement prior to the revisions described herein.

In the June Order, the Board faulted FairPoint for using a "top down" or "company wide" approach when developing projections instead of a "bottom-up" or "business unit" approach. *See* June Order, p. 52. The Board determined that "[b]ottoms-up [sic] projections are more in-depth and are generally considered to be more reliable indicators of future performance, especially for organizations undergoing significant change." *Id.* The Board further determined that the assumptions used in the projections were not sufficiently supported. *See* June Order, p. 53.

In response to the Board's determinations, FairPoint performed a "bottom-up" analysis. This is reflected in the Forecast, which has been prepared using detailed, supportable assumptions, as described below. The Forecast also was based upon restated financial results for fiscal year 2009 and unaudited interim financial results through June 30, 2010. To develop the Forecast, we secured extensive input from FairPoint's internal organizations, and those organizations provided information based upon actual business needs in the current environment and on a going forward basis. FairPoint's senior management then worked with the company's financial advisor in the Chapter 11 bankruptcy case (Rothschild) to assemble the data and prepare the Forecast.

Once completed, FairPoint retained AV&Co, an independent consulting company, to collect and synthesize data on the telecommunications marketplace in Northern New England and assess the reasonableness of FairPoint's revenue forecast based upon FairPoint's products and market share, the competitive landscape, and the current economic conditions and market demand for telecommunications and data services in the Northern New England states. AV&Co's study provides support for FairPoint's revenue Forecast based upon the overall anticipated demand for telecommunications services and the economic climate for the Northern New England (former Verizon New England Inc. ("Verizon")) service territories. AV&Co's conclusions validated FairPoint's final revenue Forecast effort and are discussed in detail later in this testimony. FairPoint also shared the Forecast with the secured lenders and their agent's financial advisor, a firm with a strong background in telecommunications. Following that review, the secured lenders agreed to the revisions described above to the company's post-exit Credit Agreement.

Both the revenue Forecast and AV&Co's assessment of it reflect the competitive market conditions that FairPoint faces in Northern New England. The Forecast conservatively assumes that access line losses will continue, which is a reality for every provider of telecommunications services in the United States due to changes in technology, including increased deployment and adoption of substitutable services such as wireless telephony and broadband-based applications like Voice-over-Internet Protocol ("VoIP") service. At the same time, the evolving nature of the Northern New England marketplace also offers opportunities for growth in FairPoint's business. While FairPoint intends to pursue vigorously these growth opportunities, the Forecast is conservative with respect to the product mix, pricing and volumes that drive revenue. As a result, the Forecast utilizes different and more conservative assumptions than the prior projections.

Q14. Please describe how the revenue forecast was prepared.

A14. [Mr. Sabherwal/Ms. Hood] Revenue estimates were assembled using a bottom-up approach similar to the process typically utilized in the preparation of a budget. The senior leadership of multiple organizations within the company actively reviewed and interpreted historical data, identifying interrelationships that drive revenue, and assuring that detailed assumptions that reflect FairPoint's tactical and strategic initiatives were utilized. Senior management analyzed actual financial results from billing and ordering system extracts over the period of January 2010 through June 2010 for purposes of establishing a baseline and trend analysis. We believe that data from this period reflects fewer systems anomalies and most accurately represents sales and market trends in an economy slowly recovering from a severe recession. In addition, the historical data was segregated by market segment, product instance and product average revenue per unit ("ARPU") to ensure these variables were considered in the revenue Forecast. The assumptions were formulated at a very detailed level, down to specific pricing and units of volume by product, driven by anticipated sales initiatives, and the timing of supporting capital expenditures. FairPoint's legacy rural telephone companies (collectively the "Telecom Group") were included in the analysis. In preparing the revenue projections, we considered not only the potential demand for products we currently offer and plan to offer on our new IP network, but also our sales capabilities and sales productivity levels.

Q15. How does the Forecast address operating expenses and capital expenditures?

A15. The Forecast for operating expenses employs a bottom-up approach like that used for revenue. Key expense drivers include, among other categories, employee expense, headcount and marketing expense. Capital expenditures (sometimes referred to herein as "capex") are grouped into four basic categories: (i) capex required to meet regulatory commitments, (ii) success based capex initiatives, (iii) capitalized components of costs to maintain the network, and (iv) certain additional projects.

Q16. Please describe in a general manner the Forecast results.

A16. [Mr. Sabherwal] The results reflect our belief that FairPoint will be financially viable notwithstanding the challenging economy and the highly competitive market within which FairPoint operates. With the conservative "bottom-up" detailed assumptions used in preparing the Forecast, FairPoint is expected to retain adequate liquidity (including access to a revolving credit facility) throughout the Forecast period and remain comfortably in compliance with its debt covenants.

On pages 65 and 66 of the June Order, the Board noted that any revised submission should include revenue and expense projections based upon past performance, with any increases in revenue and decreases in expenses being adequately justified. We believe the Forecast meets the requirements of the Board's June Order.

Q17. Are there specific financial considerations in the Forecast that you wish to bring to the attention of the Board?

A17. Yes. There are a number of specifics with regard to the inputs for both revenue and expenses that warrant more detailed discussion. The results are discussed below and contain significant redactions to address confidentiality concerns. This information clearly is competitively sensitive and highly confidential. We understand the information also is considered material, non-public information under federal securities laws and regulations.

B. Detailed Forecast Results - Revenue

Q18. Please address the revenue inputs, assumptions and results.

A18. [Mr. Sabherwal] We have balanced the need to be conservative in the revenue inputs with the reality that our network and the marketplace have changed in recent years and will continue to change. Our business is moving from analog voice service to data applications, one of which is voice (*i.e.*, VoIP replacing traditional voice service). While FairPoint likely will continue to see declines in traditional voice access lines, the company also has made major investments in its next generation network, known as the VantagePoint network. FairPoint will have many new products and services to offer that will form the basis for our success going forward.

While the Forecast reflects the introduction of new services, the financial impact of those new services is gradual. Most of these new services were planned in the original projections provided to the Board, but we have spent considerable additional time planning the details and generating more granular financial projections for these services in the Forecast. We will be undertaking a number of major efforts to shift product sales from TDM-based products to new high-bandwidth, IP-oriented services over the coming years. For this reason, the Forecast reflects revenue from new products on a conservative basis in 2011 **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL**. This increase reflects the expected migration of services provisioned off of the traditional TDM network to the VantagePoint network. We believe this assumption to be reasonable as customers today seek products and services that deliver higher bandwidth and greater speed; products and services that FairPoint designed the VantagePoint network to provide.

Revenue also will be affected by **BEGIN CONFIDENTIAL** XXXXXXXXXX. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**. Overall, however, the Forecast conservatively reflects that FairPoint's total revenue and gross margin remain flat throughout the Forecast period, as growth from the introduction of new services is expected to be offset by the effects of churn on FairPoint's existing base of subscribers.

Revenue projections for each market segment are largely based on historical results modified by sales channel adjustments, new product introductions, or a combination of both. The Forecast assumes that the negative effect on sales and revenue of the Chapter 11 bankruptcy process and the related restructuring process will be eliminated by 2011. The various revenue segments are:

Residential. Residential revenue is forecast to decline at **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Small and Medium Business. The Forecast includes **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Large Business. Based on positive sales trends in 2010 and the expected **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Government and Education. Revenue is expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Enterprise. Revenue in the Enterprise segment is expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Wholesale. The introduction of carrier Ethernet services is expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

Telecom Group. Revenue for the Telecom Group is forecast to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL**

We have made a series of other specific assumptions, such as:

- Our forecast of new installations has been prepared by sales channel to reflect the capabilities and resources of each channel. This includes the internal sales force, contract sales representatives, and telemarketing.

- We appropriately reflect the **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX. **END CONFIDENTIAL**
- Non-recurring costs for new Ethernet products are assumed to be high initially, declining on a per-install basis in future years.
- ARPU is assumed to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**
- Performance assurance plan and retail service quality index-based penalties are assumed to decrease as service continues to improve.

The resulting consolidated revenue is shown on pages 19-20 of the Forecast, and separately by business segment.

In addition, revenue from residential voice services generated by the former Verizon operations in Northern New England **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX. **END CONFIDENTIAL** Based upon these results, FairPoint is projected to maintain compliance with its covenant obligations as reflected on page 17 of the Forecast.

C. Detailed Forecast Results – Operating Expenses & Capital Expenditures

Q19. Please provide similar specifics with regard to the operating expense assumptions and projections reflected in the Forecast.

A19. [Mr. Sabherwal/Ms. Hood] In addition to growing revenue, FairPoint's success requires us to address operating expenses. The biggest driver of operating expense is employee compensation and benefits. We have made detailed assumptions regarding wage escalations for union and non-union personnel that are consistent with related contractual agreements once FairPoint exits Chapter 11 bankruptcy. Employee benefit costs are projected based on headcount and stated annual escalation rates. **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL** This conversion increases salaries and wages, but decreases contracted services. This is a strategic change to reduce the costs of the services, but to also have these individuals as direct employees versus contracting with a third party provider. Based on these assumptions, and the assumptions summarized below related to employee headcount, we project employee expenses to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL.**

We also have made assumptions regarding other key expense drivers. On pages 28-29 of the Forecast, we provide strategies that we intend to pursue to address expenses. These include the following:

- **Uncollectible Receivables:** Uncollectible receivables are assumed initially at **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX **END CONFIDENTIAL** by January 2012. The net day sales outstanding **BEGIN CONFIDENTIAL** XXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL** by January 2013.

- **Salaries and Wages:** With respect to salaries and wage expenses, the Forecast assumes **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

- **Contracted Services:** This category includes an **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX. **END CONFIDENTIAL** Contracted services then **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**, respectively.

- **Building Related Services:** Rent expense, utilities and maintenance overall are expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.**

- **Network Expenses:** Other network and provisioning expenses are expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.**

- **Motor Vehicle:** This expense item is expected to **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXX **END CONFIDENTIAL**. The company should experience lower maintenance operating expense as the vehicle fleet is upgraded over a five year period from the date of the merger.

- **Marketing Costs:** 2011 includes **BEGIN CONFIDENTIAL** XXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX **END CONFIDENTIAL** strategies. Each year thereafter, promotion and churn mitigation expenditures are based on percentages of estimated total revenue **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.**

- **Computer Expense:** We are projecting **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.**

- **Legal Expenses:** We project **BEGIN CONFIDENTIAL** XXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX **END CONFIDENTIAL** per year commencing in 2012 as the business continues to stabilize.

Q20. What assumptions does the Forecast make with regard to capital expenditures?

A20. Capital expenditures have been classified into four categories. We understand a key consideration for the Board is that all of the service quality and broadband capital expenditure commitments for the Northern New England business reflected in the respective regulatory settlements in the three states are assumed inputs into these projections, which is the case. This category is referenced in the Forecast as "Required" on page 31 of the Forecast. The other categories, as further described on page 31 of the Forecast, are: (i) "Success Based" capex, which consists of capital expenditures for new Ethernet services and new softswitches; (ii) "Maintenance" capex related to ongoing maintenance of the network, FairPoint's operating facilities and motor vehicles; and (iii) "Project"-based capex for special projects related to the digitization of outside plant drawings and software necessary to conduct voice line traffic studies.

Capital expenditures are forecast on a granular, and often on a by-project, basis. To the extent this spend could be correlated to and drive related revenue, that has been incorporated into the Forecast.

Forecast capital expenditures are significant at **BEGIN CONFIDENTIAL** XXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX **END CONFIDENTIAL** as elements of the Next Generation Network ("NGN") are completed and regulatory commitments are satisfied. This correlates to capital intensity (capital expenditures as a percentage of revenue) of **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXX **END CONFIDENTIAL**. This ranges from significantly above relative spend by industry peers to the high end of comparables in later years of the Forecast.

D. Key Output Metrics

Q21. Please describe the key items upon which you base your conclusion that FairPoint will be financially sound.

A21. The key Forecast output metrics of financial soundness are Consolidated EBITDAR less capital expenditures, cushions against the exit credit facility requirements and liquidity. Consolidated EBITDAR adjusts for non-recurring and non-cash impacting expenditures to provide an approximate normalized EBITDA and is utilized for purposes of the post-exit Credit Agreement covenants. Consolidated EBITDAR, as defined in the post-exit Credit Agreement, includes Operating EBITDA plus debt restructuring expenses, pension and OPEB expenses less required cash contributions, severance (with defined caps), success bonuses related to Chapter 11, and non-cash stock based compensation. On the Consolidated EBITDAR less capital expenditures metric, the value **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

As discussed in more detail below under Revisions to Credit Agreement, the covenant cushions provided through the modifications to the Credit Agreement are adequate and substantial based on the outputs in the Forecast.

Liquidity (cash plus availability under the revolving credit facility) also is adequate throughout the Forecast. The projection shows an ability to meet debt service obligations and finance working capital and business operations with substantial headroom. The Forecast demonstrates that reorganized FairPoint is likely to be in a position to service the post-exit debt structure through 2015 without the need to draw down its revolving credit facility for any extended period of time.

FairPoint expects to have to refinance the Credit Agreement outstanding principal in advance of maturity of the five year facility. While the Forecast shows the ability to meet all interest and principal payment obligations in the interim, the bullet payment in 2015 will require refinancing. In light of FairPoint's financial profile and capital structure, FairPoint expects this can be accomplished.

These metrics collectively demonstrate that FairPoint is viable given the nature of the underpinning assumptions in the Forecast and the significant additional cushion in place should there be any negative, unforeseen events which preclude realization of the forecasted results. In short, FairPoint is a financially sound company with the ability to safely meet its obligations.

Q22. Given the importance of the revenue and expense assumptions that are used for the Forecast, did FairPoint request that any independent consultants review the Forecast and the reasonableness of the assumptions used for revenue and expenses in **Exhibit FP-AS-1C (Confidential)**?

A22. [Mr. Sabherwal] Yes. As I noted earlier, we worked with our financial advisor retained in the Chapter 11 bankruptcy proceedings, Rothschild, and with AV&Co,

a specialist consulting firm in the telecommunications industry that performs detailed analyses of demand for telecom products and services. The assistance provided by AV&Co and Rothschild is of a type reasonably relied upon by telecommunication companies such as FairPoint and is of a type that I and others in my field rely upon in evaluating demand for telecommunications products and services, as well as financial forecast efforts of the type employed by FairPoint. Thus, this information was useful and helpful to me and FairPoint in reaching and confirming the Forecast.

Rothschild believes the Forecast to be realistic and conservative in light of FairPoint's present operations and the current nationwide telecommunications and data services market. We retained AV&Co to obtain an independent third-party view of demand. AV&Co performed its own independent study of demand for various telecommunications and data-based products and services in Northern New England. AV&Co's report is attached hereto as **Exhibit FP-AS-2C (Confidential)**. This report analyzes FairPoint's overall market share in Northern New England in comparison to FairPoint's revenue Forecast. In my opinion, AV&Co's assessment supports FairPoint's conclusion that the Northern New England market can support FairPoint's revenue Forecast.[1] Moreover, FairPoint's market share throughout the Northern New England territory, is, on average, **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

[1] AV&Co did not project the potential market for 2015. As explained in Exhibit **FP-AS-2C (Confidential)**, AV&Co's source data did not extend to fiscal year 2015.

XXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL**. These figures reflect strong competition from cable providers and other competitive carriers. However, the entire business market is expected to spend, on average through 2014, approximately **BEGIN CONFIDENTIAL** XXXXXXXX **END CONFIDENTIAL** annually for wireline based telecommunications services in Northern New England. AV&Co projects the wireline telecommunications voice market to be in the range of **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXX XXXX **END CONFIDENTIAL** annually through the same period of time. Thus, we believe the projected market conditions support FairPoint's revenue forecast.

Finally, it is worth noting that the Forecast also was shared with the secured lenders. As explained below, the parties reached an agreement on revisions to the post-exit Credit Agreement.

V. REVISIONS TO CREDIT AGREEMENT

Q23. Reference is made above to revisions to FairPoint's post-exit Credit Agreement. Could you please describe the revisions and their impact?

A23. [Mr. Sabherwal] Yes. As a result of the Forecast, FairPoint and the secured lenders have agreed to revise the Credit Agreement, which will become effective on the Effective Date under FairPoint's Second Amended Joint Plan of Reorganization (as further amended, the "Plan or Reorganization"). The Credit Agreement has been admitted in evidence in this proceeding as part of Exhibit

FP-8. The revisions affect the financial covenants and long term secured debt amortization schedule in the post-exit Credit Agreement.

Pages 14 through 17 of the Forecast identify the most significant revisions to the terms of the post-exit Credit Agreement, among them the revisions to the total leverage ratio and the interest coverage ratio. The total leverage ratio has been revised between 0.75x to 1.75x to provide additional cushion measured against the Forecast. The interest coverage ratio has been revised between 0.75x to 1.25x to provide additional cushion measured against the Forecast. The cushion, measured as a percentage of Consolidated EBITDAR, is calculated on a quarterly basis on page 17 of the Forecast. The percentage cushion ranges from **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL** of Consolidated EBITDAR for the interest coverage ratio. The percentage cushion ranges from **BEGIN CONFIDENTIAL** XXXXXXXXX XXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL** of Consolidated EBITDAR for the total leverage ratio. The analysis of the Forecast results measured against the revised covenants demonstrates that FairPoint should remain in compliance on a quarterly basis with the revised post-exit Credit Agreement throughout the Forecast period.

The other significant revision to the post-exit Credit Agreement pertains to the amortization schedule. As revised, the post-exit Credit Agreement will not require a principal payment during fiscal year 2011. Fiscal year 2012 amortization of $10 million remains the same as originally contained in the post-exit Credit Agreement. Fiscal year 2013 amortization has been reduced to $10.0 million from $50.0 million and fiscal year 2014 amortization has been reduced to $25.0 million from $150.0 million. The total principal amortization push amounts to $175.0 million for these four years. The last year of the credit facility requires an amortization of $12.5 million per quarter for the first three quarters of fiscal year 2015, with the $917.5 million balance due in the fourth quarter. The balance is due in 2015, but FairPoint intends to refinance the long-term, secured debt facility prior to its stated maturity.

Other technical changes have been agreed to and will be included in the modifications of the post-exit Credit Agreement. Those changes include revisions to the definition of Consolidated EBITDAR and the definition of Excess Cash Flow. The revisions have been explained on page 15 of the Forecast. The revised definition of Consolidated EBITDAR has been utilized for purposes of calculating the covenant cushion as detailed on page 17 of the Forecast.

VI. CURRENT FINANCIAL RESULTS AND ADDITIONAL EXHIBITS

Q24. Ms. Hood, do you sponsor any exhibits with this testimony?

A24. [Ms. Hood] Yes. I am sponsoring **Exhibit FP-LH-4**, which is the amended Quarterly Report of FairPoint Parent submitted to the Securities and Exchange Commission for the fiscal quarter ended June 30, 2010 (the "amended 10-Q").

Q25. Before asking you about the amended 10-Q, please provide any updated information on FairPoint's required approvals in any other jurisdiction.

A25. [Mr. Sabherwal/Ms. Hood] We think it is important for the Board to consider what the other Northern New England state regulatory bodies have ordered in the context of the various Regulatory Settlement Agreements FairPoint has entered into, specifically those FairPoint has entered into with the staffs of the New Hampshire Public Utilities Commission (the "NHPUC") and the Maine Public Utilities Commission (the "MPUC") (respectively) as well as with the Vermont Department of Public Service (the "DPS"). As noted in prior testimony, FairPoint and the DPS have entered into a "Post Filing Regulatory Settlement – Vermont", dated as of February 5, 2010 (the "Vermont Regulatory Settlement").

There are several factors to consider in evaluating the above-referenced Forecast information. First, the NHPUC and MPUC already have approved—without additional conditions—the Regulatory Settlement Agreements entered into in those states.[2] Indeed, among the factors considered by those agencies in

[2] The NHPUC issued its order July 7, 2010, in Docket No. DT 10-025. The MPUC issued its approvals in a series of 3 orders, each issued on July 6, 2010, in Docket Nos. 2010-76, 2010-77 and 2010-078. FairPoint also has received the necessary approvals from state regulatory authorities in New York, Illinois and Virginia.

approving the Regulatory Settlement Agreements without conditions was that failing to do so could cause FairPoint's Plan of Reorganization, which already incorporates the terms of the Regulatory Settlement Agreements, to unravel, thereby delaying—and possibly reducing or eliminating—the many benefits those Regulatory Settlement Agreements will bring to end users.

The second factor to consider is that, in the event the Board does not grant the Vermont-specific regulatory approvals and approve of the Vermont Regulatory Settlement without conditions, the Vermont Regulatory Settlement may not be effectuated. Section 1.2 of the Regulatory Settlement specifies that the Board's approvals (if granted) would be contemporaneous with the Bankruptcy Court's confirmation of the Plan of Reorganization. Although we are not lawyers, we understand that the Board's earlier decision not to approve the Vermont Regulatory Settlement within the prescribed timeframe for approval already has triggered FairPoint's right to void the Vermont Settlement Agreement or withdraw from the present docket as permitted in Sections 1.4 and 1.5 of the Vermont Regulatory Settlement. FairPoint has elected to defer that decision by submitting this testimony in an effort to address the Board's concerns and seek the approvals requested in the prior submissions.

Third, in the event the Board imposes conditions, we understand that the so-called "most favored nation" clauses would be triggered in the New Hampshire and

Maine Regulatory Settlement Agreements. Each of those agreements contains clauses similar to Section 4.5 of the Vermont Regulatory Settlement. These provisions essentially preclude FairPoint from accepting additional conditions imposed by one state regulator without offering the same conditions to the other Northern New England states. As such, the resulting costs and burdens associated with any Board-imposed condition must be considered with a multiplier of three. Although the Forecast demonstrates that FairPoint can emerge from Chapter 11 and thrive over time, it is equally clear that FairPoint will face extremely competitive conditions in the Northern New England marketplace. Additional conditions are unnecessary and inappropriate, and would lead to further litigation before the Bankruptcy Court, create additional delay, and potentially worsen the company's financial state.

Importantly, we also understand that the Vermont Regulatory Settlement combined with the implementation of the Plan of Reorganization preserves the Board's jurisdiction over reorganized FairPoint. Although FairPoint does not believe that any of the additional conditions proposed in this proceeding (or contemplated in the June Order) are necessary, it nevertheless is worth noting that, upon FairPoint's emergence from Chapter 11, the Board will have the ability to regulate FairPoint as before. FairPoint's belief is that it is in the best interests of Vermont's ratepayers to exit Chapter 11 bankruptcy promptly in order to effectuate the Plan of Reorganization, effectuate the Regulatory Settlements in all of the Northern New England states and shed approximately $1.7 billion in long term debt.

Q26. Please summarize and comment on FairPoint's financial results through the period June 30, 2010.

A26. [Ms. Hood] FairPoint's financial and operating results as disclosed in the amended 10-Q together with FairPoint's results through August 2010 demonstrate **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.** These results have been incorporated into the Forecast. Revenue has been relatively flat year to date. Expenses only recently have been reflecting the initiatives undertaken in the Chapter 11 bankruptcy process. For example, FairPoint implemented through the Chapter 11 bankruptcy process initiatives related to the renegotiation of vendor contracts and real estate leases by a company know as Third Law.

In addition, while access line losses continued at an annualized rate of approximately 11.6%, the loss realized during the second quarter of 2010 was 2.4%. Based upon second quarter results, the annualized access line loss is anticipated to be **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL.** In addition, data lines actually increased slightly during April, May and June, and **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXX **END**

CONFIDENTIAL. Those results were considered when developing the Forecast.

Q27. Have issues arisen regarding the calculation of certain PAP penalty credits?

A27. [Ms. Hood] Yes. During confidential settlement negotiations a wholesale customer claimed that FairPoint did not calculate the doubling credits due under the PAP for certain mode of entry ("MOE") penalties. Under the PAP, the penalties for failure to achieve certain MOE metrics are doubled when the applicable benchmarks are not met for a period of three consecutive months. The doubling factor continues until FairPoint achieves a lower benchmark, in which case the doubling stops until another period of three consecutive months of missing the original, applicable benchmark.

Q28. Does FairPoint agree that it did not issue credits related to the doubling of the MOE penalties and (if so) what effect does this have on FairPoint's financial statements?

A28. Yes. FairPoint has corrected the issue. FairPoint is working through the process of verifying the applicable credits that need to be issued retroactively to wholesale customers. The overall financial exposure is limited, however, by the reversal of certain bad debt expenses previously recorded in FairPoint's financial statements. On a go forward basis since July 2010, FairPoint has ensured that any PAP credits include the applicable doubling of MOE penalties.

The understatement of the MOE penalties totaled **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX **END CONFIDENTIAL** The company is in the process of evaluating if the error has a material impact on FairPoint's prior period financial statements. Because the error resulted in the overstatement of accounts receivable balances (PAP penalties are issued as credits against unpaid invoices) for the impacted wholesale customers, the company would have overstated its bad debt expense during this time period as well. Therefore, we have quantified the offsetting impact to the bad debt expense for the Maine and New Hampshire portions. Vermont is not included because the PAP penalties related to MOE metrics are paid to the Vermont Universal Service Fund as opposed to being credited against outstanding customer invoices. After offsetting the requisite bad debt expense, the net impact is a **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX. **END CONFIDENTIAL**

VII. SILVER OAK CAPITAL, LLC, AND ANGELO, GORDON & CO.

Q29. The Board's June Order specified that further information regarding the entity that is expected to own more than ten percent (10%) of the common stock of the reorganized FairPoint Parent would be required. Specifically, on page 39 of the June Order, the Board determined that FairPoint had not presented information that would support a conclusion that Silver Oak's acquisition of a "controlling interest" of FairPoint would promote the general good. Do you have further information for the Board?

A29. [Mr. Sabherwal/Ms. Hood] Yes. Our testimony provides further information to the Board regarding Silver Oak, the nominee for investment funds managed by Angelo, Gordon & Co., L.P. ("Angelo Gordon"), and that entity's related ownership structure.

Q30. Please describe how Silver Oak will acquire its common stock ownership interest in the FairPoint Parent.

A30. In previous testimony, FairPoint indicated that, pursuant to the Plan of Reorganization, a sizable portion of FairPoint's secured and unsecured debt will be converted into equity in the reorganized company. As of the Effective Date, all existing equity interests in FairPoint Parent will be cancelled and extinguished, and new common stock of FairPoint Parent will be issued to certain holders of FairPoint Parent's secured debt and certain unsecured creditors.

Under the Plan as approved, holders of certain secured Prepetition Credit Agreement Claims ("Class 4 Claims"), which aggregate approximately $2.1 billion, will receive the following in satisfaction of their claims: (i) a pro rata share of new term loans in the aggregate principal amount of $1 billion; (ii) a pro rata share of cash in an amount equal to all cash of FairPoint on the Effective

Date in excess of $40 million after taking into account all cash payments required to be made or reserved under the Plan on the Effective Date; and (iii) a pro rata share of 47,241,436 shares of new common stock, representing in the aggregate 92% of the new common stock of the reorganized FairPoint (subject to dilution).[3] As of October 1, 2010, over 130 entities (representing over 60 distinct financial institutions and funds) held FairPoint Parent's secured debt and thus constituted the holders of Class 4 Claims ("Class 4 Claimants").

Q31. Can you provide the anticipated common stock holding in FairPoint Parent of each Class 4 Claimant upon emergence?

A31. The common stock holding in FairPoint Parent of any Class 4 Claimant upon emergence cannot be determined until the Effective Date. This is because the company's secured debt continues to trade. Therefore, it is not possible to calculate today the equity interest as of the Effective Date of any current holder of FairPoint Parent's secured debt. To our knowledge, however, no entity other than Silver Oak currently holds, or has expressed to FairPoint or to the secured lenders an intent to acquire and hold, secured debt in an amount that, upon conversion as of the Effective Date, would represent 10% or more of FairPoint Parent's new common stock.

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[3] Holders of certain unsecured indebtedness of FairPoint, identified in the Plan as Class 7 Unsecured Claims, will receive the remaining approximately 8 percent of the common stock of the reorganized FairPoint.

It is my understanding that as of October 1, 2010, Silver Oak, as described more fully below, is the nominee for holdings of approximately \$360.6 million in aggregate principal amount, or approximately 17%, of the total of \$2.1 billion in prepetition secured debt of FairPoint Parent. Thus, assuming for purposes of this calculation that there is no further trading in FairPoint Parent's secured debt, Silver Oak's secured debt interest, when multiplied by the amount of new common stock to be distributed on a *pro rata* basis to Class 4 Claimants (92%), represents approximately 15% of FairPoint Parent's new common stock.

Q32. To your knowledge, could Silver Oak, or any other party, acquire additional secured debt before FairPoint emerges from bankruptcy protection and thus hold more than approximately 10% of FairPoint new common stock as of the Effective Date?

A32. While the secured debt of FairPoint Parent continues to trade and thus still can be acquired, it is my understanding that, other than Silver Oak, no party has acquired or expressed to FairPoint or the secured lenders the intent to acquire more than 10% of FairPoint's secured debt. It also is my understanding that the amount of FairPoint Parent's secured debt held by Silver Oak has not changed materially since the filing of the pending application in Vermont and since the filing of corresponding applications with the Federal Communications Commission in June 2010. Furthermore, to my knowledge Silver Oak has no current agreements to materially increase or reduce its holding of FairPoint Parent's secured debt prior to the Effective Date.

It is my understanding that FairPoint has an independent obligation to ensure that the information it provides to this Board in this and other proceedings is current in all material respects. If FairPoint were to become aware during the course of this proceeding that Silver Oak's holding, or any other holding, of secured debt has increased or decreased materially, or that it will increase or decrease materially prior to the Effective Date, thus altering that holder's anticipated equity interest in FairPoint Parent as of the Effective Date in a manner relevant under Vermont law, FairPoint would have an obligation to report that information to the Board.

Q33. To your knowledge, could Silver Oak or other investors increase or decrease their FairPoint Parent common stock holdings after the Effective Date?

A33. Yes. The Plan contemplates that FairPoint Parent's new common stock will be listed on a national securities exchange as of the Effective Date. Because FairPoint Parent's new common stock will be traded publicly, any entity or natural person qualified to purchase or sell stock will be able to increase or decrease its common stock holding, as is the case with any public company. Of course, like other companies whose stock trades publicly on a national securities exchange, FairPoint cannot predict whether or when any holder will elect to purchase or sell the common stock of FairPoint Parent.

FairPoint nevertheless has taken steps to ensure that it will have access to information regarding material changes in the ownership of its common stock, and flexibility to address such changes to the extent necessary to comply with pertinent regulatory requirements. FairPoint Parent's Ninth Amended and Restated Certificate of Incorporation (the "Amended Certificate"), attached hereto as **Exhibit FP-AS-3**, reserves to the company certain powers designed to prevent any shareholder from causing FairPoint to be in violation of the "Communications Laws" applicable to FairPoint's operations. Section 4(d) of the Amended Certificate defines the term "Communications Laws" broadly to include any state laws and rules ". . . pertaining to any authorization, license, permit, order . . . or consent held or required to be obtained . . . from . . . the regulatory commission of any state . . . having jurisdiction over [FairPoint] or any of its subsidiaries, including laws or regulations pertaining to approval of the acquisition or ownership of shares of capital stock of [FairPoint]."

Under Section 6(a) of the Amended Certificate, the Board of Directors of the company has authority to request information from any stockholder whose current or potential holding of FairPoint common stock may violate any provision of the Communication Laws. Additionally, pursuant to Section 6(b) of the Amended Certificate, the Board of Directors may suspend rights of stock ownership the existence or exercise of which would result in a violation of any of the

Communications Laws, as determined by the Board of Directors in good faith, subject to prior written notice to the affected stockholder. The Board of Directors is empowered under Section 6(c) to seek any and all appropriate remedies at law or in equity against any stockholder or potential stockholder whose ownership interest may violate the Communications Laws, subject only to a requirement that FairPoint seek to mitigate or eliminate any such violation.

Separately, changes in the ownership of FairPoint Parent's common stock potentially subject to prior approval under Vermont law will be a matter of public record because, as I understand it, they will trigger disclosure requirements under federal securities laws applicable to public company investments. Thus, although I am not an attorney, it is my understanding that, after the Effective Date, investors that acquire more than five percent of FairPoint Parent's common stock will be obligated to disclose their ownership through a filing made with the Securities and Exchange Commission.

Q34. Can you describe Silver Oak?

A34. Yes. Silver Oak is a Delaware limited liability company. Silver Oak has two members, John M. Angelo and Michael L. Gordon, both of whom also are principals of Angelo Gordon, a privately-held registered investment adviser founded in 1988 that currently has approximately $23 billion in assets under management. Silver Oak functions as the nominee and record holder on behalf of certain investment funds that currently are beneficial owners of FairPoint Parent's secured debt through Silver Oak and will hold directly FairPoint Parent's equity after the Effective Date. These funds ultimately are controlled by Mr. Angelo and Mr. Gordon. Angelo Gordon directs all investment decisions and exercises all voting rights on behalf of the investment funds for which Silver Oak acts as nominee. It is my understanding that no other individual or entity has an ownership interest in Silver Oak that, upon emergence, would make it an indirect owner of 10% or more of the common stock of FairPoint Parent.

Q35. Who manages Silver Oak and Angelo Gordon?

A35. John M. Angelo is co-founder and Chief Executive Officer of Angelo Gordon, with responsibility for the firm's strategic direction. Michael L. Gordon is co-founder, Chief Operating Officer and Chief Investment Officer of Angelo Gordon, with oversight of the firm's Research Department. Both Mr. Angelo and Mr. Gordon are managers of Silver Oak, along with the following: Kirk Wickman, Chief Administrative Office and General Counsel of Angelo Gordon; Thomas Fuller, Senior Managing Director of Angelo Gordon, with responsibility for the firm's distressed portfolios; Joseph R. Wekselblatt, Chief Financial Officer of Angelo Gordon; and Bruce Martin, Co-head of Angelo Gordon's leveraged loan business. All of these individuals also are officers of Angelo Gordon, along with the following: Keith Barket, Senior Managing Director of Angelo Gordon, with responsibility for the firm's real estate activities; and David Roberts, Senior

Managing Director of Angelo Gordon, with responsibility for the firm's private equity activities. Additional information about Angelo Gordon is accessible through its Investment Advisor Registration on file with the Securities and Exchange Commission at: http://www.adviserinfo.sec.gov/(S(yadihn45hqmdsk45yec3tp2b))/IAPD/Content/ViewForm/ADV/Sections/iapd_AdvAllPages.aspx?ORG_PK=04E919F80008014F0483172002BB5A99056C8CC0&STATE_CD=&TOTAL_DRPS=0&Print=Y.

Q36. Can you describe the manner in which Silver Oak and Angelo Gordon will hold an ownership interest in FairPoint Parent upon emergence?

A36. Yes. Upon emergence, in exchange for the secured debt currently held by its nominee Silver Oak, new common stock of FairPoint Parent will be issued to certain investment funds similarly controlled by Angelo Gordon (and ultimately indirectly controlled by Mr. Angelo and Mr. Gordon). These funds, directly or indirectly controlled by AG Funds, L.P., will receive equity interests in FairPoint Parent totaling approximately 15%, although none of these investment fund vehicles, and no other subsidiary of AG Funds, L.P., will hold a 10% or greater ownership interest in FairPoint Parent. The sole general partner of AG Funds, L.P., is AG Funds GP, L.P., and the sole general partner of AG Funds GP, L.P., is JM Funds, LLC. There are two members of JM Funds LLC: John M. Angelo and Michael L. Gordon.

Q37. Will Angelo Gordon hold a controlling interest in FairPoint upon emergence?

A37. Although Angelo Gordon is expected to hold approximately 15% of the common stock of FairPoint Parent as of the Effective Date as described above, actual control of FairPoint will be vested in all of its stockholders and an eight-member Board of Directors. Although it is anticipated that, as explained more fully below, an employee of Angelo Gordon, Todd Arden, will serve on the Board of Directors, Mr. Arden was appointed by the steering committee of secured lenders and will occupy only one of eight seats on the Board of Directors.

Q38. Will Angelo Gordon or any other stockholder be able to aggregate its ownership interests with others to exercise control of FairPoint?

A38. No. Based on the distribution of Class 4 Claims and Class 7 Unsecured Claims as of September 30, 2010, the company anticipates that no entity or natural person other than Angelo Gordon will hold or control more than 10% of the new common stock of FairPoint upon emergence. FairPoint also is not aware of the existence of any shareholder agreement or other arrangement by which stockholders in the reorganized company intend, or will be able, to aggregate their ownership interests in order collectively to exercise control over the company. Furthermore, although I am not an attorney, it is my understanding that, as is the case with individual investors, a group of stockholders acting collectively with respect to their FairPoint Parent common stock interests may be subject to disclosure requirements under federal securities laws.

Q39. Can you predict how long after the Effective Date Angelo Gordon funds or any other investor will hold FairPoint Parent's common stock?

A39. Upon emergence, FairPoint will be a public company and its common stock will be listed and traded on a national securities exchange. The company cannot predict how long any stockholder will hold FairPoint Parent common stock, or the amount of any such holding, following the Effective Date. It is my understanding that all disclosure and approval obligations under Vermont law and federal law, including federal securities laws, will continue to remain in place after the Effective Date and both FairPoint and holders of its common stock will remain subject to those laws.

Q40. How will Silver Oak's ownership of FairPoint Parent's stock promote the public good?

A40. First, the conversion of Silver Oak's secured debt interest to new common stock will occur as part of the Bankruptcy Court-approved reorganization of FairPoint that will, among other things, reduce the company's debt by more than $1.7 billion and place the company on a sound financial footing. The Plan of Reorganization accomplishes this objective while preserving FairPoint's independence. No investor, including nominee Silver Oak or the beneficial interest holders the Angelo Gordon funds, will be in a position to exercise control of FairPoint. Second, because, like other future owners of FairPoint, Angelo

Gordon's debt holdings will convert to equity as of the Effective Date, Angelo Gordon have a vested interest in FairPoint's future operational and, in turn, financial success. As a future owner and anticipated largest equity holder of FairPoint, Angelo Gordon will benefit only if FairPoint succeeds. This vested interest is consistent with the interest of Vermont end users, who today—and in the future will—rely on FairPoint for a wide range of telecommunications and broadband needs. In furtherance of these shared goals, Angelo Gordon has agreed to make Mr. Arden, a Managing Director of Angelo Gordon, available to participate as a member of the Board of Directors of FairPoint following emergence. Mr. Arden brings strong business and financial skills to the task. Clearly, effectuating the Plan of Reorganization will promote the public good of the residents of the State of Vermont specifically and all of the residents of Northern New England in general.

In addition, implementation of the Plan of Reorganization via the confirmation process in bankruptcy and the granting of the approvals sought in the present Docket will preserve a substantial majority of the commitments made by FairPoint to the residents of Vermont during the merger approval proceedings completed in 2008. The Vermont Regulatory Settlement accomplishes this goal. Absent approval of the indirect change of control as requested by FairPoint and FairPoint's emergence from bankruptcy, the Vermont Regulatory Settlement cannot be effectuated. In the event the Vermont Regulatory Settlement cannot be effectuated, further litigation is likely to ensue in the Bankruptcy Court. The potential litigation in bankruptcy court and the resolution that may be imposed through that process is not in the best interests of FairPoint or the residents of the State of Vermont.

VIII. BOARD OF DIRECTORS

Q41. Can you explain how FairPoint's Board of Directors will be established upon emergence?

A41. [Mr. Sabherwal/Ms. Hood] The Plan of Reorganization provides that on the Effective Date, the members of the current Board of Directors of FairPoint will be deemed to have resigned and a new Board of Directors (the "New Board") will be installed.[4] Pursuant to Section 8.6.2 of the Plan, the New Board will have at least seven members, at least one of which will be a resident of Northern New England. Section 8.6.4 requires that a supermajority of the members of the New Board be independent directors.[5] Under the Plan of Reorganization, other than FairPoint's Chief Executive Officer and one member nominated by the unsecured creditors, the members of the New Board will be (and have been) nominated by the Lender Steering Committee, of which Angelo Gordon is a member.[6]

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4 *See* Section 8.2(a)(v), 8.6.1(a).

5 *See also* Exhibit F to Joint Plan of Reorganization at § 4.4; [Giammarino] Hood pf. at 26.

6 *See* Sections 1.72, 8.6.2(b) and (c).

As previously noted, Mr. Arden, a Managing Director of Angelo Gordon, has been nominated on behalf of the secured lenders to serve as a director of FairPoint. Although Mr. Arden is employed by Angelo Gordon, he will serve on the New Board in his capacity as the nominee of the all of the secured lenders.

Q42. For how long will Mr. Arden serve as a member of the New Board?

A42. Like all members of the New Board, Mr. Arden's membership on the New Board will be ensured only until the first shareholder meeting, as provided in Section 2.3 of the company's Amended Bylaws. Thereafter, Mr. Arden (and all other New Board members) must be approved on an annual basis by a majority vote of the then holders of FairPoint Parent's common stock.

Q43. Have there been any recent changes to the composition of the nominees to FairPoint's New Board upon emergence?

A43. Yes. David Hauser was replaced during September 2010 as CEO and as a member of FairPoint's current Board of Directors by Paul Sunu. Mr. Sunu previously had been designated by the steering committee of secured lenders as an anticipated nominee to FairPoint's Board of Directors upon emergence. Mr. Sunu's new status as CEO of FairPoint means that he occupies the seat on the current Board of Directors and on the New Board that should and would have been occupied by Mr. Hauser had he remained CEO of FairPoint. Because Mr. Sunu already had been nominated on behalf of the secured lenders to a seat on the

New Board, his new status as CEO of FairPoint meant that the seat for which he was nominated was left vacant.

Q44. Who will be the nominee for the vacant seat for which Mr. Sunu was the nominee?

A44. It is my understanding that two more individuals have been nominated to the New Board, through the exercise of an option of the secured lenders to expand the New Board pursuant to the Plan of Reorganization. Michael K. Robinson and David L. Treadwell are these nominees. Mr. Robinson currently is the Director, President, and CEO of Broadview Networks, a privately-held integrated communications provider serving business customers from New England to the mid-Atlantic. He has served in leadership roles in communications firms for over twenty years. Mr. Treadwell is President and CEO of EP Management Corporation, a diversified industrial products company. He has held senior leadership positions with a number of companies for over twenty-five years.

Q45. Do Messrs. Robinson and Treadwell's nominations and, more generally, the entire slate of nominees to the New Board of FairPoint promote the public good?

A45. Yes, they do. As previously explained, Mr. Robinson and Mr. Treadwell will bring with them a wealth of relevant experience to FairPoint. Mr. Robinson's extensive experience in telecommunications and Mr. Treadwell's significant management abilities will allow them to contribute top-quality leadership as members of the New Board, thereby promoting the public good. More generally, all of the nominees to the New Board are, individually and collectively, expected to enhance the operations of FairPoint going forward. Each nominee has either considerable business or technical experience in the telecommunications and technology industries, a solid background in financial matters and management, or both. As a consequence, this team of nominees is expected to bring an unprecedented level of expertise, energy, and industry know-how to the direction of FairPoint, assisting with management's efforts to stabilize the company further in the near-term and laying the groundwork for its growth over time.

IX. CONCLUSION

Q46. Mr. Sabherwal, please conclude your testimony.

A46. [Mr. Sabherwal] As stated above, FairPoint will be a financially sound entity. Based on conservative assumptions, the Forecast demonstrates that FairPoint generates positive EBITDA and Consolidated EBITDAR metrics, does not breach the covenants within the Credit Agreement (as revised) and has positive cash flow. I believe the company is poised to succeed. The build out of FairPoint's VantagePoint network is complete in all material respects and FairPoint has begun to provision new Carrier Ethernet Services to customers. With significantly reduced debt, FairPoint's balance sheet has been "corrected" and the current business supports the post-exit capital structure. I look forward to what I believe will be a successful future for FairPoint, its employees and its customers.

Considering all of the information, I believe the Board's granting of all of FairPoint's requested approvals without conditions is in the public good for the State of Vermont and its ratepayers.

[Ms. Hood] I concur with Mr. Sabherwal's conclusions.

Q47. Does this conclude your testimony?

A47. [Ms. Hood/Mr. Sabherwal] Yes, it does.

NINTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF FAIRPOINT COMMUNICATIONS, INC.

FairPoint Communications, Inc., a corporation organized and existing under the laws of the State of Delaware (the *"Corporation"*), hereby certifies as follows:

A. The name of the Corporation is FairPoint Communications, Inc. The Corporation was originally incorporated under the name *"MJD Communications, Inc."* and filed its original Certificate of Incorporation with the Secretary of State of the State of Delaware on June 30, 1993. The Corporation filed Certificates of Amendment with the Secretary of State of the State of Delaware on June 6, 1996, November 24, 1998 and January 28, 2005. The Corporation filed restatements of its Certificate of Incorporation with the Secretary of State of the State of Delaware on July 1, 1994, July 31, 1997, March 26, 1998, October 20, 1999, January 19, 2000, April 28, 2000, May 10, 2002 and February 8, 2005.

B. In accordance with Sections 242, 245 and 303 of the Delaware General Corporation Law and pursuant to the authority granted to the Corporation under Section 303 of the DGCL to put into effect and carry out the Debtors' Modified Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code, as confirmed on [____________], 2010 by order of the Bankruptcy Court (the "*Joint Plan of Reorganization*"), the Corporation hereby amends and restates its Certificate of Incorporation as follows:

1. **Corporate Name.** The name of the Corporation is FairPoint Communications, Inc.

2. **Registered Office and Agent.**

   (a) The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, New Castle County, Delaware 19801.

   (b) The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

3. **Purpose of the Corporation.** The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

4. **Definitions.** The following terms have the indicated meanings when used herein.

   (a) "**Board of Directors**" means the board of directors of the Corporation.

   (b) "**Certificate of Incorporation**" means this Ninth Amended and Restated Certificate of Incorporation.

   (c) "**Common Stock**" means the shares of common stock of the Corporation referred to in Section 5(c) hereof.

   (d) "**Communications Laws**" means any law or regulation of the United States or any state or territory of the United States or of the District of Columbia, now or hereafter in effect, including without limitation, the Communications Act of 1934, as amended, the Telecommunications Act of 1996, as amended, and the regulations or policies promulgated under such acts, pertaining to any authorization, license, permit, order, filing or consent held or required to be obtained by the Corporation from the Federal Communications Commission (or any successor thereto) or the regulatory commission of any state or territory or of the District of Columbia having jurisdiction over the Corporation or any of its subsidiaries, including laws or regulations pertaining to approval of the acquisition or ownership of shares of capital stock of the Corporation.

(e) "**Corporation**" means FairPoint Communications, Inc., a Delaware corporation.

(f) "**Covered Person**" means any holder of capital stock of the Corporation or any partner, member, director, stockholder, employee or agent of any such holder, other than someone who is an employee of the Corporation or any of its subsidiaries.

(g) "**DGCL**" means the General Corporation Law of the State of Delaware.

(h) "**Effective Time**" means the date and time at which this Certificate of Incorporation shall become effective in accordance with Section 103(d) of the DGCL.

(i) "**Excluded Opportunity**" means any opportunity, matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of:

(i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or

(ii) any Covered Person,

unless, in the case of a director, such opportunity, matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the knowledge or possession of, such director expressly in such director's capacity as a director of the Corporation.

(j) "**Person**" means any natural person, corporation, limited liability company, trust, joint venture, association, company, governmental authority or other entity.

(k) "**Preferred Stock**" means the shares of any series or class of preferred stock of the Corporation, if any, referred to in Section 5(b) hereof.

5. Capitalization.

(a) **Authorized Shares.** The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is 80,000,000 shares, consisting of 5,000,000 shares of preferred stock, par value $0.01 per share, and 75,000,000 shares of common stock, par value $0.01 per share.

(b) **Preferred Stock.** Shares of Preferred Stock may be issued at any time and from time to time in one or more classes or series, with each such class or series to consist of such number of shares and to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issuance of such class or series adopted by the Board of Directors, and the Board of Directors is hereby expressly vested with authority, to the full extent now or hereafter provided by law, to adopt any such resolution or resolutions and to file with the Secretary of State of the State of Delaware a certificate setting forth a copy of such resolution or resolutions and the number of shares of Preferred Stock of the class or series as to which such resolution or resolutions apply. The authority of the Board of Directors with respect to each class or series of Preferred Stock shall include, but not be limited to, determination of the following:

(i) the number of authorized shares constituting that class or series and the distinctive designation of that class or series;

(ii) the dividend rate on the outstanding shares of that class or series, whether dividends shall be paid in cash or in kind and whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on the outstanding shares of that class or series;

(iii) whether that class or series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(iv) whether that class or series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(v) whether the shares of that class or series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(vi) whether that class or series shall have a sinking fund for the redemption or purchase of shares of that class or series, and, if so, the terms and amount of such sinking fund;

(vii) the restrictions, if any, on the payment of dividends upon, and the making of the distributions to any class of stock ranking junior to the shares of that class or series, and the restrictions, if any, on the purchase or redemption of the shares of any such junior class;

(viii) the rights of the shares of that class or series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that class or series; and

(ix) any other relative rights, preferences and limitations of that class or series.

(c) **Common Stock.**

(i) **Generally.** Except as otherwise expressly set forth in this Certificate of Incorporation, all outstanding shares of Common Stock shall have the same terms.

(ii) **Dividends.** Subject to the preferential dividend rights of any class or series of Preferred Stock outstanding from time to time, and subject to the other provisions of this Section 5(c)(ii), the holders of outstanding shares of Common Stock shall be entitled to receive dividends and other distributions in cash, stock or property of the

Corporation when, as and to the extent declared by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(iii) **Liquidation.** In the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of outstanding shares of Common Stock shall be entitled to share in the assets of the Corporation remaining after payment of or provision for all debts and other liabilities of the Corporation and the liquidation preference of all classes or series of outstanding Preferred Stock.

(iv) **Voting Rights.** Except as otherwise expressly set forth in this Ninth Amended and Restated Certificate of Incorporation and except as otherwise required by law:

(A) Each holder of shares of Common Stock shall be entitled, with respect to each share of Common Stock held by such holder, to one vote in person or by proxy on all matters submitted to a vote of the holders of Common Stock, whether voting separately as a class or otherwise.

(B) The holders of outstanding shares of Common Stock shall vote together as a single class on all matters to be voted on by the holders of Common Stock.

(d) **No Preemptive Rights.** Except as expressly set forth in this Certificate of Incorporation, any certificate of designation, any resolution or resolutions providing for the issuance of a class or series of capital stock adopted by the Board of Directors, or any agreement between the Corporation and the holders of shares of capital stock, no holder of shares of capital stock of the Corporation shall have any preemptive right to subscribe for any shares of any class or series of capital stock of the Corporation whether now or hereafter authorized.

(e) **Bankruptcy Code Restrictions.** The Corporation shall not issue any non-voting equity securities to the extent prohibited by Section 1123(a)(6) of Title 11 of the United States Code (the "Bankruptcy Code") as the same is in effect on the date of the filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware; *provided*, however, that this Section 5(e) (i) will have no further force and effect beyond that required under Section 1123(a)(6) of the Bankruptcy Code, (ii) will have such further force and effect, if any, only for so long as Section 1123(a)(6) of the Bankruptcy Code is in effect and applicable to the Corporation, and (iii) in all events may be amended or eliminated in accordance with such applicable law as from time to time may be in effect.

6. Provisions Relating to Stock Ownership and Federal and State Communications Laws.

(a) **Requests for Information.** So long as the Corporation or any of its subsidiaries holds any authorization, license, permit, order, filing or consent from the Federal Communications Commission (or any successor thereto) or any state or territorial regulatory commission, or the regulatory commission of the District of Columbia, having jurisdiction over the Corporation or any of its subsidiaries, if the Board of Directors has reason to believe that the ownership, or proposed ownership, of shares of capital stock of the Corporation by any stockholder or any person presenting any shares of capital stock of the Corporation for transfer into its name (a "*Transferee*") may violate any provision of the Communications Laws, or if the Board of Directors needs information in order to make a determination as to whether the ownership, or proposed ownership, of shares of capital stock of the Corporation by any stockholder or any Transferee may violate any provision of the Communications Laws, such stockholder or Transferee, upon request of the Board of Directors, shall furnish promptly to the Board of Directors such information (including, without limitation, information with respect to citizenship, other ownership interests and affiliations) as the Board of Directors shall reasonably request to determine whether the ownership of, or the existence or exercise of any rights with respect to, shares of capital stock of the Corporation by such stockholder or Transferee violates any provision of the Communications Laws.

(b) **Denial of Rights.** If any stockholder or Transferee from whom information is reasonably requested should fail to respond to any such request for information made by the Board of Directors pursuant to Section 6(a) hereof, or if the Board of Directors, based on written advice of outside regulatory counsel, reasonably concludes in good faith that the ownership of, or existence or exercise of any rights of stock ownership with respect to, shares of capital stock of the Corporation by such stockholder or Transferee would violate any provision of the Communications Laws (a "Communications Laws Violation"), the Corporation (by majority vote of the Board of Directors), upon reasonable prior written notice to such stockholder or Transferee, may suspend those rights of stock ownership the existence or exercise of which would result in such Communications Laws Violation, such suspension to remain in effect until such requested information has been received or the existence or exercise of such suspended rights would not result in such Communications Laws Violation; *provided, however*, that such rights may be suspended only to the minimum extent necessary so that such Communications Laws Violation would not exist; and *provided, further*, that the Corporation, in cooperation with the affected stockholder or Transferee, shall take all commercially reasonable steps to mitigate or eliminate the Communications Laws Violation by filing and prosecuting before the FCC or state or territorial regulatory commission, or the regulatory commission of the District of Columbia, as the case may be, a request for waiver or declaratory ruling or such other relief as necessary or appropriate.

(c) **Remedies.** The Corporation (by majority vote of the Board of Directors) may seek to exercise any and all appropriate remedies, at law or in equity, in any court of competent jurisdiction, against any stockholder or Transferee, with a view towards obtaining any information requested pursuant to Section 6(a) hereof, and/or to exercise the rights as provided in, and subject to the provisions of, Section 6(b).

7. **Renunciation of Interest or Expectancy.** The Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, any Excluded Opportunity.

8. **Management of the Business and Conduct of the Affairs of the Corporation.** The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for the purpose of creating, defining, limiting and regulating the powers of the Corporation and its directors and stockholders.

(a) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things, except as may otherwise be provided in the DGCL or elsewhere herein.

(b) Subject to the terms of paragraph (d) of this Section 8, the number of directors constituting the Board of Directors shall be as set forth in the by-laws of the Corporation, or determined by the Board of Directors by resolution adopted by the Board of Directors in accordance with the by-laws of the Corporation, but shall not be less than five nor more than eleven.

(c) Subject to the terms of paragraph (d) of this Section, directors shall be elected by a plurality of the votes cast at the annual meetings of stockholders, or at a special meeting of stockholders called for (or including) such purpose, and each director so elected shall hold office until the next annual meeting of stockholders and until such director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal.

(d) Under and in accordance with the reorganization proceeding styled FairPoint Communications, Inc., et al, Case No. 09-16335 (BRL) which confirmed the Debtors' Modified Second Amended Joint Plan of Reorganization, the initial Board of Directors after the date of this Certificate of Incorporation (the "*Initial Board of Directors*") shall consist of seven members. Each director on the Initial Board of Directors shall serve until the next annual meeting of stockholders following the one-year anniversary of the effective date of the Joint Plan of Reorganization and until such director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal.

(e) Advance notice of nominations by stockholders for the election of directors, and of stockholder proposals regarding action to be taken at any meeting of stockholders, shall be given in the manner and to the extent provided in the by-laws of the Corporation.

9. **By-laws.** In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized to alter, amend and repeal the by-laws of the Corporation without a stockholder vote, subject to the power of the stockholders to alter, amend or repeal the by-laws; *provided*, that with respect to the powers of stockholders to alter amend or repeal the by-laws, the affirmative vote of the holders of at least a majority in voting power of all the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal the by-laws of the Corporation, *provided* that the affirmative vote of the holders of at least two-thirds in such voting power shall be required to alter, amend or repeal certain provisions of the by-laws as provided therein on the date of this Certificate of Incorporation.

10. **Exoneration.**

(a) The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by the DGCL, including, without limitation, paragraph (7) of subsection (b) of Section 102 thereof, as the same may be amended or supplemented. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

(b) Any repeal or modification of Section 10(a) hereof shall be prospective only, and shall not adversely affect any elimination or limitation of the personal liability of a director of the Corporation in respect of any act or omission occurring prior to the time of such repeal or modification.

11. Stockholder Action.

(a) Any action required or permitted to be taken by the holders of the Common Stock of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

(b) Except as otherwise required by law and subject to the rights of the holders of any series of Preferred Stock, special meetings of stockholders of the Corporation may be called only by:

(i) the Chairman of the Board of Directors,

(ii) the Lead Director, if any, of the Board of Directors;

(iii) the Board of Directors, or

(iv) the Secretary of the Corporation upon a request by the holders of at least 25% in voting power of all outstanding shares of the Corporation entitled to vote at such meeting.

(c) Meetings of stockholders may be held within or without the State of Delaware, as the by-laws of the Corporation may provide.

(d) The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated by the Board of Directors or in the by-laws of the Corporation.

(e) Elections of directors need not be by written ballot.

12. Quorum at stockholder meetings. The holders of one-third in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except that the holders of a majority in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be required to constitute a quorum for:

(a) a vote for any director in a contested election,

(b) the removal of a director, or

(c) the filling of a vacancy on the Board of Directors by the stockholders of the Corporation.

13. Amendments to this Certificate of Incorporation.

(a) The Corporation reserves the right to amend any provision contained in this Certificate of Incorporation, as the same may be in effect from time to time, in the manner now or hereafter prescribed by law, and all rights conferred on stockholders or others hereunder are subject to such reservation.

(b) Anything contained in Section 13(a) hereof to the contrary notwithstanding, and notwithstanding that a lesser percentage may be permitted from time to time by applicable law, the affirmative vote of the holders of at least two-thirds in voting power of all the shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal in any respect Sections 8, 9, 10, 11 and 12 hereof and this Section 13 or to adopt any provision inconsistent therewith, whether such alteration, amendment or repeal is by amendment to this Certificate of Incorporation or by merger, reorganization, recapitalization or other corporate transaction having the effect of amending this Certificate of Incorporation.

IN WITNESS WHEREOF, FAIRPOINT COMMUNICATIONS, INC. has caused this Ninth Amended and Restated Certificate of Incorporation to be executed by __________, its ____________________, on this ____ day of __________, 2010.

FAIRPOINT COMMUNICATIONS, INC.

By: ______________________________
Name:
Title:

Attest:

By: ______________________
Name:
Title:

LEGAL_US_E # 87266057.6

Exhibit FP-LH-4

FAIRPOINT COMMUNICATIONS INC (FRCMQ.PK)

521 EAST MOREHEAD ST
CHARLOTTE, NC, 28202
704−344−8150

10−Q/A

Quarterly report pursuant to sections 13 or 15(d)
Filed on 9/29/2010
Filed Period 6/30/2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10−Q/A

Amendment No. 1

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 333−56365

FairPoint Communications, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**13−3725229** (I.R.S. Employer Identification No.)
521 East Morehead Street, Suite 500 **Charlotte, North Carolina** (Address of Principal Executive Offices)	**28202** (Zip Code)

(704) 344−8150
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S−T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non−accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and"smaller reporting company" in Rule 12b−2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non−accelerated filer ☐ Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.* Yes ☐ No ☐

As of July 30, 2010, there were 89,989,144 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: **None**

* The registrant has filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code but has not yet distributed securities under a plan confirmed by a court.

EXPLANATORY NOTE

On August 5, 2010, FairPoint Communications, Inc. (the "Company") filed with the Securities and Exchange Commission (the "SEC") its Quarterly Report on Form 10−Q for the period ended June 30, 2010 (the "Original Quarterly Report"). Subsequently, the Company received comment letters from the Securities and Exchange Commission (the "SEC") requesting further clarification of certain disclosures in the Original Quarterly Report. In response to the SEC's comments, the Company is filing this Amendment No. 1 on Form 10−Q/A (this "Amendment No. 1") to revise and clarify certain disclosure in the Original Quarterly Report contained in the following sections:

- Item 1—Notes to Consolidated Financial Statements (Unaudited)—(1) Organization and Basis of Financial Reporting; Chapter 11 Cases—Chapter 11 Cases—Recent Developments Related to the Chapter 11 Cases—Regulatory Approvals in Maine, New Hampshire and Vermont;
- Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview;
- Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Expenses; and
- Item 4—Controls and Procedures—Evaluation of Disclosure Controls and Procedures.

The Original Quarterly Report has been revised solely to reflect changes which respond to the SEC's comment letters. This Amendment No. 1 speaks only as of the date the Original Quarterly Report was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Original Quarterly Report to give effect to any subsequent events.

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PART I

CAUTIONARY NOTE REGARDING FORWARD−LOOKING STATEMENTS

Some statements in this Quarterly Report are known as "forward−looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward−looking statements may relate to, among other things:

- the potential adverse impact of the Chapter 11 Cases (as defined herein) on our business, including our ability to maintain contracts, trade credit and other customer and vendor relationships;
- our ability to obtain the necessary approvals from state public utilities commissions ("PUCs") and the Federal Communications Commission (the "FCC") for our proposed Modified Second Amended Joint Plan of Reorganization (as further modified, supplemented or amended, the "Plan");
- our ability to obtain bankruptcy court approval of the Plan and to consummate the Plan;
- future performance generally;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- anticipated business development activities and future capital expenditures;
- financing sources and availability, and future interest expense;
- our ability to refinance our indebtedness on commercially reasonable terms, if at all;
- the effects of regulation, including restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined herein) and the Plan;
- material adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial or operational impact, in the markets we serve;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- our ability to meet obligations to our Company sponsored pension plans;
- material technological developments and changes in the communications industry, including disruption of our suppliers' provisioning of critical products or services;
- use by customers of alternative technologies;
- availability and levels of regulatory support payments;
- the effects of competition on the markets we serve; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

These forward−looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward−looking statements. Because these forward−looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward−looking statements, including our plans, objectives, expectations and intentions and other factors discussed in this Quarterly Report and in "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10−K for the year ended December 31, 2009 and "Part II—Item 1A. Risk Factors" contained in this Quarterly Report. You should not place undue reliance on such forward−looking statements, which are based on the information currently available to us and speak only as of the date on which this Quarterly Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward−looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Forms 10−K, 10−Q and 8−K and Schedule 14A.

Except as otherwise required by the context, references in this Quarterly Report to:

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries;*
- *"FairPoint," the "Company," "we," "us" or "our" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the Merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger";*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and all of its subsidiaries after giving effect to the Merger;*
- *"Legacy FairPoint" refers to FairPoint Communications, Inc. exclusive of our acquired Northern New England operations; and*
- *"Verizon Northern New England business" refers to the local exchange business of Verizon New England Inc. ("Verizon New England") in Maine, New Hampshire and Vermont and the customers of Verizon and its subsidiaries' (other than Cellco Partnership) (collectively, the "Verizon Group") related long distance and Internet service provider business in those states prior to the Merger.*

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(Debtors−In−Possession)

Condensed Consolidated Balance Sheets

June 30, 2010 and December 31, 2009

(in thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash	$ 112,329	$ 109,355
Restricted cash	2,249	2,558
Accounts receivable, net	148,519	154,095
Materials and supplies	27,819	18,884
Other	29,012	24,042
Deferred income tax, net	60,224	75,713
Total current assets	**380,152**	**384,647**
Property, plant, and equipment, net	1,921,923	1,950,435
Intangibles assets, net	200,533	211,819
Prepaid pension asset	9,643	8,808
Debt issue costs, net	293	680
Restricted cash	1,328	1,478
Other assets	19,926	19,135
Goodwill	595,120	595,120
Total assets	**$ 3,128,918**	**$ 3,172,122**
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise:		
Current portion of capital lease obligations	$ 522	$ —
Accounts payable	84,775	61,681
Accrued interest payable	3	36
Other accrued liabilities	61,682	44,004
Total current liabilities	**146,982**	**105,721**
Accrued pension obligation	55,763	51,438
Employee benefit obligations	275,421	261,420
Deferred income taxes	95,170	115,742
Unamortized investment tax credits	4,534	4,788
Other long−term liabilities	13,400	15,100
Total long−term liabilities	**444,288**	**448,488**
Total liabilities not subject to compromise	**591,270**	**554,209**
Liabilities subject to compromise	2,864,571	2,836,340
Total liabilities	**3,455,841**	**3,390,549**
Stockholders' deficit:		
Common stock, $0.01 par value, 200,000,000 shares authorized, issued and outstanding 89,989,144 and 90,002,026 shares at June 30, 2010 and December 31, 2009, respectively	900	900
Additional paid−in capital	725,969	725,312
Retained deficit	(931,872)	(819,715)
Accumulated other comprehensive loss	(121,920)	(124,924)
Total stockholders' deficit	**(326,923)**	**(218,427)**
Total liabilities and stockholders' deficit	**$ 3,128,918**	**$ 3,172,122**

See accompanying notes to condensed consolidated financial statements (unaudited).

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(Debtors−In−Possession)

Condensed Consolidated Statements of Operations

Three and six months ended June 30, 2010 and 2009

(Unaudited)

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues	**$ 274,099**	**$ 284,762**	**$ 549,265**	**$ 584,060**
Operating expenses:				
Cost of services and sales, excluding depreciation and amortization	112,041	123,840	242,667	273,242
Selling, general and administrative expense, excluding depreciation and amortization	101,000	98,612	196,090	186,885
Depreciation and amortization	70,559	68,860	140,904	136,727
Total operating expenses	**283,600**	**291,312**	**579,661**	**596,854**
Loss from operations	**(9,501)**	**(6,550)**	**(30,396)**	**(12,794)**
Other income (expense):				
Interest expense	(35,721)	(54,809)	(70,351)	(108,288)
Gain (loss) on derivative instruments	—	7,233	—	20,131
Gain on early retirement of debt	—	7,494	—	12,357
Other	(3,138)	(58)	(3,112)	6,219
Total other expense	(38,859)	(40,140)	(73,463)	(69,581)
Loss before reorganization items and income taxes	**(48,360)**	**(46,690)**	**(103,859)**	**(82,375)**
Reorganization items	1,549	—	(15,042)	—
Loss before income taxes	**(46,811)**	**(46,690)**	**(118,901)**	**(82,375)**
Income tax (expense) benefit	10,245	18,527	6,744	31,907
Net loss	**$ (36,566)**	**$ (28,163)**	**$ (112,157)**	**$ (50,468)**
Weighted average shares outstanding:				
Basic	89,424	89,364	89,424	89,168
Diluted	89,424	89,364	89,424	89,168
Earnings per share:				
Basic	$ (0.41)	$ (0.32)	$ (1.25)	$ (0.57)
Diluted	(0.41)	(0.32)	(1.25)	(0.57)

See accompanying notes to condensed consolidated financial statements (unaudited).

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(Debtors−In−Possession)

Condensed Consolidated Statement of Stockholders' Deficit

Six months ended June 30, 2010

(Unaudited)

(in thousands)

	Common Stock		Additional paid−in capital	Retained deficit	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Shares	Amount				
Balance at December 31, 2009	90,002	$ 900	$ 725,312	$ (819,715)	$ (124,924)	$ (218,427)
Net loss	—	—	—	(112,157)	—	(112,157)
Restricted stock cancelled for withholding tax	(13)	—	—	—	—	—
Stock based compensation expense	—	—	657	—	—	657
Employee benefit adjustment to comprehensive income	—	—	—	—	3,004	3,004
Balance at June 30, 2010	89,989	$ 900	$ 725,969	$ (931,872)	$ (121,920)	$ (326,923)

See accompanying notes to condensed consolidated financial statements (unaudited).

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(Debtors−In−Possession)

Condensed Consolidated Statements of Comprehensive Loss

Three and six months ended June 30, 2010 and 2009

(Unaudited)

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Net loss	**$ (36,566)**	**$ (28,163)**	**$ (112,157)**	**$ (50,468)**
Other comprehensive income, net of taxes:				
Defined benefit pension and post−retirement plans (net of $1.0 million, $1.2 million, $2.0 million and $2.1 million tax expense, respectively)	1,502	1,930	3,004	3,286
Total other comprehensive income	**1,502**	**1,930**	**3,004**	**3,286**
Comprehensive loss	**$ (35,064)**	**$ (26,233)**	**$ (109,153)**	**$ (47,182)**

See accompanying notes to condensed consolidated financial statements (unaudited).

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(Debtors−In−Possession)

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2010 and 2009

(Unaudited)

(in thousands)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (112,157)	$ (50,468)
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(6,753)	(34,022)
Provision for uncollectible revenue	17,427	15,777
Depreciation and amortization	140,904	136,727
Non−cash interest expense	—	14,423
Post−retirement accruals	18,567	15,908
Gain on derivative instruments	—	(20,131)
Gain on early retirement of debt, excluding cash fees	—	(12,477)
Non−cash reorganization costs	(20,001)	—
Other non cash items	9,694	6,429
Changes in assets and liabilities arising from operations:		
Accounts receivable	(7,506)	7,725
Prepaid and other assets	(13,905)	(3,350)
Accounts payable and accrued liabilities	27,054	(31,286)
Accrued interest payable	67,959	(15,011)
Other assets and liabilities, net	(7,622)	(2,585)
Total adjustments	225,818	78,127
Net cash provided by operating activities	113,661	27,659
Cash flows from investing activities:		
Net capital additions	(114,594)	(90,081)
Net proceeds from sales of investments and other assets	79	1,230
Net cash used in investing activities	(114,515)	(88,851)
Cash flows from financing activities:		
Loan origination costs	(1,100)	(521)
Proceeds from issuance of long−term debt	5,513	50,000
Repayments of long−term debt	—	(18,673)
Restricted cash	458	65,143
Repayment of capital lease obligations	(1,043)	(1,122)
Dividends paid to stockholders	—	(22,996)
Net cash provided by financing activities	3,828	71,831
Net increase in cash	2,974	10,639
Cash, beginning of period	109,355	70,325
Cash, end of period	$ 112,329	$ 80,964
Supplemental disclosure of cash flow information:		
Capital additions included in accounts payable or liabilities subject to compromise at period−end	2,431	38,190
Reorganization costs paid	29,394	—

See accompanying notes to condensed consolidated financial statements (unaudited).

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases

Organization and Basis of Financial Reporting

FairPoint is a leading provider of communications services in rural and small urban communities, primarily in northern New England, offering an array of services, including local and long distance voice, data, Internet and broadband product offerings, to both residential and business customers. FairPoint operates in 18 states with approximately 1.5 million access line equivalents (including voice access lines and high speed data lines, which include DSL, wireless broadband, cable modem and fiber−to−the−premises) as of June 30, 2010.

On March 31, 2008, FairPoint completed the acquisition of Spinco, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. Spinco was a wholly−owned subsidiary of Verizon and prior to the Merger the Verizon Group transferred certain specified assets and liabilities of the local exchange businesses of Verizon New England in Maine, New Hampshire and Vermont and the customers of the related long distance and Internet service provider businesses in those states to subsidiaries of Spinco. The Merger was accounted for as a "reverse acquisition" of Legacy FairPoint by Spinco under the purchase method of accounting because Verizon stockholders owned a majority of the shares of the consolidated Company following the Merger and, therefore, Spinco was treated as the acquirer for accounting purposes. The financial statements reflect the transaction as if Spinco had issued consideration to FairPoint stockholders.

In order to effect the Merger, the Company issued 53,760,623 shares of the Company's common stock, a par value of $0.01 per share, to Verizon stockholders for their interest in Spinco.

Financial Reporting in Reorganization

On October 26, 2009 (the "Petition Date"), the Company and substantially all of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases are being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09−16335 (the "Chapter 11 Cases").

The accompanying Condensed Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's ability to continue as a going concern is contingent upon its ability to (i) comply with the financial and other covenants contained in the Debtor in Possession Credit Agreement FairPoint Communications and FairPoint Logistics, Inc. ("Logistics", and together with FairPoint Communications, the "DIP Borrowers") entered into with certain financial institutions (the "DIP Lenders") and Bank of America, N.A., as the administrative agent for the DIP Lenders (in such capacity, the "DIP Administrative Agent"), dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), and, after the actual date of emergence from Chapter 11 protection (the "Effective Date"), a $1,075,000,000 senior secured credit facility (the "Exit Facility") to be provided to FairPoint Communications and Logistics (collectively, the "Exit Borrowers") by Bank of America, N.A., Banc of America Securities LLC and a syndicate of lenders (collectively, the "Exit Facility Lenders"), (ii) obtain the necessary approvals of the Plan from the

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

PUCs and the FCC and (iii) obtain United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") approval of the Plan and to consummate the Plan, among other things. As a result of the Chapter 11 Cases, the realization of assets and the satisfaction of liabilities are subject to uncertainty. While operating as debtors−in−possession under Chapter 11, the Company may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business (and subject to restrictions contained in the DIP Credit Agreement), in amounts other than those reflected in the accompanying Condensed Consolidated Financial Statements. Further, a plan of reorganization could materially change the amounts and classifications in the historical Condensed Consolidated Financial Statements. The accompanying Condensed Consolidated Financial Statements do not include any direct adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern or as a consequence of the Chapter 11 Cases.

The Reorganizations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "ASC"), which is applicable to companies in Chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Amounts that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations beginning in the quarter ending December 31, 2009. The balance sheet must distinguish pre−petition liabilities subject to compromise from both those pre−petition liabilities that are not subject to compromise and from post−petition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. In addition, cash provided by and used for reorganization items must be disclosed separately. The Company has applied the Reorganizations Topic of the ASC effective as of the Petition Date (as defined herein), and has segregated those items as outlined above for all reporting periods subsequent to such date.

Chapter 11 Cases

On the Petition Date, the Company and substantially all of its direct and indirect subsidiaries (collectively, the "Debtors") filed the Chapter 11 Cases.

For more information regarding the factors that led to the filing of the Chapter 11 Cases, see "Part I.—Item 1. Business—Chapter 11 Cases—Background to the Filing of the Chapter 11 Cases" contained in the Company's Annual Report on Form 10−K for the year ended December 31, 2009.

Recent Developments Related to the Chapter 11 Cases

Regulatory Approvals in Maine, New Hampshire and Vermont

The Company is required as a condition precedent to the effectiveness of the Plan to obtain certain regulatory approvals, which include approvals from the PUCs in Maine and New Hampshire,

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

and the Vermont Public Service Board (the "Vermont Board"). In connection with the Chapter 11 Cases, the Company has negotiated with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont with respect to (i) certain necessary approvals relating to the Chapter 11 Cases and the Plan (each a "Bankruptcy Approval," and collectively, the "Bankruptcy Approvals") and (ii) certain modifications to the requirements imposed by those state regulatory authorities as a condition to approval of the Merger (each a "Merger Order," and collectively, the "Merger Orders"). The Company has agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement," and collectively, the "Regulatory Settlements"). These Regulatory Settlements and the Bankruptcy Approvals require the final approval of the applicable regulatory authorities in Maine, New Hampshire and Vermont.

On June 24, 2010, the Maine Public Utilities Commission (the "MPUC") provided its Bankruptcy Approval and approved the Regulatory Settlement for Maine.

On June 28, 2010, the Vermont Board failed to provide its Bankruptcy Approval and rejected the Regulatory Settlement for Vermont. Specifically, the Vermont Board did not believe that the Company had demonstrated the financial capability to meet its obligations under Vermont law and questioned certain assumptions made by the Company with respect to its financial capability after the effectiveness of the Plan. The Company intends to provide supplemental information to the Vermont Board and believes that the Company ultimately should be able to obtain the approval of the Vermont Board. However, if the Company is unable to obtain the approval of the Vermont Board, the Company believes that it could have the Plan or a modified plan of reorganization that addresses the issues associated with Vermont and modifies the Vermont Merger Order in accordance with the Regulatory Settlement for Vermont (a "Modified Plan") confirmed by the Bankruptcy Court without the approval of the Vermont Board. If the Vermont Board approves the Plan or the Company is able to have the Plan or a Modified Plan confirmed by the Bankruptcy Court, the Company believes that the initial rejection of the Plan by the Vermont Board would not have a material adverse effect on the Company's financial condition and results of operations. However, if the Vermont Board does not ultimately provide its Bankruptcy Approval and approval of the Regulatory Settlement for Vermont and the Company fails to have the Plan or a Modified Plan confirmed by the Bankruptcy Court without the approval of the Vermont Board, such failure could have a material adverse effect on the Company's financial condition and results of operations, and it is unclear what, if anything, holders of claims against us, including holders of the Notes, would ultimately receive with respect to their claims. In addition, if the Plan or a Modified Plan is confirmed by the Bankruptcy Court without the approval of the Vermont Board but the Vermont Merger Order is not modified by the Bankruptcy Court in accordance with the Regulatory Settlement for Vermont, the loss of certain relief afforded by the Regulatory Settlement for Vermont, including the opportunity for relief from certain past service quality penalties and relief from certain future capital expenditure obligations, could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, the MPUC and the New Hampshire Public Utilities Commission (the "NHPUC"), each of which has approved its applicable Regulatory Settlement, may object if the Vermont Board does not provide the relief afforded by the Regulatory Settlement for Vermont.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

On July 7, 2010, the NHPUC provided its Bankruptcy Approval and approved the Regulatory Settlement for New Hampshire.

Plan Support Agreement Expiration

In anticipation of the Chapter 11 Cases, the Company entered into a Plan Support Agreement (the "Plan Support Agreement") with secured lenders (the "Consenting Lenders") holding more than 50% of the outstanding debt under the Company's Pre−petition Credit Facility (as defined herein). Pursuant to the Plan Support Agreement, the Consenting Lenders agreed, subject to the terms and conditions contained in the Plan Support Agreement, to support a proposed financial restructuring for the Company and its subsidiaries, the terms of which were attached as an exhibit to the Plan Support Agreement. The Plan Support Agreement, by its terms, expired on July 8, 2010 and was not renewed or extended. Accordingly, even though the requisite majorities of impaired creditors, including the Consenting Lenders, have voted to accept the Plan, if and to the extent there are any material modifications to the Plan affecting the treatment of the impaired creditors under the Plan, the Consenting Lenders would not be required to support or vote to approve the Plan as so modified.

Amendment to DIP Credit Agreement

On July 26, 2010, the DIP Borrowers, the DIP Lenders and the DIP Administrative Agent entered into the Thirteenth Amendment to the DIP Credit Agreement (the "DIP Amendment"), pursuant to which the maturity date of the DIP Credit Agreement was extended to September 8, 2010 (the "DIP Maturity Date"). The DIP Maturity Date can be further extended until a date not later than October 26, 2010 at the request of the DIP Borrowers and upon the prior written consent of non−defaulting DIP Lenders holding a majority of the aggregate principal amount of the outstanding loans and letters of credit plus unutilized commitments under the DIP Financing (as defined herein) (the "Required DIP Lenders"), with no fee payable by the DIP Borrowers in connection with any such extension. In addition, on or before August 31, 2010, the Company must provide the DIP Administrative Agent with certain supplemental financial information that the Company intends to submit to the Vermont Board.

The Plan

The Plan contemplates the reorganization of the Company and the discharge of all outstanding claims against and interests in the Company.

Following the Petition Date, an ad hoc committee of the holders of the Notes (as defined herein) raised certain concerns regarding the proposed treatment of holders of unsecured claims against FairPoint Communications ("FairPoint Communications Unsecured Claims") under the FairPoint Communications, Inc. and Affiliates Chapter 11 Plan Term Sheet (the "Plan Term Sheet"). In an effort to resolve these concerns, and after extensive negotiations, certain changes were made to the terms of the proposed financial restructuring contained in the Plan Term Sheet, as evidenced in the Plan.

In addition, the Plan is the result of extensive negotiations among the Company, a steering committee of its pre−petition secured lenders (the "Steering Committee"), certain unions and certain

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

representatives of regulatory authorities in Maine, New Hampshire and Vermont. The Plan incorporates and implements various settlements reached with these parties, but is subject to the approval of the applicable state commissions or boards with respect to certain actions resulting from the Plan.

On February 8, 2010, the Company filed an initial version of the Plan, together with an accompanying Disclosure Statement, with the Bankruptcy Court. The Plan and accompanying Disclosure Statement were subsequently amended on February 11, 2010 and March 10, 2010 and the Plan was modified further on May 11, 2010. On March 11, 2010, the Bankruptcy Court approved the adequacy of the Disclosure Statement, the solicitation and notice procedures with respect to confirmation of the Plan and the form of various ballots and notices in connection therewith. On April 23, 2010, the Company filed a supplement to the Plan (as modified, supplemented or amended, the "Plan Supplement"), which Plan Supplement was subsequently amended on May 7, 2010 and May 24, 2010. The voting deadline with respect to the Plan occurred on April 28, 2010. The vote tabulation has concluded and the Company has obtained the approval of the classes of creditors entitled to vote to accept or reject the Plan.

The Plan will become effective only if it is confirmed by the Bankruptcy Court and upon the fulfillment of certain other conditions contained in the Plan. These conditions precedent include, but are not limited to, the following:

- the Bankruptcy Court shall have entered the confirmation order and such confirmation order shall have become a final order;
- the treatment of certain intercompany claims and the assumption of certain operating post−reorganization contracts shall be reasonably acceptable to the Steering Committee;
- the conditions precedent to the Exit Facility (as defined herein) shall have been satisfied and/or waived;
- the Company shall have obtained certain regulatory approvals, including approvals from the FCC and the PUCs in Illinois, Maine, New Hampshire, New York and Virginia and the Vermont Board, which approvals have been obtained from the PUCs in Illinois, Maine, New Hampshire, New York and Virginia; and
- certain agreements with labor unions agreed to with respect to the Plan shall have been ratified by the applicable union membership, which ratification has already occurred.

The conditions precedent to the Plan may be waived by the Company, except with respect to certain conditions, which waiver requires the consent of the Steering Committee. The Company cannot make any assurances as to when, or ultimately if, the Plan will become effective.

The confirmation hearing to determine whether to confirm the Plan in the Bankruptcy Court commenced on May 11, 2010. The Bankruptcy Court continued the hearing, pending approvals of the PUCs in Maine and New Hampshire and the Vermont Board and the resolution of any potential dispute with respect to the litigation trust contemplated by the Plan. For a description of the status of certain regulatory approvals, see "—Recent Developments Related to the Chapter 11 Cases" in this

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

note. In addition, the Plan was filed and accepted within the period in which we hold the exclusive right to file and seek confirmation of a plan of reorganization. Accordingly, no party in interest may file or solicit acceptances of a competing plan at this time. We also have the exclusive right to file a new plan until August 21, 2010 (the "Exclusivity Period Expiration Date"). Given that we do not expect the Bankruptcy Court to confirm the Plan prior to the Exclusivity Period Expiration Date, we intend to file a motion with the Bankruptcy Court to extend the Exclusivity Period Expiration Date to a later date. However, we cannot make any assurances as to whether the Bankruptcy Court will grant our motion to extend the Exclusivity Period Expiration Date, or, if the Exclusivity Period Expiration Date is extended, whether we will be able to obtain confirmation of the Plan prior to the ultimate expiration of the Exclusivity Period Expiration Date. If we do not have the exclusive right to file and seek confirmation of a plan of reorganization, any party in interest would be able to file or support a competing plan of reorganization.

The summary of the provisions of the Plan and our related capital structure contained herein highlights certain substantive provisions of the Plan and our resulting capital structure and is not a complete description of the Plan or its provisions or our proposed post−petition capital structure. The summary is qualified in its entirety by reference to the full text of the Plan, which is available at www.fprestructuring.com under the "Court Filings" link. **The Plan and the information on, or accessible through this website, are not part of or incorporated by reference herein.**

General

Currently the Plan contemplates that all outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, will be cancelled and extinguished on the Effective Date.

Under the Plan, claims of (i) the lenders under a $2.03 billion credit facility, as subsequently amended, among the Company and Spinco (the "Pre−petition Credit Facility"), (ii) the administrative agent under the Pre−petition Credit Facility (the "Pre−petition Administrative Agent") and (iii) any other claims against the Company arising under the Pre−petition Credit Facility (collectively, "Pre−petition Credit Agreement Claims") will receive the following in full and complete satisfaction of such Pre−petition Credit Agreement Claims: (i) a pro rata share of the Exit Term Loan (as defined below), (ii) a pro rata share of certain cash payments, (iii) a pro rata share of 47,241,436 shares of the reorganized Company's new common stock, par value $0.01 per share (the "New Common Stock") and (iv) a pro rata share of a 55% interest in a litigation trust.

In addition, claims of holders of FairPoint Communications Unsecured Claims will receive the following in full and complete satisfaction of such FairPoint Communications Unsecured Claims: (i) a pro rata share of 4,203,352 shares of New Common Stock, (ii) a pro rata share of a 45% interest in a litigation trust and (iii) a pro rata share of warrants to purchase up to 7,164,804 shares of New Common Stock (the "New Warrants"), the terms of which are more fully described in the form of Warrant Agreement which is attached to the Plan Supplement, which is available at www.fprestructuring.com under the "Court Filings" link.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

Finally, claims of holders of unsecured claims against FairPoint Communications' subsidiaries, unless otherwise agreed, will receive payment in full in cash in the amount of their allowed claims.

The classification and treatment of all claims and equity interests in the Company are described in Sections IV and V of the Plan.

Exit Financing

The Plan provides for the Company to incur indebtedness upon the Effective Date consisting of the Exit Facility. The Exit Facility is expected to be comprised of a $75,000,000 revolving loan facility (the "Exit Revolving Loan") and a $1,000,000,000 term loan facility (the "Exit Term Loan" and together with the Exit Revolving Loan, collectively, the "Exit Facility Loans"). The Exit Revolving Loan will have a $30,000,000 sublimit available for the issuance of letters of credit. Interest on Eurodollar loans under the Exit Facility will accrue at an annual rate equal to the British Bankers Association LIBOR Rate ("LIBOR") plus 4.50%, with a 2.00% LIBOR floor for the Exit Term Loans, and interest on base rate loans under the Exit Facility will accrue at an annual rate equal to 3.50% plus the highest of (i) the federal funds rate plus 0.5%, (ii) the "prime rate" publicly announced by Bank of America, N.A. from time to time, and (iii) applicable LIBOR plus 1.00%. A 0.75% commitment fee on the average daily unused portion of the Exit Revolving Loan will also accrue and be payable on a quarterly basis. The outstanding principal amount of the Exit Facility will be due and payable five years after the Effective Date (the "Exit Maturity Date"). The loan agreement governing the Exit Facility (the "Exit Facility Loan Agreement") will require quarterly repayments of principal of the Exit Term Loan in an amount equal to $2,500,000 during the first two fiscal years following the Effective Date, $12,500,000 during the third fiscal year following the Effective Date, $37,500,000 during the fourth fiscal year following the Effective Date and $50,000,000 for each of the first three fiscal quarters of the fifth fiscal year following the Effective Date, with all remaining outstanding principal of the Exit Term Loan being due and payable on the Exit Maturity Date. The Exit Facility Loan Agreement will also contain requirements that the Company prepay the Exit Facility Loans upon certain events as more specifically provided therein.

The Exit Facility will be guaranteed by subsidiaries of the Company to be set forth on a schedule to the Exit Facility Loan Agreement, in addition to each future direct and indirect domestic subsidiary of the Company other than (x) any subsidiary of the Company that is a controlled foreign corporation or a subsidiary that is held directly or indirectly by a controlled foreign corporation or (y) any subsidiary that is prohibited by applicable law from guaranteeing the obligations under the Exit Facility and/or providing any security therefor without the consent of a PUC (together with the Exit Borrowers, collectively, the "Exit Financing Loan Parties"). The Exit Facility will be secured by first priority liens upon substantially all existing and after−acquired assets of the Exit Financing Loan Parties, subject to permitted exceptions.

The Exit Facility Loan Agreement will contain certain representations, warranties and affirmative covenants. In addition, the Exit Facility Loan Agreement will contain restrictive covenants that limit, among other things, the ability of the Exit Financing Loan Parties to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

The Exit Facility Loan Agreement will also contain minimum interest coverage, maximum total leverage and maximum senior leverage financial maintenance covenants. The Exit Facility Loan Agreement will contain certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The Exit Facility Lenders' commitments to fund amounts under the Exit Facility on or following the Effective Date will be subject to certain customary conditions as well as confirmation of the Plan.

A copy of the form of the Exit Facility Loan Agreement is attached to the Plan Supplement, which is available at www.fprestructuring.com under the "Court Filings" link.

Certificate of Incorporation and By−Laws

In connection with the Plan, the Company is expected to adopt a Ninth Amended and Restated Certificate of Incorporation of FairPoint Communications, Inc. (the "Amended Charter"), which is expected to become effective on the Effective Date. The Amended Charter will authorize the Company to issue up to 5,000,000 shares of preferred stock and up to 75,000,000 shares of New Common Stock. In addition, in connection with the Plan, the Company is expected to adopt Second Amended and Restated By−Laws (the "Amended By−Laws").

A copy of the form of Amended Charter and Amended By−Laws are attached to the Plan Supplement, which is available at www.fprestructuring.com under the "Court Filings" link.

Board of Directors

As contemplated by the Plan, on the Effective Date, the reorganized Company is expected to have a newly appointed seven person board of directors (the "New Board"). Selected biographical information for each of the seven proposed new board members is attached to the Plan Supplement, which is available at www.fprestructuring.com under the "Court Filings" link. In accordance with the Amended By−Laws, the initial members of the New Board are expected to hold office until the first annual meeting of stockholders which will be held following the one year anniversary of the Effective Date. Thereafter, members of the board of directors of the Company are expected to have one−year terms so that their terms will expire at each annual meeting of stockholders.

New Long Term Incentive Plan and Success Bonus Plan

As contemplated by the Plan, on the Effective Date, the Company will be deemed to have adopted the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "New Long Term Incentive Plan") and the FairPoint Communications, Inc. 2010 Success Bonus Plan (the "Success Bonus Plan") without any further action by the Company. Each of the New Long Term Incentive Plan and the Success Bonus Plan was attached to the Plan Supplement, and may be accessed at www.fprestructuring.com under the "Court Filings" link.

On the Effective Date, in accordance with the Plan, (i) certain employees are expected to receive (a) certain cash bonuses (the "Success Bonuses") pursuant to the terms of the Success Bonus Plan and/or (b) New Common Stock awards, consisting of restricted shares of New Common Stock and/or

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

options to purchase shares of New Common Stock, pursuant to the terms of the New Long Term Incentive Plan, and (ii) members of the New Board are expected to receive options to purchase New Common Stock pursuant to the terms of the New Long Term Incentive Plan. The Success Bonuses are expected to be earned based upon certain performance measures, subject to upward or downward adjustments to reflect the timing of the Effective Date. 6,269,206 shares of New Common Stock are expected to be reserved for awards under the New Long Term Incentive Plan that are expected to consist of stock options and restricted stock awards, which will be granted to certain employees of the Company and members of the New Board. On the Effective Date, (i)(a) 1,018,746 shares of restricted New Common Stock are expected to be granted to certain employees of the Company under the New Long Term Incentive Plan and (b) at the sole discretion of the New Board, an additional 78,365 shares of restricted New Common Stock may be granted to certain employees of the Company and (ii)(a) 1,724,032 options to purchase shares of New Common Stock are expected to be granted to certain employees of the Company, (b) 264,030 options to purchase shares of New Common Stock are expected to be granted to members of the New Board and (c) at the sole discretion of the New Board, an additional 313,460 options to purchase shares of New Common Stock may be granted to certain employees of the Company, in each case pursuant to the New Long Term Incentive Plan. These awards are expected to vest 25% on the Effective Date, and the remainder of these awards are expected to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting on a change in control or a termination of an award holder's employment without cause. In addition, 2,870,573 shares of New Common Stock are expected to be available for future distribution under the New Long Term Incentive Plan. However, if the aggregate enterprise value of the Company does not equal or exceed $2.3 billion on or prior to the expiration date of the New Warrants, the aggregate amount of options to purchase New Common Stock that are available for future distribution under the New Long Term Incentive Plan will be automatically reduced by 620,651 shares.

Debtor−in−Possession Financing

DIP Credit Agreement

In connection with the Chapter 11 Cases, the DIP Borrowers entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provides for a revolving facility in an aggregate principal amount of up to $75 million, of which up to $30 million is also available in the form of one or more letters of credit that may be issued to third parties for the account of the Company and its subsidiaries (the "DIP Financing"). Pursuant to an Order of the Bankruptcy Court, dated October 28, 2009 (the "Interim Order"), the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis in an aggregate amount of $20 million, pending a final hearing before the Bankruptcy Court. Pursuant to a final order of the Bankruptcy Court, dated March 11, 2010, (the "Final DIP Order"), the DIP Borrowers were permitted access to the total $75 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court. As of June 30, 2010 and December, 31, 2009, the Company had not borrowed any amounts under the DIP Credit Agreement and letters of credit totaling $17.9 million and $1.6 million, respectively, had been issued and were outstanding under the DIP Credit Agreement.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

The DIP Financing matures and is repayable in full on the earlier to occur of (i) September 8, 2010, which date can be extended until a date not later than October 26, 2010 at the request of the DIP Borrowers and upon the prior written consent of the Required DIP Lenders with no fee payable by the DIP Borrowers in connection with any such extension, (ii) the Effective Date (iii) the voluntary reduction by the DIP Borrowers to zero of all commitments to lend under the DIP Credit Agreement or (iv) the date on which the obligations under the DIP Financing are accelerated by the Required DIP Lenders upon the occurrence and during the continuance of certain events of default.

Other material provisions of the DIP Credit Agreement include the following:

Interest Rate and Fees. Interest rates for borrowings under the DIP Credit Agreement are, at the DIP Borrowers' option, at either (i) the Eurodollar rate plus a margin of 4.5% or (ii) the base rate plus a margin of 3.5%, payable monthly in arrears on the last business day of each month.

Interest accrues from and including the date of any borrowing up to but excluding the date of any repayment thereof and is payable (i) in respect of each base rate loan, monthly in arrears on the last business day of each month, (ii) in respect of each Eurodollar loan, on the last day of each interest period applicable thereto (which shall be a period of one month) and (iii) in respect of each such loan, on any prepayment or conversion (on the amount prepaid or converted), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand. The DIP Credit Agreement provides for the payment to the DIP Administrative Agent, for the pro rata benefit of the DIP Lenders, of an upfront fee in the aggregate principal amount of $1.5 million, which upfront fee was payable in two installments: (1) the first installment of $400,000 was due and paid on October 28, 2009, the date on which the Interim Order was entered by the Bankruptcy Court, and (2) the remainder of the upfront fee was due and paid on March 11, 2010, the date the Final DIP Order was entered by the Bankruptcy Court. The DIP Credit Agreement also provides for an unused line fee of 0.50% on the unused revolving commitment, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), and a letter of credit facing fee of 0.25% per annum calculated daily on the stated amount of all outstanding letters of credit, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), as well as certain other fees.

Voluntary Prepayments. Voluntary prepayments of borrowings and optional reductions of the unutilized portion of the commitments are permitted without premium or penalty (subject to payment of breakage costs in the event Eurodollar loans are prepaid prior to the end of an applicable interest period).

Covenants. Under the DIP Credit Agreement, the DIP Borrowers are required to maintain compliance with certain covenants, including maintaining minimum EBITDAR (earnings before interest, taxes, depreciation, amortization, restructuring charges and certain other non−cash costs and charges, as set forth in the DIP Credit Agreement) and not exceeding maximum permitted capital expenditure amounts. The DIP Credit Agreement also contains customary affirmative and negative covenants and restrictions, including, among others, with respect to investments, additional indebtedness, liens, changes in the nature of the business, mergers, acquisitions, asset sales and

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

transactions with affiliates. As of June 30, 2010, the DIP Borrowers were in compliance with all covenants under the DIP Credit Agreement.

Events of Default. The DIP Credit Agreement contains customary events of default, including, but not limited to, failure to pay principal, interest or other amounts when due, breach of covenants, failure of any representations to have been true in all material respects when made, cross−defaults to certain other indebtedness in excess of specific amounts (other than obligations and indebtedness created or incurred prior to the filing of the Chapter 11 Cases), judgment defaults in excess of specified amounts, certain defaults under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the failure of any guaranty or security document supporting the DIP Credit Agreement to be in full force and effect, the occurrence of a change of control and certain matters related to the Interim Order, the Final DIP Order and other matters related to the Chapter 11 Cases.

DIP Pledge Agreement

The DIP Borrowers and certain of FairPoint Communications' subsidiaries (collectively, the "DIP Pledgors") entered into the DIP Pledge Agreement with Bank of America N.A., as collateral agent (in such capacity, the "DIP Collateral Agent"), dated as of October 30, 2009 (the "DIP Pledge Agreement"), as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Pledge Agreement, the DIP Pledgors provided to the DIP Collateral Agent for the secured parties identified therein, a security interest in 100% of the equity interests and promissory notes owned by the DIP Pledgors and all proceeds arising therefrom, including cash dividends and distributions, subject to certain exceptions and qualifications (the "Pledge Agreement Collateral").

DIP Subsidiary Guaranty

Certain of FairPoint Communications' subsidiaries (collectively, the "DIP Guarantors") entered into the DIP Subsidiary Guaranty with the DIP Administrative Agent, dated as of October 30, 2009 (the "DIP Subsidiary Guaranty"), as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Subsidiary Guaranty, the DIP Guarantors agreed to jointly and severally guarantee the full and prompt payment of all fees, obligations, liabilities and indebtedness of the DIP Borrowers, as borrowers under the DIP Financing. Pursuant to the terms of the DIP Subsidiary Guaranty, the DIP Guarantors further agreed to subordinate any indebtedness of the DIP Borrowers held by such DIP Guarantor to the indebtedness of the DIP Borrowers held by the secured parties under the DIP Financing.

DIP Security Agreement

The DIP Borrowers and the DIP Guarantors (collectively, the "DIP Grantors") entered into the DIP Security Agreement with the DIP Collateral Agent, dated as of October 30, 2009 (the "DIP Security Agreement"), as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Security Agreement, the DIP Grantors provided to the DIP Collateral Agent for the benefit of the secured parties identified therein, a security interest in all assets other than the DIP Pledge Agreement Collateral, any equity interests in an Excluded Entity (as defined in the DIP Pledge Agreement), any causes of action arising under Chapter 5 of the Bankruptcy Code and FCC licenses and authorizations by state regulatory authorities to the extent that any DIP Grantor is prohibited from granting a lien and security interest therein pursuant to applicable law.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

Reporting Requirements

As a result of the filing of the Chapter 11 Cases, the Company is now required to file various documents with, and provide certain information to, the Bankruptcy Court, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports in forms prescribed by federal bankruptcy law. Such materials have been and will be prepared according to requirements of the Bankruptcy Code. While these materials accurately provide then−current information required under the Bankruptcy Code, they are nonetheless unaudited, are prepared in a format different from that used in the Company's consolidated financial statements filed under the securities laws and certain of this financial information may be prepared on an unconsolidated basis. Accordingly, the Company believes that the substance and format of these materials do not allow meaningful comparison with its regular publicly−disclosed consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to the Company's securities, or for comparison with other financial information filed with the SEC.

Notifications

Shortly after the Petition Date, the Company began notifying current or potential creditors of the Chapter 11 Cases. Subject to certain exceptions under the Bankruptcy Code, the Chapter 11 Cases automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Company or its property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Company, or to create, perfect or enforce any lien against the property of the Company, or to collect on monies owed or otherwise exercise rights or remedies with respect to a claim arising prior to the Petition Date are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

Creditors' Committee

As required by the Bankruptcy Code, the United States Trustee for the Southern District of New York has appointed a statutory committee of unsecured creditors (the "Creditors' Committee"). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Company.

Executory Contracts—Section 365

Under Section 365 and other relevant sections of the Bankruptcy Code, the Company may assume, assume and assign or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this Quarterly Report, including where applicable, the Company's express termination rights or a quantification of its obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights the

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

Company has under Section 365 of the Bankruptcy Code. Claims may arise as a result of rejecting any executory contract.

Reorganization Costs

The Company has incurred and will continue to incur significant costs associated with the Chapter 11 Cases. The amount of these costs, which are being expensed as incurred, are expected to significantly affect the Company's results of operations.

Impact on Net Operating Loss Carryforwards

The Company's NOLs must be reduced by certain debt discharged pursuant to the Plan. Further, the Company's ability to utilize its NOL carryforwards will be limited by Section 382 of the Internal Revenue Code of 1986, as amended, after the Company consummates a debt restructuring that results in an ownership change. In general, following an ownership change, a limitation is imposed on the amount of pre−ownership change NOL carryforwards that may be used to offset taxable income in each year following the ownership change. Under a special rule that may be elected for an ownership change pursuant to a Chapter 11 reorganization, the amount of this annual limitation is equal to the "long term tax−exempt rate" (published monthly by the Internal Revenue Service (the "IRS")) for the month in which the ownership change occurs, multiplied by the value of FairPoint Communications' stock immediately after, rather than immediately before, the ownership change. By taking into account the value of FairPoint Communications' stock immediately after the Chapter 11 reorganization, the limitation is increased as a result of the cancellation of debt that occurs pursuant to the Chapter 11 reorganization. Because the Company expects to elect this treatment, an annual limitation will be imposed on the amount of the Company's pre−ownership change NOL carryforwards that can be utilized to offset its taxable income after consummation of the Chapter 11 reorganization. In order to prevent an ownership change that limits the Company's NOL carryforwards prior to the Effective Date, the Bankruptcy Court has put in place notification procedures and potential restrictions on the trading of FairPoint Communications' common stock.

Any portion of the annual limitation that is not used in a particular year may be carried forward and used in subsequent years. The annual limitation is increased by certain built−in gains recognized (or treated as recognized) during the five years following the ownership change (up to the total amount of built−in gain that existed at the time of the ownership change). The Company expects any NOL limitation for the five years following an ownership change will be increased by built−in gains. The Company also projects that all available NOL carryforwards after giving effect to the reduction for debt discharged will be utilized to offset future income within the NOL carryforward periods. Therefore, the Company does not expect to have NOL carryforwards after such time.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

Defaults Under Outstanding Debt Instruments

The filing of the Chapter 11 Cases constituted an event of default under each of the following debt instruments:

- the indenture (the "New Indenture") governing the Company's new 13 $^{1}/_{8}$% Senior Notes due 2018 (the "New Notes"), which New Notes were issued on July 29, 2009 in connection with the Company's offer to exchange (the "Exchange Offer") its old 13 $^{1}/_{8}$% Senior Notes due 2018 (the "Old Notes," and together with the New Notes, the "Notes"), which Old Notes were originally issued by Spinco and subsequently assumed by the Company in connection with the Merger, for the New Notes;

- the Pre−petition Credit Facility; and

- the ISDA Master Agreement with Wachovia Bank, N.A., dated as of December 12, 2000, as amended and restated as of February 1, 2008, and the ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of February 1, 2005 (collectively, the "Swaps").

Under the terms of the New Indenture, as a result of the filing of the Chapter 11 Cases, all of the outstanding New Notes became due and payable without further action or notice. Under the terms of the Pre−petition Credit Facility, upon the filing of the Chapter 11 Cases, all commitments under the Pre−petition Credit Facility were terminated and all loans (with accrued interest thereon) and all other amounts outstanding under the Pre−petition Credit Facility (including, without limitation, all amounts under any letters of credit) became immediately due and payable. In addition, as a result of the filing of the Chapter 11 Cases, an early termination event occurred under the Swaps. The Company believes that any efforts to enforce payment obligations under such debt instruments are stayed as a result of the filing of the Chapter 11 Cases.

Prior to the filing of the Chapter 11 Cases, the Company failed to make principal and interest payments due under the Pre−petition Credit Facility on September 30, 2009. The failure to make the principal payment on the due date and failure to make the interest payment within five days of the due date constituted events of default under the Pre−petition Credit Facility. An event of default under the Pre−petition Credit Facility permits the lenders under the Pre−petition Credit Facility to accelerate the maturity of the loans outstanding thereunder, seek foreclosure upon any collateral securing such loans and terminate any remaining commitments to lend to the Company. The occurrence of an event of default under the Pre−petition Credit Facility constituted an event of default under the Swaps. In addition, the Company failed to make payments due under the Swaps on September 30, 2009, which failure resulted in an event of default under the Swaps upon the expiration of a three business day grace period.

Prior to the filing of the Chapter 11 Cases, the Company also failed to make the October 1, 2009 interest payment on the Notes. The failure to make the interest payment on the Notes constituted an event of default under the Notes upon the expiration of a thirty day grace period. An event of default under the Notes permits the holders of the Notes to accelerate the maturity of the Notes. In addition, the filing of the Chapter 11 Cases constituted an event of default under the New Notes.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

In addition, as a result of the restatement of the Company's condensed consolidated financial statements for the quarterly period ended June 30, 2009, as set forth in a Quarterly Report on Form 10−Q/A dated April 30, 2010, the Company determined that it was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

NYSE Delisting

As a result of the filing of the Chapter 11 Cases, on October 26, 2009, the New York Stock Exchange (the "NYSE") notified us that it had determined that the listing of the Company's common stock should be suspended immediately.

The last day that the Company's common stock traded on the NYSE was October 23, 2009. On November 16, 2009, the NYSE completed its application to the SEC to delist the Company's common stock.

The Company's common stock is currently trading under the symbol "FRCMQ" on the Pink Sheets.

Risks and Uncertainties

The ability of the Company, both during and after the Bankruptcy Court proceedings, to continue as a going concern, is dependent upon, among other things, the ability of the Company to confirm the Plan. Uncertainty as to the outcome of these factors raises substantial doubt about the Company's ability to continue as a going concern. The Condensed Consolidated Financial Statements contained in this Quarterly Report do not include any adjustments to reflect or provide for the consequences of the bankruptcy proceedings. See "Chapter 11 Cases—Financial Reporting in Reorganization" for additional information. In particular, such financial statements do not purport to show (i) as to assets, their realization value on a liquidation basis or their availability to satisfy liabilities, (ii) as to liabilities arising prior to the Petition Date, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (iii) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company or (iv) as to operations, the effects of any changes that may be made in the underlying business. A confirmed plan of reorganization would likely cause material changes to the amounts currently disclosed in our Condensed Consolidated Financial Statements.

As a result of the Chapter 11 Cases, realization of assets and liquidation of liabilities are subject to uncertainty. While operating as debtors−in−possession under the protection of the Bankruptcy Code, and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, the Company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the Condensed Consolidated Financial Statements. Further, the Plan could materially change the amounts and classifications reported in the consolidated historical financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Organization and Basis of Financial Reporting; Chapter 11 Cases (Continued)

Negative events associated with the Chapter 11 Cases could adversely affect revenues and the Company's relationship with customers, as well as with vendors and employees, which in turn could adversely affect the Company's operations and financial condition, particularly if the Bankruptcy Court proceedings are protracted. Also, transactions outside of the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit the Company's ability to respond timely to certain events or take advantage of certain opportunities. Due to the risks and uncertainties associated with the Bankruptcy Court proceedings, the ultimate impact that events that occur during these proceedings will have on the Company's business, financial condition and results of operations cannot be accurately predicted or quantified, and until such issues are resolved, there remains substantial doubt about the Company's ability to continue as a going concern.

(2) Reorganization

The Reorganizations Topic of the ASC, which is applicable to companies in Chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Amounts that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations beginning in the quarter ending December 31, 2009. The balance sheet must distinguish pre−petition liabilities subject to compromise from both those pre−petition liabilities that are not subject to compromise and from post−petition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. In addition, cash provided by and used for reorganization items must be disclosed separately.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with the Reorganizations Topic of the ASC. All pre−petition liabilities subject to compromise have been segregated in the condensed consolidated balance sheets and classified as liabilities subject to compromise at the estimated amount of the allowable claims. Liabilities not subject to compromise are separately classified as current or noncurrent. The Company's condensed consolidated statements of operations for the three and six months ended June 30, 2010 include the results of operations during the Chapter 11 Cases. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy.

The Company received approval from the Bankruptcy Court to pay or otherwise honor certain of its pre−petition obligations, including employee related obligations such as accrued vacation and pension related benefits. As such, these obligations have been excluded from liabilities subject to compromise as of June 30, 2010 and December 31, 2009.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(2) Reorganization (Continued)

Reorganization Items

Reorganization items represent (expense) or income amounts that have been recognized as a direct result of the Chapter 11 Cases and are presented separately in the condensed consolidated statements of operations pursuant to the Reorganizations Topic of the ASC. Such items consist of the following (amounts in thousands):

	Three months ended June 30, 2010	Six months ended June 30, 2010
Professional fees(a)	(18,369)	(33,108)
Success bonus(b)	(1,060)	(1,935)
Non−cash allowed claim adjustments(c)	—	(977)
Cancellation of debt income, net(d)	20,978	20,978
Total reorganization items	$ 1,549	$ (15,042)

(a) Professional fees relate to legal, financial advisory and other professional costs directly associated with the reorganization process.

(b) Success bonus represents charges incurred relating to the Success Bonus Plan in accordance with the plan of reorganization.

(c) The carrying values of certain liabilities subject to compromise were adjusted to the value of the claim allowed by the Bankruptcy Court.

(d) Net gains (losses) associated with the settlement of liabilities subject to compromise.

Liabilities Subject to Compromise

Liabilities subject to compromise refer to liabilities incurred prior to the Petition Date for which the Company has not received approval from the Bankruptcy Court to pay or otherwise honor. These amounts represent management's estimate of known or potential pre−Petition Date claims that are likely to be resolved in connection with the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from negotiations, actions of the Bankruptcy Court, rejection of the executory contracts and unexpired leases, the determination of the value securing claims, proofs of claim or other events.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(2) Reorganization (Continued)

Liabilities subject to compromise at June 30, 2010 and December 31, 2009 consisted of the following (amounts in thousands):

	June 30, 2010	December 31, 2009
Senior secured credit facility	$ 1,970,963	$ 1,965,450
Senior Notes	549,996	549,996
Interest rate swap	98,833	98,833
Accrued interest	142,398	74,406
Accounts payable	60,922	93,049
Other accrued liabilities	34,580	42,461
Capital lease obligations	6,113	7,627
Other long−term liabilities	766	787
Employee benefit obligations	—	3,731
Liabilities subject to compromise	$ 2,864,571	$ 2,836,340

Liabilities not subject to compromise include: (1) liabilities incurred after the Petition Date; (2) pre−Petition Date liabilities that the Company expects to pay in full such as medical or retirement benefits; and (3) pre−Petition Date liabilities that have been approved for payment by the Bankruptcy Court and that the Company expects to pay (in advance of a plan of reorganization) in the ordinary course of business, including certain employee−related items such as salaries and vacation pay.

The classification of liabilities not subject to compromise versus liabilities subject to compromise is based on currently available information and management's estimate of the amounts expected to be allowed. As the Chapter 11 Cases proceed and additional information and analysis is completed, or as the Bankruptcy Court rules on relevant matters, the classification and amounts within these two categories may change. The amount of any such change could be significant.

Magnitude of Potential Claims

The Company has filed with the Bankruptcy Court schedules and statements of financial affairs setting forth, among other things, the Company's assets and liabilities, subject to the assumptions filed in connection therewith. All of the schedules are subject to amendment or modification.

Bankruptcy Rule 3003(c)(3) requires the Bankruptcy Court to set the time within which proofs of claim must be filed in a Chapter 11 case. The Bankruptcy Court established March 18, 2010 at 5:00 p.m. Eastern Time (the "General Bar Date") as the last date and time for all non−governmental entities to file a proof of claim against the Debtors and April 26, 2010 at 5:00 p.m. Eastern Time (the "Governmental Bar Date", and together with the General Bar Date, the "Bar Dates") as the last date and time for all governmental entities to file a proof of claim against the Company. Subject to certain exceptions, the Bar Dates apply to all claims against the Debtors that arose prior to the Petition Date.

As of July 15, 2010, claims totaling $4.9 billion have been filed with the Bankruptcy Court against the Company, $4.0 million of which have been withdrawn. The Company expects new and amended claims to be filed in the future, including claims amended to assign values to claims originally filed with

(2) Reorganization (Continued)

no designated value. The Company has identified, and expects to continue to identify, many claims that the Company believes should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. As of July 15, 2010, the Bankruptcy Court has disallowed $1.1 billion of these claims and has not yet ruled on the Company's other objections to claims, the disputed portions of which aggregate to an additional $28.8 million. The Company expects to continue to file objections in the future. Because the process of analyzing and objecting to claims will be ongoing, the amount of disallowed claims may increase significantly in the future.

Through the claims resolution process, differences in amounts scheduled by the Company and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court, where appropriate. In light of the substantial number and amount of claims filed, the claims resolution process may take considerable time to complete, and the Company expects that this process will continue after the Company's emergence from Chapter 11. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor is the exact recovery with respect to allowed claims presently known.

(3) Accounting Policies

(a) Use of Estimates

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items. The Company has reclassified certain prior period amounts in the Condensed Consolidated Financial Statements to be consistent with current period presentation. The effect of these reclassifications is not material.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of plant, property and equipment, pension and post−retirement benefit assumptions and income taxes. In addition, estimates have been made in determining the amounts and classification of certain liabilities subject to compromise.

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue−sharing arrangements with other communications carriers. Revenues are primarily derived from: access, pooling, local calling services, Universal Service Fund receipts, long distance services, Internet and broadband services, and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's public utilities commission. Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs approved by the local state's public utilities commission. Access charges for the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(3) Accounting Policies (Continued)

interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association or by the individual company and approved by the FCC.

Revenues are determined on a bill−and−keep basis or a pooling basis. If on a bill−and−keep basis, the Company bills the charges to either the access provider or the end user and keeps the revenue. If the Company participates in a pooling environment (interstate or intrastate), the toll or access billed is contributed to a revenue pool. The revenue is then distributed to individual companies based on their company−specific revenue requirement. This distribution is based on individual state public utilities commissions' rates for intrastate revenues or the FCC's approved separation rules and rates of return for interstate revenues. Distribution from these pools can change relative to changes made to expenses, plant investment, or rate of return. Some companies participate in federal and certain state universal service programs that are pooling in nature but are regulated by rules separate from those described above. These rules vary by state. Revenues earned through the various pooling arrangements are initially recorded based on the Company's estimates.

Long distance retail and wholesale services are usage sensitive and are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned. The majority of the Company's miscellaneous revenue is provided from billing and collection and directory services. The Company earns revenue from billing and collecting charges for toll calls on behalf of interexchange carriers. The interexchange carrier pays a certain rate per each minute billed by the Company. The Company recognizes revenue from billing and collection services when the services are provided.

Internet and broadband services and certain other services are recognized in the month the service is provided.

Non−recurring customer activation fees, along with the related costs up to, but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Revenue is recognized net of tax collected from customers and remitted to governmental authorities.

Management makes estimated adjustments, as necessary, to revenue or accounts receivable for known billing errors. At June 30, 2010 and December 31, 2009, the Company recorded revenue reserves of $14.0 million and $22.6 million, respectively. The decrease in revenue reserves during the six months ended June 30, 2010 is primarily the result of credits that have been issued to customers.

(c) Maintenance and Repairs

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged primarily to cost of services and sales as these costs are incurred.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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NOTES TO CONDENSED CONSOLIDATED
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(3) Accounting Policies (Continued)

(e) Restricted Cash

As of March 31, 2008, the closing date of the Merger, the Company had $80.9 million of restricted cash (the "Merger Restricted Cash"). The Company is required to use these funds to (i) pay for the removal of double poles in Vermont, which is estimated to cost $6.7 million, (ii) pay for certain service quality improvements under a performance enhancement plan in Vermont totaling $25.0 million, and (iii) pay for network improvements in New Hampshire totaling $49.2 million (the "New Hampshire Funds"). During the three months ended June 30, 2009, the Company requested that the New Hampshire Funds be made available for general working capital purposes. By letter dated May 12, 2009, the NHPUC approved the Company's request, conditioned upon the Company's commitment to invest funds on certain NHPUC approved network improvements in New Hampshire on the following schedule: $15 million by the end of 2010, an additional $20 million by the end of 2011 and an additional $30 million by the end of 2012 (the "NH Investment Commitment"). The NH Investment Commitment is inclusive of the $50 million previously required by the NHPUC. In addition, if the Regulatory Settlement (as defined below) with the state regulatory authority in New Hampshire is approved in connection with the Plan, the NH Investment Commitment will be reduced by $10 million, with such funds being reallocated to recurring maintenance capital expenditures to be spent on or before March 31, 2013.

As of June 30, 2010, the Company had released $79.2 million of the restricted cash for approved expenditures under the required projects, including $1.4 million in interest earned on such restricted cash, and had forfeited an additional $1.0 million to the Vermont Board due to an inability to spend the full amount of allocated funds for such projects during the 2008 and 2009 calendar years. As of June 30, 2010, $2.2 million of the Merger Restricted Cash remains for removal of double poles in Vermont. In addition, the Company also had $1.3 million of cash restricted for other purposes.

In total, the Company had $3.5 million of restricted cash at June 30, 2010 of which $2.2 million is shown in current assets and $1.3 million is shown as a non−current asset on the condensed consolidated balance sheet.

The Company expects that the Merger Orders will be amended by the Regulatory Settlements. The MPUC and NHPUC have approved the Regulatory Settlements for Maine and New Hampshire. However, the Vermont Board has rejected the Regulatory Settlement for Vermont. As described in note 1, the Company expects to provide supplemental information to the Vermont Board. If the Company is unable to obtain the Vermont Board's approval of the Regulatory Settlement for Vermont, it is unclear what effect the filing of the Chapter 11 Cases will have on the Vermont Merger Order and whether the requirements of the Vermont Merger Order would be enforceable against the Company in the future.

(f) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(3) Accounting Policies (Continued)

information. Receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

As of June 30, 2010 and December 31, 2009, the Company's allowance for doubtful accounts totaled $53.1 million and $66.0 million, respectively.

(g) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash with high−quality financial institutions. Concentrations of credit risk with respect to trade receivables are principally related to receivables from other interexchange carriers and are otherwise limited to the Company's geographic concentration in Maine, New Hampshire and Vermont.

The Company sponsors pension and post−retirement healthcare plans for certain employees. Plan assets are held by a third party trustee. The Company's plans hold debt and equity securities for investment purposes. The value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional contributions to the plans by the Company in order to meet funding requirements under ERISA.

(h) Materials and Supplies

Materials and supplies include new and reusable supplies and network equipment, which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

(i) Property, Plant, and Equipment

Property, plant and equipment is recorded at cost. Depreciation expense is principally based on the composite group remaining life method and straight−line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated positive net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

At June 30, 2010 and December 31, 2009, accumulated depreciation for property, plant and equipment was $4.3 billion and $4.2 billion, respectively.

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(3) Accounting Policies (Continued)

The estimated asset lives used to depreciate the Company's property, plant and equipment are presented in the following table:

Average Lives	Years
Buildings	45
Central office equipment	5 − 11
Outside communications plant	
Copper cable	15 − 18
Fiber cable	25
Poles and conduit	30 − 50
Furniture, vehicles and other	3 − 15

The Company believes that current estimated useful asset lives are reasonable. Such useful lives are subject to regular review and analysis. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing network deployment, technology upgrades and enhancements, planned retirements and the adequacy of reserves.

When depreciable telephone plant used in the Company's wireline network is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation. No gain or loss is recognized on disposition of assets.

(j) Long−Lived Assets

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment as required by the Property, Plant, and Equipment Topic of the ASC. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment charge is recognized for the amount, if any, by which the carrying value of the asset exceeds its fair value.

The Company determined as of December 31, 2009 that a possible impairment of long−lived assets was indicated by the filing of the Chapter 11 Cases as well as a significant decline in the fair value of the Company's common stock. In accordance with the Property, Plant, and Equipment Topic of the ASC, the Company performed a recoverability test, based on undiscounted projected future cash flows associated with its long−lived assets, and determined that long−lived assets were not impaired at that time.

While no impairment charges resulted from the analysis performed at December 31, 2009, asset values may be adjusted in the future due to the outcome of the Chapter 11 Cases or the application of "fresh start" accounting upon the Company's emergence from Chapter 11.

(k) Computer Software and Interest Costs

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software which has a useful life in excess of one year in accordance with the Intangibles−Goodwill and Other Topic of the ASC. Capitalized costs include direct development costs associated with internal use software, including direct labor costs and external costs of materials and services.

(3) Accounting Policies (Continued)

Subsequent additions, modifications or upgrades to internal−use software are capitalized only to the extent that they increase the functionality of the software. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC. The Company has not capitalized interest costs incurred subsequent to the filing of the Chapter 11 Cases, as payments on all interest obligations have been stayed as a result of the filing of the Chapter 11 Cases.

On January 15, 2007, FairPoint entered into the Master Services Agreement (the "MSA"), with Capgemini U.S. LLC. Through the MSA, the Company replicated and/or replaced certain existing Verizon systems during a phased period through January 2009. As of June 30, 2009, the Company had completed the application development stage of the project and was no longer capitalizing costs in accordance with the Intangibles—Goodwill and Other Topic of the ASC. The Company has recognized both external and internal service costs associated with the MSA based on total labor incurred through the completion of the application development stage. As of June 30, 2010, the Company had capitalized $107.0 million of MSA costs and an additional $6.9 million of interest costs.

In addition to the MSA, the Company has other agreements and projects for which costs are capitalized in accordance with the Intangibles—Goodwill and Other Topic and the Interest Topic of the ASC. During the three and six months ended June 30, 2010, the Company capitalized $3.5 million and $7.3 million, respectively, in software costs and did not capitalize any interest costs.

As of December 31, 2009, the Company had capitalized $126.4 million of costs under the Intangibles—Goodwill and Other Topic of the ASC and $9.4 million of interest costs under the Interest Topic of the ASC.

(l) Debt Issue Costs

On March 31, 2008, immediately prior to the Merger, Legacy FairPoint and Spinco entered into the Pre−petition Credit Facility, consisting of a non−amortizing revolving facility in an aggregate principal amount of $200 million (the "Revolving Credit Facility"), a senior secured term loan A facility in an aggregate principal amount of $500 million (the "Term Loan A Facility"), a senior secured term loan B facility in the aggregate principal amount of $1,130 million (the "Term Loan B Facility" and, together with the Term Loan A Facility, the "Term Loan") and a delayed draw term loan facility in an aggregate principal amount of $200 million (the "Delayed Draw Term Loan"). The Company incurred $29.2 million of debt issue costs associated with these credit facilities and began to amortize these costs over the life of the related debt, ranging from 6 to 7 years using the effective interest method.

On January 21, 2009, the Company entered into an amendment to the Pre−petition Credit Facility (the "Pre−petition Credit Facility Amendment") under which, among other things, the administrative agent under the Pre−petition Credit Facility (the "administrative agent") resigned and was replaced by a new Pre−petition Administrative Agent. In addition, the resigning administrative agent's undrawn loan commitments under the Revolving Credit Facility, totaling $30.0 million, were terminated and are no longer available to the Company. The Company incurred $0.5 million of debt issue costs associated

(3) Accounting Policies (Continued)

with the Pre−petition Credit Facility Amendment and began to amortize these costs over the remaining life of the loan.

Concurrent with the Pre−petition Credit Facility Amendment, the Company wrote off $0.8 million of the unamortized debt issue costs associated with the original Pre−petition Credit Facility, in accordance with the Debt—Modifications and Extinguishments Topic of the ASC.

In connection with the Exchange Offer, the Company paid a cash consent fee of $1.6 million in the aggregate to holders of Old Notes who validly delivered and did not revoke consents in the related consent solicitation prior to a specified early consent deadline, which amount was equal to $3.75 in cash per $1,000 aggregate principal amount of Old Notes exchanged in the Exchange Offer. Pursuant to the Debt Topic of the ASC, this consent fee was capitalized and the Company began to amortize these costs over the life of the New Notes using the effective interest method.

Concurrent with the filing of the Chapter 11 Cases, on October 26, 2009 the Company wrote off all remaining debt issue and offering costs related to its pre−petition debt in accordance with the Reorganizations Topic of the ASC.

The Company entered into the DIP Credit Agreement on October 27, 2009. The Company incurred $0.9 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the nine month life of the DIP Credit Agreement using the effective interest method. Concurrent with the Final DIP Order, on March 11, 2010, the Company incurred an additional $1.1 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the remaining life of the DIP Credit Agreement using the effective interest method.

As of June 30, 2010 and December 31, 2009, the Company had capitalized debt issue costs, net of amortization, of $0.3 million and $0.7 million, respectively.

(m) Advertising Cost

Advertising costs are expensed as they are incurred.

(n) Goodwill and Other Intangible Assets

Goodwill consists of the difference between the purchase price incurred in the acquisition of Legacy FairPoint using the purchase method of accounting and the fair value of net assets acquired. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, goodwill is no longer amortized, but instead is assessed for impairment at least annually. During this assessment, management relies on a number of factors, including operating results, business plans, and anticipated future cash flows.

Goodwill impairment is determined using a two−step process. Step one compares the estimated fair value of the Company's single wireline reporting unit (calculated using both the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares the fair value of the Company, as measured by its market capitalization, to the carrying amount of the

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(3) Accounting Policies (Continued)

Company, which represents its stockholders' equity balance. As of June 30, 2010, stockholders' deficit totaled $326.9 million.

Step two compares the implied fair value of the Company's goodwill (i.e., the fair value of the Company less the fair value of the Company's assets and liabilities, including identifiable intangible assets) to its goodwill carrying amount. If the carrying amount of the Company's goodwill exceeds the implied fair value of the goodwill, the excess is required to be recorded as an impairment.

The Company performed step one of its annual goodwill impairment assessment as of October 1, 2009 and concluded that there was no impairment at that time. In light of the Chapter 11 Cases, the Company performed an interim goodwill impairment assessment as of December 31, 2009 and determined that goodwill was not impaired.

As of June 30, 2010 and December 31, 2009, the Company had goodwill of $595.1 million.

The Company's intangible assets consist of customer lists and trade names as follows (in thousands):

	At June 30, 2010	At December 31, 2009
Customer lists (weighted average 9.7 years):		
Gross carrying amount	$ 208,504	$ 208,504
Less accumulated amortization	(50,787)	(39,501)
Net customer lists	157,717	169,003
Trade names (indefinite life):		
Gross carrying amount	42,816	42,816
Total intangible assets, net	$ 200,533	$ 211,819

The Company's only non−amortizable intangible asset is the trade name of Legacy FairPoint acquired in the Merger. Consistent with the valuation methodology used to value the trade name at the time of the Merger, the Company assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired. The Company performed its annual non−amortizable intangible asset impairment assessment as of October 1, 2009 and concluded that there was no indication of impairment at that time. In light of the Chapter 11 Cases, the Company performed an interim non−amortizable intangible asset impairment assessment as of December 31, 2009 and determined that the trade name was not impaired.

For its non−amortizable intangible asset impairment assessments at October 1, and December 31, 2009, the Company made certain assumptions including an estimated royalty rate, an effective tax rate and a discount rate, and applied these assumptions to projected future cash flows of the consolidated FairPoint Communications, Inc. business, exclusive of cash flows associated with wholesale revenues as

(3) Accounting Policies (Continued)

these revenues are not generated through brand recognition. Changes in one or more of these assumptions may have resulted in the recognition of an impairment loss.

While no impairment charges resulted from the analyses performed at October 1, and December 31, 2009, asset values may be adjusted in the future due to the outcome of the Chapter 11 Cases or the application of "fresh start" accounting upon the Company's emergence from Chapter 11.

The Company's amortizable intangible assets consist of customer lists. Amortizable intangible assets must be reviewed for impairment whenever indicators of impairment exist. See note 3(j) above.

The estimated weighted average useful lives of the intangible assets are 9.7 years for the customer relationships and an indefinite useful life for trade names. Amortization expense was $5.7 million and $5.7 million for the three months, and $11.3 million and $11.4 million for the six months, ended June 30, 2010 and 2009, respectively, and is expected to be approximately $22.6 million per year.

(o) Accounting for Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company files a consolidated income tax return with its subsidiaries. The Company has a tax−sharing agreement in which all subsidiaries are participants. All intercompany tax transactions and accounts have been eliminated in consolidation.

The Income Taxes Topic of the ASC requires applying a "more likely than not" threshold to the recognition and de−recognition of tax positions. The Company's unrecognized tax benefits totaled $5.4 million as of June 30, 2010, of which $2.0 million would impact its effective tax rate, if recognized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities, projected future taxable income exclusive of reversing temporary differences, and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized.

(p) Stock−based Compensation Plans

The Company accounts for its stock−based compensation plans in accordance with the Compensation−Stock Compensation Topic of the ASC, which establishes accounting for stock−based awards granted in exchange for employee services. Accordingly, for employee awards which are

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(3) Accounting Policies (Continued)

expected to vest, stock−based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight−line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests. The Company elected to adopt the provisions of the Compensation−Stock Compensation Topic of the ASC using the prospective application method for awards granted prior to becoming a public company and valued using the minimum value method, and using the modified prospective application method for awards granted subsequent to becoming a public company.

(q) Employee Benefit Plans

The Company accounts for pensions and other post−retirement benefit plans in accordance with the Compensation—Retirement Benefits Topic of the ASC. This Topic requires the recognition of a defined benefit post−retirement plan's funded status as either an asset or liability on the balance sheet. This Topic also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of other accumulated comprehensive income, net of applicable income taxes. Additionally, a company must determine the fair value of plan assets as of the company's year end.

(r) Business Segments

Management views its business of providing video, data and voice communication services to residential and business customers as one business segment as defined in the Segment Reporting Topic of the ASC. The Company consists of retail and wholesale telecommunications services, including local telephone, high speed Internet, long distance and other services in 18 states. The Company's chief operating decision maker assesses operating performance and allocates resources based on the consolidated results.

(s) Purchase Accounting

Prior to the adoption of the Business Combinations Topic of the ASC, the Company recognized the acquisition of companies in accordance with SFAS No. 141, *Accounting for Business Combinations* ("SFAS 141"). The cost of an acquisition was allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the acquisition, with amounts exceeding the fair value being recorded as goodwill. All future business combinations will be recognized in accordance with the Business Combinations Topic of the ASC.

(4) Recent Accounting Pronouncements

On January 1, 2010, the Company adopted the accounting standard update regarding fair value measurements and disclosures, which requires additional disclosures regarding assets and liabilities measured at fair value. The adoption of this accounting standard update had no impact on the Company's consolidated results of operations and financial position.

On June 15, 2009, the Company adopted the accounting standard relating to subsequent events. This standard establishes principles and requirements for identifying, recognizing and disclosing

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(4) Recent Accounting Pronouncements (Continued)

subsequent events. This standard requires that an entity identify the type of subsequent event as either recognized or unrecognized, and disclose the date through which the entity has evaluated subsequent events. This standard was revised by FASB Accounting Standard Update 2010−09, effective June 15, 2010, to remove the requirement to disclose the date through which subsequent events have been evaluated. This standard is effective for interim or annual financial periods ending after June 15, 2009. The adoption of this standard had no impact on the Company's consolidated results of operations and financial position.

(5) Dividends

On December 5, 2008, the Company declared a dividend of $0.2575 per share of common stock, which was paid on January 16, 2009 to holders of record as of December 31, 2008.

On March 4, 2009, the Company's board of directors voted to suspend the quarterly dividend on the Company's common stock. The Company currently does not expect to reinstate the payment of dividends.

(6) Income Taxes

For the three months and six months ended June 30, 2010, the Company recorded income tax benefit of $10.2 million and $6.7 million, respectively. This resulted in an effective tax rate of 21.9% benefit and 5.7% benefit for the three months and six months ended June 30, 2010, respectively, compared to an effective tax rate of 39.7% benefit and 38.7% benefit for the three months and six months ended June 30, 2009, respectively. The 5.7% effective tax rate for the six months ended June 30, 2010 was impacted by a one−time, non−cash income tax charge of $6.8 million during the first quarter of 2010, as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively, the "Health Care Act"). Under the Health Care Act, beginning in 2013, the Company will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage under Medicare Part D for retiree prescription drug coverage to the extent of the subsidy the Company receives for providing that coverage. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in the Company's financial statements, this change required the Company to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

The effective tax rate for the three months and six months ended June 30, 2010 was also impacted by (i) post−petition interest on debt that is not expected to be paid and, therefore, not expected to result in a future tax deduction, and (ii) non−deductible costs incurred related to the Chapter 11 Cases. In addition, tax benefits from the reported loss during the period were partially offset by an increase in the valuation allowance on the Company's deferred tax assets.

At June 30, 2010, the Company had federal and state net operating loss carryforwards of $483.9 million that will expire from 2019 to 2030. At June 30, 2010, the Company has alternative minimum tax credits of $3.8 million that may be carried forward indefinitely. Legacy FairPoint completed an initial public offering on February 4, 2005, which resulted in an "ownership change"

(6) Income Taxes (Continued)

within the meaning of the U.S. federal income tax laws addressing net operating loss carryforwards, alternative minimum tax credits, and other similar tax attributes. The Merger also resulted in an ownership change as of March 31, 2008. As a result of these ownership changes, there are specific limitations on the Company's ability to use its net operating loss carryfowards and other tax attributes. It is the Company's belief that it can use the net operating losses even with these restrictions in place.

During the quarter ending June 30, 2010, the Company excluded from taxable income $21.6 million of income from the discharge of indebtedness as defined under Internal Revenue Code ("IRC") Section 108. IRC Section 108 excludes from taxable income the amount of indebtedness discharged under a Chapter 11 case. IRC Section 108 also requires a reduction of tax attributes equal to the amount of excluded taxable income to be made on the first day of the tax year following the emergence from bankruptcy. These tax attributes will primarily consist of a reduction to the NOL carryforward and tax basis of other assets. Accordingly, the Company has recorded a full valuation allowance of $8.3 million against the future reduction of $21.6 million in tax attributes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities, projected future taxable income exclusive of reversing temporary differences, and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized.

Based upon the level of projections for future taxable income at December 31, 2008, management believed it was more likely than not that the Company would realize the full benefits of these deductible differences. However, as a result of the change in facts and circumstances during 2009, specifically that the Company filed the Chapter 11 Cases, the Company reassessed the likelihood that its deferred tax assets will be realized as of December 31, 2009. Based upon this analysis, management believes it can support the realizability of its deferred tax asset only by the scheduled reversal of its deferred tax liabilities and can no longer rely upon the projection of future taxable income. At June 30, 2010, the Company carries a valuation allowance of $38.1 million against its deferred tax assets which consists of a $31.1 million federal allowance and a $7.0 million state allowance.

The Income Taxes Topic of the ASC requires the use of a two−step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The unrecognized tax benefits under the Income Taxes Topic of the ASC are similar to the income tax reserves reflected prior to adoption under SFAS No. 5, *Accounting for Contingencies*, whereby reserves were established for probable loss contingencies that could be reasonably estimated. The Company's unrecognized tax benefits totaled $5.4 million as of June 30, 2010 and December 31, 2009. Of the $5.4 million of unrecognized tax benefits at June 30, 2010, $2.0 million would impact the Company's effective rate, if recognized. The remaining unrecognized tax benefits relate to temporary items and tax reserves recorded in a business combination. Furthermore, the Company does not anticipate any significant increase or decrease to the unrecognized tax benefits within the next twelve months.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(6) Income Taxes (Continued)

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. For the six months ended June 30, 2010, there was a $0.1 million increase in interest and penalties. As of June 30, 2010, cumulative interest and penalties totaled $0.9 million, net of tax.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and with various state and local governments. The Company is no longer subject to U.S. federal, state and local, or non−U.S. income tax examinations by tax authorities for years prior to 2004. During the quarter ending June 30, 2009, Verizon received notification from the IRS that a tax position taken on their returns for the years 2000 through 2003 relating to the Company's Northern New England operations was settled through acceptance of the filing position. During the quarter ending June 30, 2008, Verizon effectively settled the IRS examination for fiscal years 2000 through 2003. Due to the executed tax sharing agreement dated January 15, 2007 between the Company and Verizon covering prior period tax liabilities, current period tax liabilities, tax payments and tax returns (the "Tax Sharing Agreement"), the settlement of the IRS audit resulted in an amount due to Verizon from the Company in the amount of $1.5 million relating to adjustments of temporary differences and $0.1 million of interest. As of June 30, 2010, the Company does not have any significant additional jurisdictional tax audits.

Prior to the Merger, Verizon and its domestic subsidiaries, including the operations of the Verizon Companies, filed a consolidated federal income tax return and combined state income tax returns in the states of Maine, New Hampshire and Vermont. The operations of the Verizon Companies, including the Verizon Northern New England business, for periods prior to the Merger were included in a Tax Sharing Agreement with Verizon and were allocated tax payments based on the respective tax liability as if they were filing on a separate company basis. Current and deferred tax expense was determined by applying the provisions of the Income Taxes Topic of the ASC to each company as if it were a separate taxpayer.

The Verizon Northern New England business used the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. The Verizon Northern New England business also deferred certain transitional credits earned after the repeal and amortized these credits over the estimated service lives of the related assets as a reduction to the provision for income taxes.

(7) Interest Rate Swap Agreements

The Company assesses interest rate related cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate cash flow risk attributable to both the Company's outstanding and forecasted debt obligations. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the Company's future cash flows.

(7) Interest Rate Swap Agreements (Continued)

The Company uses variable and fixed−rate debt to finance its operations, capital expenditures and acquisitions. The variable−rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. The Company believed it was prudent to limit the variability of a portion of its interest payments. To meet this objective, from time to time, the Company entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. The Swaps effectively changed the variable rate on the debt obligations to a fixed rate. Under the terms of the Swaps, the Company was required to make a payment if the variable rate was below the fixed rate, or it received a payment if the variable rate was above the fixed rate.

The Company failed to make payments of $14.0 million due under the Swaps on September 30, 2009, which failure resulted in an event of default under the Swaps upon the expiration of a three business day grace period.

In addition, as a result of the restatement of the Company's interim financial statements filed with the Securities Exchange Commission on April 30, 2010 (the "Restatement"), the Company determined that the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

The filing of the Chapter 11 Cases constituted a termination event under the Swaps. Subsequent to the filing of the Chapter 11 Cases, the Company received notification from the counterparties to the Swaps that the Swaps had been terminated. However, the Company believes that any efforts to enforce payment obligations under such debt instruments are stayed as a result of the filing of the Chapter 11 Cases. See note 1.

As a result of the Merger, the Company reassessed the accounting treatment of the Swaps and determined that, beginning on April 1, 2008, the Swaps did not meet the criteria for hedge accounting. Therefore, the changes in fair value of the Swaps subsequent to the Merger have been recorded as other income (expense) on the consolidated statement of operations. At June 30, 2010 and December 31, 2009, the carrying value of the Swaps was a net liability of approximately $98.8 million, all of which has been included in liabilities subject to compromise as a result of the filing of the Chapter 11 Cases. The carrying value of the Swaps at June 30, 2010 and December 31, 2009 represents the termination value of the Swaps as determined by the respective counterparties following the termination event described above. The Company has recognized no gain or loss on derivative instruments on the condensed consolidated statement of operations during the three months and six months ended June 30, 2010. For the three months and six months ended June 30, 2009, the Company recognized gains on derivative instruments totaling $7.2 million and $20.1 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED
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(8) Long Term Debt

Long term debt for the Company at June 30, 2010 and December 31, 2009 is shown below (in thousands):

	June 30, 2010	December 31, 2009
Senior secured credit facility, variable rates ranging from 6.75% to 7.00% (weighted average rate of 6.94%) at June 30, 2010, due 2014 to 2015	$ 1,970,963	$ 1,965,450
Senior notes, 13.125%, due 2018	549,996	549,996
Total outstanding long−term debt	2,520,959	2,515,446
Less amounts subject to compromise	(2,520,959)	(2,515,446)
Total long−term debt, net of amounts subject to compromise	$ —	$ —

As a result of the filing of the Chapter 11 Cases (see note 1), all pre−petition debts owed by the Company under the Pre−petition Credit Facility, the Notes and the Swaps have been classified as liabilities subject to compromise in the condensed consolidated balance sheet as of June 30, 2010 and December 31, 2009.

The estimated fair value of the Company's long−term debt at June 30, 2010 was approximately $1,420.3 million based on market prices of the Company's debt securities at the balance sheet date.

The Company failed to make the September 30, 2009 principal and interest payments required under the Pre−petition Credit Facility. Failure to make the principal payment on the due date and failure to make the interest payment within five days of the due date constituted events of default under the Pre−petition Credit Facility, which permits the lenders to accelerate the maturity of the loans outstanding thereunder, seek foreclosure upon any collateral securing such loans and terminate any remaining commitments to lend to the Company. In addition, the incurrence of an event of default on the Pre−petition Credit Facility constituted an event of default under the Swaps at September 30, 2009, which failure resulted in an event of default under the Swaps upon the expiration of a three business day grace period. Also, the failure to make the October 1, 2009 interest payment on the Notes within thirty days of the due date constituted an event of default under the Notes. An event of default under the Notes permits the holders of the Notes to accelerate the maturity of the Notes. Filing of the Chapter 11 Cases constituted an event of default on the New Notes. In addition, as a result of the Restatement (as defined herein), the Company determined that the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

On September 25, 2009, the Company entered into forbearance agreements with the lenders under the Pre−petition Credit Facility and the Swaps under which the lenders agreed to forbear from exercising their rights and remedies under the respective agreements with respect to any events of default through October 30, 2009. On October 26, 2009, the Company filed the Chapter 11 Cases. The filing of the Chapter 11 Cases constituted an event of default under each of the Pre−petition Credit Facility, the New Notes and the Swaps. However, the Company believes that any efforts to enforce

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(8) Long Term Debt (Continued)

payment obligations under these agreements are stayed as a result of the filing of the Chapter 11 Cases. For additional information about the impact of the Chapter 11 Cases, see note 1.

The approximate aggregate maturities of long−term debt for each of the five years subsequent to June 30, 2010 are as follows (in thousands):

Quarter ending June 30,		
2011	$	49,575
2012		63,300
2013		138,300
2014		293,600
2015		1,426,188
Thereafter		549,996
	$	2,520,959

Pursuant to the Plan, the Company does not expect to make any principal or interest payments on its pre−petition debt during the pendency of the Chapter 11 Cases. In accordance with the Reorganizations Topic of the ASC, as interest on the Notes subsequent to the Petition Date is not expected to be an allowed claim, the Company has not accrued interest expense on the Notes subsequent to the Petition Date. Accordingly, $18.1 million and $36.1 million of interest on unsecured debts, at the stated contractual rates, was not accrued during the three months and six months ended June 30, 2010. The Company has continued to accrue interest expense on the Pre−petition Credit Facility, as such interest is considered an allowed claim according to the Plan.

Pre−petition Credit Facility

On March 31, 2008, immediately prior to the Merger, FairPoint and Spinco entered into the Pre−Petition Credit Facility consisting of the Revolving Credit Facility, the Term Loan and the Delayed Draw Term Loan. Spinco drew $1,160 million under the Term Loan immediately prior to being spun off by Verizon, and then the Company drew $470 million under the Term Loan and $5.5 million under the Delayed Draw Term Loan concurrently with the closing of the Merger. Subsequent to the Merger, the Company has drawn an additional $194.5 million under the Delayed Draw Term Loan. These funds were used for certain capital expenditures and other expenses associated with the Merger.

On October 5, 2008 the administrative agent under the Pre−petition Credit Facility filed for bankruptcy. The administrative agent accounted for thirty percent of the loan commitments under the Revolving Credit Facility. On January 21, 2009, the Company entered into the Pre−petition Credit Facility Amendment under which, among other things, the administrative agent resigned and was replaced by a new Pre−petition Administrative Agent. In addition, the resigning administrative agent's undrawn loan commitments under the Revolving Credit Facility, totaling $30.0 million, were terminated and are no longer available to the Company.

The Revolving Credit Facility has a swingline sub−facility in the amount of $10 million and a letter of credit sub−facility in the amount of $30 million, which allows issuances of standby letters of credit by

(8) Long Term Debt (Continued)

the Company. The Pre−petition Credit Facility also permits interest rate and currency exchange swaps and similar arrangements that the Company may enter into with the lenders under the Pre−petition Credit Facility and/or their affiliates.

As of June 30, 2010, the Company had borrowed $155.5 million under the Revolving Credit Facility, including $5.5 million of funds drawn down under letters of credit during the three months ended March 31, 2010, and there were no outstanding letters of credit. Upon the event of default under the Pre−petition Credit Facility relating to the Chapter 11 Cases described herein, the commitments under the Revolving Credit Facility were automatically terminated. Accordingly, as of June 30, 2010, no funds remained available under the Revolving Credit Facility.

The Term Loan B Facility and the Delayed Draw Term Loan will mature in March 2015 and the Revolving Credit Facility and the Term Loan A Facility will mature in March 2014. Each of the Term Loan A Facility, the Term Loan B Facility and the Delayed Draw Term Loan, collectively referred to as the Term Loans, are repayable in quarterly installments in the manner set forth in the Pre−petition Credit Facility beginning June 30, 2009.

Borrowings under our Pre−petition Credit Facility bear interest at variable interest rates. Interest rates for borrowings under the Pre−petition Credit Facility are, at the Company's option, for the Revolving Credit Facility and for the Term Loans at either (a) the Eurodollar rate, as defined in the Pre−petition Credit Facility, plus an applicable margin or (b) the base rate, as defined in the Pre−petition Credit Facility, plus an applicable margin.

The Company's Term Loan B Facility debt is subject to a LIBOR floor of 3.00%. As a result, the Company incurs interest expense at above−market levels when LIBOR rates are below 3.00%.

The Pre−petition Credit Facility provides for payment to the lenders of a commitment fee on the average daily unused portion of the Revolving Credit Facility commitments, payable quarterly in arrears on the last business day of each calendar quarter and on the date upon which the commitment is terminated. The Pre−petition Credit Facility also provides for payment to the lenders of a commitment fee from the closing date of the Pre−petition Credit Facility up through and including the twelve month anniversary thereof on the unused portion of the Delayed Draw Term Loan, payable quarterly in arrears, and on the date upon which the Delayed Draw Term Loan is terminated, as well as other fees.

The Pre−petition Credit Facility requires the Company first to prepay outstanding Term Loan A Facility loans in full, including any applicable fees, interest and expenses and, to the extent that no Term Loan A Facility loans remain outstanding, Term Loan B Facility loans, including any applicable fees, interest and expenses, with, subject to certain conditions and exceptions, 100% of the net cash proceeds the Company receives from any sale, transfer or other disposition of any assets, subject to certain reinvestment rights, 100% of net casualty insurance proceeds, subject to certain reinvestment rights and 100% of the net cash proceeds the Company receives from the issuance of debt obligations and preferred stock. In addition, the Pre−petition Credit Facility requires it to prepay outstanding Term Loans on the date the Company delivers a compliance certificate pursuant to the Pre−petition Credit Facility beginning with the fiscal quarter ended June 30, 2009 demonstrating that the Company's leverage ratio for the preceding quarter is greater than 3.50 to 1.00, with an amount equal to the greater of (i) $11,250,000 or (ii) 90% of the Company's excess cash flow calculated after its permitted

(8) Long Term Debt (Continued)

dividend payment and less its amortization payments made on the Term Loans pursuant to the Pre−petition Credit Facility. Notwithstanding the foregoing, the Company may designate the type of loans which are to be prepaid and the specific borrowings under the affected facility pursuant to which any amounts mandatorily prepaid will be applied in forward order of maturity of the remaining amortization payments.

Voluntary prepayments of borrowings under the Term Loan facilities and optional reductions of the unutilized portion of the revolving facility commitments will be permitted upon payment of an applicable payment fee, which shall only be applicable to certain prepayments of borrowings as described in the Pre−petition Credit Facility.

Under the Pre−petition Credit Facility, the Company is required to meet certain financial tests, including a minimum cash interest coverage ratio and a maximum total leverage ratio. The Pre−petition Credit Facility contains customary affirmative covenants. The Pre−petition Credit Facility also contains negative covenants and restrictions, including, among others, with respect to redeeming and repurchasing the Company's other indebtedness, loans and investments, additional indebtedness, liens, capital expenditures, changes in the nature of the Company's business, mergers, acquisitions, asset sales and transactions with affiliates. The Pre−petition Credit Facility contains customary events of default, including, but not limited to, failure to pay principal, interest or other amounts when due (subject to customary grace periods), breach of covenants or representations, cross−defaults to certain other indebtedness in excess of specified amounts, judgment defaults in excess of specified amounts, certain ERISA defaults, the failure of any guaranty or security document supporting the Pre−petition Credit Facility and certain events of bankruptcy and insolvency.

The Pre−petition Credit Facility also contains restrictions on the Company's ability to pay dividends on its common stock.

Scheduled amortization payments on our Pre−petition Credit Facility began in 2009. No principal payments are due on the Notes prior to their maturity. As a result of the Chapter 11 Cases, the Company does not expect to make any additional principal or interest payments on its pre−petition debt.

The Pre−petition Credit Facility is guaranteed, jointly and severally, by all existing and subsequently acquired or organized wholly owned first−tier domestic subsidiaries of the Company that are holding companies. No guarantee is required of a subsidiary that is an operating company. Northern New England Telephone Operations LLC, Telephone Operating Company of Vermont LLC and Enhanced Communications of Northern New England Inc. are regulated operating subsidiaries and, accordingly, are not guarantors under the Pre−petition Credit Facility.

The Pre−petition Credit Facility is secured by a first priority perfected security interest in all of the stock, equity interests, promissory notes, partnership interests and membership interests owned by the Company.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

(DEBTORS−IN−POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(8) Long Term Debt (Continued)

Old Notes

On March 31, 2008, Spinco issued $551.0 million aggregate principal amount of the Old Notes. The Old Notes mature on April 1, 2018 and are not redeemable at the Company's option prior to April 1, 2013. Interest is payable on the Old Notes semi−annually in cash on April 1 and October 1 of each year. The Old Notes bear interest at a fixed rate of 13 1/8% and principal is due at maturity. The Old Notes were issued at a discount and, accordingly, at the date of their distribution, the Old Notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million). Following the filing of the Chapter 11 Cases, the remaining $9.9 million of discount on the Notes was written off in order to adjust the carrying amount of the Company's pre−petition debt to the Bankruptcy Court approved amount of the allowed claims for the Company's pre−petition debt. In accordance with the Reorganizations Topic of the ASC, as interest on the Notes subsequent to the Petition Date is not expected to be an allowed claim, the Company has not accrued interest expense on the Notes subsequent to the Petition Date.

Upon the consummation of the Exchange Offer and the corresponding consent solicitation, substantially all of the restrictive covenants in the indenture governing the Old Notes were deleted or eliminated and certain of the events of default and various other provisions contained therein were modified.

Prior to the filing of the Chapter 11 Cases, the Company failed to make the October 1, 2009 interest payment on the Notes. The failure to make the interest payment on the Notes constituted an event of default under the Notes upon the expiration of a thirty day grace period. An event of default under the Notes permits the holders of the Notes to accelerate the maturity of the Notes.

In addition, as a result of the Restatement, the Company determined that the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

Issuance of New Notes and Payment of Consent Fee

On July 29, 2009, the Company successfully consummated the Exchange Offer. On the July 29, 2009 settlement date of the Exchange Offer (the "Settlement Date"), the Proposed Amendments became operative and $439.6 million in aggregate principal amount of the Old Notes (which amount was equal to approximately 83% of the then outstanding Old Notes) were exchanged for $439.6 million in aggregate principal amount of the New Notes. In addition, pursuant to the terms of the Exchange Offer, an additional $18.9 million in aggregate principal amount of New Notes was issued to holders who tendered their Old Notes in the Exchange Offer as payment for accrued and unpaid interest on the exchanged Old Notes up to, but not including, the Settlement Date.

The New Notes mature on April 2, 2018 and bear interest at a fixed rate of 13 1/8%, payable in cash, except that the New Notes bore interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009. In addition, the Company was permitted to pay the interest payable on the New Notes for the period from July 29, 2009 through and including September 30, 2009

(8) Long Term Debt (Continued)

(the "Initial Interest Payment Period") in the form of cash, by capitalizing such interest and adding it to the principal amount of the New Notes or a combination of both cash and such capitalization of interest, at its option. The Company intended to make the interest payments due on October 1, 2009 on the New Notes by capitalizing such interest and adding it to the principal amount of the New Notes. As such, interest payable of $12.2 million at September 30, 2009 was reflected as interest payable in kind on the condensed consolidated balance sheet. As the Notes have been classified as subject to compromise as of June 30, 2010, the Company has classified the accrued interest on the exchanged Old Notes as of June 30, 2010 of $12.2 million as subject to compromise on the condensed consolidated balance sheet. In accordance with the Reorganizations Topic of the ASC, as interest on the Notes subsequent to the Petition Date is not expected to be an allowed claim, the Company has not accrued interest expense on the Notes subsequent to the Petition Date.

The New Indenture limits, among other things, the Company's ability to incur additional indebtedness, issue certain preferred stock, repurchase its capital stock or subordinated debt, make certain investments, create certain liens, sell certain assets or merge or consolidate with or into other companies, incur restrictions on the ability of the Company's subsidiaries to make distributions or transfer assets to the Company and enter into transactions with affiliates.

The New Indenture also restricts the Company's ability to pay dividends on or repurchase its common stock under certain circumstances.

In connection with the Exchange Offer and the corresponding consent solicitation, the Company also paid a cash consent fee of $1.6 million in the aggregate to holders of Old Notes who validly delivered and did not revoke consents in the consent solicitation prior to a specified early consent deadline, which amount was equal to $3.75 in cash per $1,000 aggregate principal amount of Old Notes exchanged in the Exchange Offer.

Debtor−in−Possession Financing

DIP Credit Agreement

In connection with the Chapter 11 Cases, the DIP Borrowers entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provides for the DIP Financing. Pursuant to the Interim Order, the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis, pending a final hearing before the Bankruptcy Court, in an aggregate amount of $20 million. On March 11, 2010 the Bankruptcy Court entered the Final DIP Order, permitting the DIP Borrowers access to the total $75 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court. As of June 30, 2010 and December 31, 2009, the Company had not borrowed any amounts under the DIP Credit Agreement and letters of credit totaling $17.9 million and $1.6 million, respectively, had been issued and were outstanding under the DIP Credit Agreement. Accordingly, as of June 30, 2010, the amount available under the DIP Credit Agreement was approximately $57.1 million of the $75.0 million made available pursuant to the Final DIP Order.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(8) Long Term Debt (Continued)

The DIP Financing will mature and will be repayable in full on the earlier to occur of (i) September 8, 2010, which date can be extended until a date not later than October 26, 2010 at the request of the DIP Borrowers upon the prior written consent of the Required DIP Lenders with no fee payable by the DIP Borrowers in connection with any such extension, (ii) the Effective Date, (iii) the voluntary reduction by the DIP Borrowers to zero of all commitments to lend under the DIP Credit Agreement or (iv) the date on which the obligations under the DIP Financing are accelerated by the Required DIP Lenders upon the occurrence and during the continuance of certain events of default.

Other material provisions of the DIP Credit Agreement include the following:

Interest Rate and Fees. Interest rates for borrowings under the DIP Credit Agreement are, at the DIP Borrowers' option, at either (i) the Eurodollar rate plus a margin of 4.5% or (ii) the base rate plus a margin of 3.5%, payable monthly in arrears on the last business day of each month.

Interest accrues from and including the date of any borrowing up to but excluding the date of any repayment thereof and is payable (i) in respect of each base rate loan, monthly in arrears on the last business day of each month, (ii) in respect of each Eurodollar loan, on the last day of each interest period applicable thereto (which shall be a period of one month) and (iii) in respect of each such loan, on any prepayment or conversion (on the amount prepaid or converted), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand. The DIP Credit Agreement provides for the payment to the DIP Administrative Agent, for the pro rata benefit of the DIP Lenders, of an upfront fee in the aggregate principal amount of $1.5 million, which upfront fee was payable in two installments: (1) the first installment of $400,000 was due and paid on October 28, 2009, the date on which the Interim Order was entered by the Bankruptcy Court, and (2) the remainder of the upfront fee was due and paid on March 11, 2010, the date the Final DIP Order was entered by the Bankruptcy Court. The DIP Credit Agreement also provides for an unused line fee of 0.50% on the unused revolving commitment, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), and a letter of credit facing fee of 0.25% per annum calculated daily on the stated amount of all outstanding letters of credit, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), as well as certain other fees.

Voluntary Prepayments. Voluntary prepayments of borrowings and optional reductions of the unutilized portion of the commitments are permitted without premium or penalty (subject to payment of breakage costs in the event Eurodollar loans are prepaid prior to the end of an applicable interest period).

Covenants. Under the DIP Credit Agreement, the DIP Borrowers are required to maintain compliance with certain covenants, including maintaining minimum EBITDAR (earnings before interest, taxes, depreciation, amortization, restructuring charges and certain other non−cash costs and charges, as set forth in the DIP Credit Agreement) and not exceeding maximum permitted capital expenditure amounts. The DIP Credit Agreement also contains customary affirmative and negative covenants and restrictions, including, among others, with respect to investments, additional indebtedness, liens, changes in the nature of the business, mergers, acquisitions, asset sales and

(8) Long Term Debt (Continued)

transactions with affiliates. As of June 30, 2010, the DIP Borrowers are in compliance with all covenants under the DIP Credit Agreement.

Events of Default. The DIP Credit Agreement contains customary events of default, including, but not limited to, failure to pay principal, interest or other amounts when due, breach of covenants, failure of any representations to have been true in all material respects when made, cross−defaults to certain other indebtedness in excess of specific amounts (other than obligations and indebtedness created or incurred prior to the filing of the Chapter 11 Cases), judgment defaults in excess of specified amounts, certain ERISA defaults and the failure of any guaranty or security document supporting the DIP Credit Agreement to be in full force and effect, the occurrence of a change of control and certain matters related to the Interim Order, the Final DIP Order and other matters related to the Chapter 11 Cases.

DIP Pledge Agreement

The DIP Borrowers and the DIP Pledgors entered into the DIP Pledge Agreement with Bank of America N.A., as the DIP Collateral Agent, as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Pledge Agreement, the DIP Pledgors provided the DIP Pledge Agreement Collateral to the DIP Collateral Agent for the secured parties identified therein.

DIP Subsidiary Guaranty

The DIP Guarantors entered into the DIP Subsidiary Guaranty with the DIP Administrative Agent, as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Subsidiary Guaranty, the DIP Guarantors agreed to jointly and severally guarantee the full and prompt payment of all fees, obligations, liabilities and indebtedness of the DIP Borrowers, as borrowers under the DIP Financing. Pursuant to the terms of the DIP Subsidiary Guaranty, the DIP Guarantors further agreed to subordinate any indebtedness of the DIP Borrowers held by such DIP Guarantor to the indebtedness of the DIP Borrowers held by the secured parties under the DIP Financing.

DIP Security Agreement

The DIP Grantors entered into the DIP Security Agreement with the DIP Collateral Agent, as required under the terms of the DIP Credit Agreement. Pursuant to the DIP Security Agreement, the DIP Grantors provided to the DIP Collateral Agent for the benefit of the secured parties identified therein, a security interest in all assets other than the DIP Pledge Agreement Collateral, any equity interests in an Excluded Entity (as defined in the DIP Pledge Agreement), any causes of action arising under Chapter 5 of the Bankruptcy Code and FCC licenses and authorizations by state regulatory authorities to the extent that any DIP Grantor is prohibited from granting a lien and security interest therein pursuant to applicable law.

(9) Employee Benefit Plans

The Company remeasured its pension and other post−employment benefit assets and liabilities as of December 31, 2009, in accordance with the Compensation—Retirement Benefits Topic of the ASC.

(9) Employee Benefit Plans (Continued)

This measurement is based on a 6.07% weighted average discount rate, as well as certain other valuation assumption modifications.

Components of the net periodic benefit (income) cost related to the Company's pension and post−retirement healthcare plans for the three months and six months ended June 30, 2010 are presented below (in thousands).

	Three Months ended June 30, 2010		Six Months ended June 30, 2010	
	Qualified Pension	Post−retirement Health	Qualified Pension	Post−retirement Health
Service cost	$ 2,881	$ 3,453	$ 5,762	$ 6,906
Interest cost	3,011	3,980	6,023	7,961
Expected return on plan assets	(4,148)	—	(8,296)	—
Amortization of prior service cost	381	1,072	762	2,145
Amortization of actuarial (gain) loss	279	778	558	1,555
Net periodic benefit cost	$ 2,404	$ 9,283	$ 4,809	$ 18,567

Components of the net periodic benefit (income) cost related to the Company's pension and post−retirement healthcare plans for the three and six months ended June 30, 2009 are presented below (in thousands).

	Three Months ended June 30, 2009		Six Months ended June 30, 2009	
	Qualified Pension	Post−retirement Health	Qualified Pension	Post−retirement Health
Service cost	$ 2,736	$ 3,176	$ 5,471	$ 6,351
Interest cost	3,280	3,284	6,561	6,568
Expected return on plan assets	(5,179)	—	(10,358)	—
Amortization of prior service cost	363	1,073	726	2,146
Amortization of actuarial (gain) loss	156	664	311	1,328
Settlement loss	887	—	887	—
Net periodic benefit cost	$ 2,243	$ 8,197	$ 3,598	$ 16,393

The Company has no required contributions to its defined benefit pension plans during fiscal year 2010. The Company's pension plan funding requirements are based on the Pension Protection Act of 2006 and subsequent funding relief passed by Congress and regulations published by the IRS.

The Company expects to contribute approximately $1.0 million to its post−retirement healthcare plans in 2010 for benefit payments to current retirees.

For the three months and six months ended June 30, 2010, the actual loss on the pension plan assets was approximately 3.3% and 1.2%, respectively. Net periodic benefit cost for 2010 assumes a

(9) Employee Benefit Plans (Continued)

weighted average annualized expected return on plan assets of approximately 8.3%. Should the Company's actual return on plan assets continue to be significantly lower than the expected return assumption, the net periodic benefit cost may increase in future periods and the Company may be required to contribute additional funds to its pension plans after 2010.

During the three months ended March 31, 2010, $33.3 million was transferred from Verizon's defined benefit pension plans' trusts to the Company's pension plan trust. As of June 30, 2010, a disputed amount was pending final validation by a third−party actuary of the census information and related actuarial calculations in accordance with relevant statutory and regulatory guidelines and the Employee Matters Agreement, dated January 15, 2007 between Verizon and the Company (the "Employee Matters Agreement"). The disputed amount is not included in the Company's pension plan assets at June 30, 2010 or December 31, 2009. See note 15(a).

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover substantially all eligible Legacy FairPoint employees, and two voluntary 401(k) savings plans that cover in the aggregate substantially all eligible Northern New England operations employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes to the 401(k) Plans an amount of matching contributions determined by the Company at its discretion. For the three and six months ended June 30, 2010 and for the 401(k) Plan year ended December 31, 2009, the Company matched 100% of each employee's contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were $2.6 million and $2.4 million for the three months and $5.0 million and $4.9 million for the six months ended June 30, 2010 and 2009, respectively.

(10) Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss were as follows (in thousands):

	June 30, 2010	December 31, 2009
Accumulated other comprehensive loss, net of taxes:		
Defined benefit pension and post−retirement plans	$ (121,920)	$ (124,924)
Total accumulated other comprehensive loss	$ (121,920)	$ (124,924)

Other comprehensive loss for the three months and six months ended June 30, 2010 and 2009 includes amortization of defined benefit pension and post−retirement plan related prior service costs and actuarial gains and losses included in accumulated other comprehensive loss.

(11) Earnings Per Share

Earnings per share has been computed in accordance with the Earnings Per Share Topic of the ASC. Basic earnings per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding for the period. Except when the effect would be anti−dilutive, the diluted earnings per share calculation calculated using the treasury stock method includes the impact of stock units, shares of non−vested common stock and shares that could be issued under outstanding stock options. The weighted average number of common shares outstanding for all

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(11) Earnings Per Share (Continued)

periods presented has been restated to reflect the issuance of 53,760,623 shares to the stockholders of Spinco in connection with the Merger.

The following table provides a reconciliation of the common shares used for basic earnings per share and diluted earnings per share (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Weighted average number of common shares used for basic earnings per share	89,424	89,364	89,424	89,168
Effect of potential dilutive shares	—	—	—	—
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	89,424	89,364	89,424	89,168
Anti−dilutive shares excluded from the above reconciliation	2,535	644	2,535	882

Weighted average number of common shares used for basic earnings per share excludes 565,476 and 133,263 shares of non−vested restricted stock as of June 30, 2010 and 2009, respectively. Since the Company incurred a loss for the three months and six months ended June 30, 2010 and 2009, all potentially dilutive securities are anti−dilutive and are, therefore, excluded from the determination of diluted earnings per share.

(12) Stockholders' Equity

On March 31, 2008, FairPoint completed the Merger, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. In order to effect the Merger, the Company issued 53,760,623 shares of common stock, par value $.01 per share, to Verizon stockholders for their interest in Spinco. At the time of the Merger, Legacy FairPoint had 35,264,945 shares of common stock outstanding. Upon consummation of the Merger, the combined Company had 89,025,568 shares of common stock outstanding. At June 30, 2010, there were 89,989,144 shares of common stock outstanding and 200,000,000 shares of common stock were authorized.

(13) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the ASC (formerly SFAS 157, *Fair Value Measurements* ("SFAS 157")) defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position ("FSP") 157−2, which delayed the effective date of SFAS 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The impact of adopting SFAS 157 and FSB 157−2 was not material to the Company's financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(13) Fair Value Measurements (Continued)

The filing of the Chapter 11 Cases constituted a termination event under the Swaps. Subsequent to the filing of the Chapter 11 Cases, the Company received notification from the counterparties to the Swaps that the Swaps had been terminated. Therefore, the carrying value of the Swaps at June 30, 2010 and December 31, 2009 represents the termination value of the swaps as determined by the respective counterparties following the termination event described herein. See note 7 for more information.

The Company does not carry any assets or liabilities at fair value as of June 30, 2010 and December 31, 2009.

(14) Commitments and Contingencies

(a)

Leases

Future minimum lease payments under capital leases and non−cancelable operating leases as of June 30, 2010 are as follows (in thousands):

	Capital Leases	Operating Leases
Twelve months ending June 30:		
2011	$ 2,615	$ 10,635
2012	1,841	9,233
2013	1,648	8,051
2014	1,534	5,982
2015	872	3,743
Thereafter	—	4,791
Total minimum lease payments	$ 8,510	$ 42,435
Less interest and executory cost	(1,875)	
Present value of minimum lease payments	6,635	
Less current installments	(522)	
Less amounts subject to compromise	(6,113)	
Long−term obligations at June 30, 2010	$ —	

The Company does not have any leases with contingent rental payments or any leases with contingency renewal, purchase options, or escalation clauses.

(b)

Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. With the exception of the Chapter 11 Cases, the Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations. To the extent the Company is currently involved in any litigation and/or regulatory proceedings, such proceedings have been stayed as a result of the filing of the Chapter 11 Cases. For a discussion of the Chapter 11 Cases, see note 1.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(14) Commitments and Contingencies (Continued)

(c) Service Quality Penalties

The Company is subject to certain service quality requirements in the states of Maine, New Hampshire and Vermont. Failure to meet these requirements in any of these states may result in penalties being assessed by the respective state regulatory body. As of June 30, 2010, the Company has recognized an estimated liability for service quality penalties based on metrics defined by the state regulatory authorities in Maine, New Hampshire and Vermont. The Merger Orders provide that any penalties assessed by the states be paid by the Company in the form of credits applied to customer bills. Based on the Company's current estimate of its service quality penalties in these states, increases of $1.2 million and $3.6 million in the estimated liability were recorded as a reduction to revenue for the three months and six months ended June 30, 2010, respectively. During the three months and six months ended June 30, 2010, the Company paid out $1.7 million and $2.1 million, respectively, of service quality index ("SQI") penalties in the form of customer rebates, all of which were related to Maine fiscal 2008 and 2009 penalties. The Company has recorded a total liability of $29.0 million on the condensed consolidated balance sheet at June 30, 2010. Additional penalties may be assessed as a result of service quality issues related to transitioning certain back−office functions from Verizon's integrated systems to newly created systems of the Company, which occurred in January 2009 (the "Cutover"), which could have a material adverse effect on the Company's financial position, results of operations and liquidity.

During February 2010, the Company entered into the Regulatory Settlements with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont, which were made subject to the approval of the regulatory authorities in these states. The Regulatory Settlements in New Hampshire and Vermont defer fiscal 2008 and 2009 SQI penalties until December 31, 2010 and include a clause whereby such penalties may be forgiven in part or in whole if the Company meets certain metrics for the twelve−month period ending December 31, 2010. As this clause represents a contingent gain, the Company has not recognized such gain as of June 30, 2010. As of June 30, 2010, the Company has accrued fiscal 2008 and 2009 liabilities of $6.0 million for New Hampshire and approximately $11.4 million for Vermont. In addition, the Regulatory Settlement in Maine deferred the Company's fiscal 2008 and 2009 SQI penalties until March 2010. Beginning in March 2010, the Company began to issue SQI rebates related to the Maine 2008 and 2009 SQI penalties to customers over a twelve month period.

The MPUC and NHPUC have approved the Regulatory Settlements for Maine and New Hampshire. However, the Vermont Board has rejected the Regulatory Settlement for Vermont. As described in note 1, the Company expects to provide supplemental information to the Vermont Board. If the Company is unable to obtain the Vermont Board's approval of the Regulatory Settlement for Vermont, it is unclear what effect the filing of the Chapter 11 Cases will have on the requirements, including SQI penalties, imposed by the Vermont Merger Order and whether the requirements of the Vermont Merger Order would be enforceable against the Company in the future.

(d) Volume Purchase Commitment

On June 1, 2010, the Bankruptcy Court approved the Company's motion to assume an amended volume product purchase and sale agreement with Occam Networks, Inc ("Occam"). This motion

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(14) Commitments and Contingencies (Continued)

includes a commitment by the Company to purchase at least $12.0 million worth of products from Occam during the initial five−year term of the amended agreement, which term ends on April 1, 2013.

(15) Subsequent Events

(a)
Resolution of Disputed Pension Asset Transfer

As of June 30, 2010, a disputed final transfer of assets from one of Verizon's defined benefit pension plan trusts to the Company's represented employees pension plan trust was pending final validation by a third−party actuary in accordance with relevant statutory and regulatory guidelines and the Employee Matters Agreement. The disputed amount is not included in the Company's pension plan assets at June 30, 2010 or December 31, 2009. By letter dated July 29, 2010, the third−party actuary appointed to perform the review and validation determined that an additional $2.5 million, adjusted for gains or losses since the date of the original transfer, should be transferred from Verizon's defined benefit plans' trusts to the Company's represented employees pension plan trust. Upon receipt of this transfer, the Company's net accrued pension obligation will be decreased by this amount.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the financial statements of the Company and the notes thereto included elsewhere in this Quarterly Report. The following discussion includes certain forward−looking statements. For a discussion of important factors, which could cause actual results to differ materially from the results referred to in the forward−looking statements, see "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10−K for the year ended December 31, 2009, "Part II—Item 1A. Risk Factors" of our Quarterly Report on Form 10−Q for the quarterly period ended March 31, 2010 and "Part II—Item 1A. Risk Factors" and "Cautionary Note Concerning Forward−Looking Statements" contained in this Quarterly Report.

Overview

We are a leading provider of communications services in rural and small urban communities, offering an array of services, including local and long distance voice, data, Internet, video and broadband product offerings. We operate in 18 states with 1.5 million access line equivalents (including voice access lines and high speed data lines, which include digital subscriber lines ("DSL"), wireless broadband, cable modem and fiber−to−the−premises) in service as of June 30, 2010.

We were incorporated in Delaware in February 1991 for the purpose of acquiring and operating incumbent telephone companies in rural and small urban markets. Many of our telephone companies have served their respective communities for over 75 years.

As our primary source of revenues, access lines are an important element of our business. Over the past several years, communications companies, including FairPoint, have experienced a decline in access lines due to increased competition, including competition from wireless carriers and cable television operators, the introduction of DSL services (resulting in customers substituting DSL for a second line) and challenging economic conditions. In addition, while we were operating under the Transition Services Agreement, we had limited ability to change current product offerings. Upon completion of the Cutover from the Verizon systems to the new FairPoint systems, we expected to be able to modify bundles and prices to be more competitive in the marketplace. However, due to certain systems functionality issues (as described herein), we had limited ability during 2009 to make changes to our product offerings. In late June 2009, we began actively marketing and promoting our DSL product for the first time since the Cutover. While voice access lines are expected to continue to decline, we expect to offset a portion of this lost revenue with growth in high speed data revenue as we continue to build−out our network to provide high speed data products to customers who did not previously have access to such products and to offer more competitive services to existing customers. Overall, high speed data services are expected to be a key element of our operations in the future. We also expect to implement cost reductions as we gain efficiencies in our business over time.

We are subject to regulation primarily by federal and state governmental agencies. At the federal level, the FCC generally exercises jurisdiction over the facilities and services of communications common carriers, such as FairPoint, to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers' facilities and services to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to the 1996 Act, which amended the Communications Act of 1934, state and federal regulators share responsibility for implementing and enforcing the domestic pro−competitive policies introduced by that legislation.

Legacy FairPoint's operations and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the pre−Merger regulated interstate services of FairPoint were regulated under a rate−of−return model, while all of the rate−regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. On May 10, 2010, we received FCC approval to convert our Legacy

FairPoint operations in Maine and Vermont to the price cap model. Our Legacy FairPoint operations in Maine and Vermont converted to price cap regulation on July 1, 2010. We have obtained permission to continue to operate our Legacy FairPoint incumbent LECs outside of Maine and Vermont under the rate−of−return regime until the FCC completes its general review of whether to modify or eliminate the "all−or−nothing" rule. Without this permission, the all−or−nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all LECs, our non−rural operations are subject to additional requirements concerning interconnection, non−discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non−rural operations are also subject to different regimes concerning universal service.

From 2007 through January 2009, we were in the process of developing and deploying new systems, processes and personnel to replace those used by Verizon to operate and support our network and back−office functions in the Maine, New Hampshire and Vermont operations we acquired from Verizon. These services were provided by Verizon under the Transition Services Agreement through January 30, 2009. On January 30, 2009, we began the Cutover, and on February 9, 2009, we began operating our new platform of systems independently from the Verizon systems, processes and personnel. During the period from January 23, 2009 until January 30, 2009, all retail orders were taken manually and following the Cutover were entered into the new systems. From February 2, 2009 through February 9, 2009, we manually processed only emergency orders, although we continued to provide repair and maintenance services to all customers.

Following the Cutover, many of these systems functioned without significant problems, but a number of the key back−office systems, such as order entry, order management and billing, experienced certain functionality issues as well as issues with communication between the systems. As a result of these systems functionality issues, as well as work force inexperience on the new systems, we experienced increased handle time by customer service representatives for new orders, reduced levels of order flow−through across the systems, which caused delays in provisioning and installation, and delays in the processing of bill cycles and collection treatment efforts. These issues impacted customer satisfaction and resulted in large increases in customer call volumes into our customer service centers. While many of these issues were anticipated, the magnitude of difficulties experienced was beyond our expectations.

In the months following the Cutover, we worked diligently to remedy these issues. The order backlog was reduced significantly and order handle times returned to normal levels. Provisioning of new orders steadily improved and call volumes into the customer service centers returned to pre−Cutover levels. However, certain systems functionality supporting our collection efforts was not fully operational until 2010. While billing systems functionality and collection efforts continue to improve, invoicing has yet to return to normal. As a result of these functionality issues and past billing issues, our efforts to collect past due amounts continue to be hampered. During the third quarter of 2009, we revised the methodology of calculating the allowance for doubtful accounts based on recent collections experience. The issues discussed above and the change in methodology resulted in a significant increase in our allowance for doubtful accounts during the third quarter of 2009. Overall, delays in implementing the collections software functionality, together with other Cutover issues, caused an increase in accounts receivable, which adversely impacted our liquidity.

Due to these Cutover issues, during the three months and six months ended June 30, 2009 we incurred $8.6 million and $28.0 million, respectively, of incremental expenses in order to operate our business, including third−party contractor costs and internal labor costs in the form of overtime pay.

The Cutover issues also required significant staff and senior management attention, diverting their focus from other efforts.

In addition to the significant incremental expenses we incurred as a result of these Cutover issues, we were unable to fully implement our operating plan for 2009 and effectively compete in the marketplace, which we believe had an adverse effect on our business, financial condition, results of operations and liquidity.

On April 30, 2010, we filed amendments to our Quarterly Reports on Form 10−Q/A for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009 (collectively, the "Amendments") to reflect the effect of an accounting error, a one−time non−operating loss related to a disputed claim and certain billing and other adjustments. For the nine months ended September 30, 2009, the accounting error and the billing and other adjustments resulted in a $25.0 million overstatement of revenues, a $0.2 million understatement of operating expenses and a $9.6 million overstatement of other income in the financial data originally reported in our Quarterly Report on Form 10−Q for the nine months ended September 30, 2009, which was originally filed with the SEC on November 20, 2009. The restatement of the interim condensed consolidated financial statements contained in the Amendments (the "Restatement"), which Restatement accounts for the foregoing overstatements and understatement, resulted in a reduction in net income of $21.8 million, net of income taxes, for the nine months ended September 30, 2009.

The accounting error and the billing and other adjustments resulted in an overstatement of revenues for the three months and six months ended June 30, 2009 of $14.8 million and $27.2 million, respectively, an understatement of operating expenses for the three months and six months ended June 30, 2009 of $2.0 million and $2.1 million, respectively, and an overstatement of other income for the six months ended June 30, 2009 of $9.6 million in the financial data originally reported in our Quarterly Report on Form 10−Q for the three months and six months ended June 30, 2009, which was originally filed with the SEC on August 5, 2009. The Restatement resulted in a reduction in net income of $10.3 million and $23.9 million, net of income taxes, for the three months and six months ended June 30, 2009, respectively. For more information, see the Amendments as filed with the SEC.

As a result of the Restatement, we determined that we were not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

Basis of Presentation

On March 31, 2008, the Merger between Spinco and Legacy FairPoint was completed. In connection with the Merger and in accordance with the terms of an agreement and plan of merger with Verizon and Spinco pursuant to which we committed to purchase and assume Verizon's landline operations in Maine, New Hampshire and Vermont, Legacy FairPoint issued 53,760,623 shares of common stock to Verizon stockholders. Prior to the Merger, the Verizon Group engaged in a series of restructuring transactions to effect the transfer of specified assets and liabilities of the Verizon Northern New England business to Spinco and the entities that became Spinco's subsidiaries. Spinco was then spun off from Verizon immediately prior to the Merger. While FairPoint was the surviving entity in the Merger, for accounting purposes Spinco was deemed to be the acquirer. For more information, see note 1 to the Condensed Consolidated Financial Statements.

We view our business of providing voice, data and communication services to residential and business customers as one business segment as defined in the Segment Reporting Topic of the ASC.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming that we will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. For further discussion, see note 1 to the Condensed Consolidated Financial Statements.

Revenues

We derive our revenues from:

- *Local calling services*. We receive revenues from our telephone operations from the provision of local exchange, local private line, wire maintenance, voice messaging and value−added services. Value−added services are a family of services that expand the utilization of the network, including products such as caller ID, call waiting and call return. The provision of local exchange services not only includes retail revenues but also includes local wholesale revenues from unbundled network elements, interconnection revenues from competitive LECs and wireless carriers, and some data transport revenues.

- *Network access services*. We receive revenues earned from end−user customers and long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Switched access revenues are derived from fixed and usage−based charges paid by carriers for access to our local network. Special access revenues originate from carriers and end−users that buy dedicated local and interexchange capacity to support their private networks. Access revenues are earned from resellers who purchase dial−tone services.

- *Interstate access revenue*. Interstate access charges to long distance carriers and other customers are based on access rates filed with the FCC. These revenues also include Universal Service Fund payments for high−cost loop support, local switching support, long term support and interstate common line support.

- *Intrastate access revenue*. These revenues consist primarily of charges paid by long distance companies and other customers for access to our networks in connection with the origination and termination of intrastate telephone calls both to and from our customers. Intrastate access charges to long distance carriers and other customers are based on access rates filed with the state regulatory agencies.

- *Universal Service Fund high−cost loop support*. We receive payments from the Universal Service Fund to support the high cost of operating in rural markets and to provide support for low income subscribers, schools, libraries and rural healthcare.

- *Long distance services*. We receive revenues from long distance services we provide to our residential and business customers. Included in long distance services revenue are revenues received from regional toll calls.

- *Data and Internet services*. We receive revenues from monthly recurring charges for services, including high speed data, Internet and other services.

- *Other services*. We receive revenues from other services, including video services (including cable television and video−over−DSL), billing and collection, directory services, the sale and maintenance of customer premise equipment and public (coin) telephone.

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The following table summarizes revenues and the percentage of revenues from the listed sources (in thousands, except for percentage of revenues data):

	Revenues				% of Revenues			
	Three months ended June 30,		Six months ended June 30,		Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue Source:								
Local calling services	$ 106,244	$ 114,707	$ 214,680	$ 237,527	39%	40%	39%	41%
Access	97,323	94,905	194,768	188,032	36%	33%	36%	32%
Long distance services	30,267	35,701	61,130	79,096	11%	13%	11%	13%
Data and Internet services	28,961	28,219	56,028	56,413	10%	10%	10%	10%
Other services	11,304	11,230	22,659	22,992	4%	4%	4%	4%
Total	$ 274,099	$ 284,762	$ 549,265	$ 584,060	100%	100%	100%	100%

Operating Expenses

Our operating expenses consist of cost of services and sales, selling, general and administrative expenses, and depreciation and amortization.

- *Cost of Services and Sales*. Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

- *Selling, General and Administrative Expense*. Selling, general and administrative expense includes salaries and wages and benefits, including pension and post−retirement medical benefits, not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. Also included in selling, general and administrative expenses are non−cash expenses related to stock based compensation. Stock based compensation consists of compensation charges incurred in connection with the employee stock options, stock units and non−vested stock granted to executive officers and directors.

- *Depreciation and amortization*. Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets.

Through January 30, 2009, we operated under the Transition Services Agreement, under which we incurred $15.9 million of expenses during the six months ended June 30, 2009. As of January 30, 2009, we began performing these services internally or obtaining them from third−party service providers and not from Verizon.

In New Hampshire, all structures, poles, towers and conduits employed in the transmission of telecommunication, cable or commercial mobile radio services are taxed as real estate in the town in which such property or any part of such property is situated. Prior to July 1, 2010, the Company had an exemption from the payment of this tax. However, that exemption has been repealed effective as of July 1, 2010. The tax is calculated based upon the valuation of such property as real estate on a municipality−by−municipality basis. As the Company has been exempt from this tax in the past, we have not yet determined our exposure to such taxes. Therefore, we cannot provide an estimate of the financial impact relating to the repeal of this exemption at this time. If the impact is determined to be material, we will disclose the estimated impact in our future filings.

Results of Operations

Three Months Ended June 30, 2010 Compared with Three Months Ended June, 2009

The following table sets forth the percentages of revenues represented by selected items reflected in the consolidated statements of operations. The year−to−year comparisons of financial results are not necessarily indicative of future results (in thousands, except percentage of revenues data):

	2010	% of Revenues	2009	% of Revenues
Revenues	$ 274,099	100%	$ 284,762	100%
Operating expenses				
Cost of services and sales	112,041	41	123,840	43
Selling, general and administrative	101,000	37	98,612	35
Depreciation and amortization	70,559	26	68,860	24
Total operating expenses	283,600	104	291,312	102
Loss from operations	(9,501)	(4)	(6,550)	(2)
Interest expense	(35,721)	(13)	(54,809)	(19)
Gain on derivative instruments	—	—	7,233	2
Gain on early retirement of debt	—	—	7,494	3
Other income (expense)	(3,138)	(1)	(58)	—
Loss before reorganization items and income taxes	(48,360)	(18)	(46,690)	(16)
Reorganization items	1,549	1	—	—
Loss before income taxes	(46,811)	(17)	(46,690)	(16)
Income tax (expense) benefit	10,245	4	18,527	6
Net loss	$ (36,566)	(13)%	$ (28,163)	(10)%

Revenues decreased $10.7 million to $274.1 million in the second quarter of 2010 compared to 2009. We derive our revenues from the following sources:

Local calling services. Local calling services revenues decreased $8.5 million to $106.2 million during the second quarter of 2010 compared to the same period in 2009. This decrease is primarily due to an 11.6% decline in total voice access lines in service at June 30, 2010 compared to June 30, 2009. The revenue decline was mainly driven by the effects of competition and technology substitution.

Access. Access revenues increased $2.4 million to $97.3 million during the second quarter of 2010 compared to the same period in 2009. Of this increase, $5.8 million is attributable to an increase in interstate access revenues, partially offset by a $3.4 million decrease in intrastate access revenues. Interstate access revenues have increased due to an increase in minutes of use associated with switched access revenues.

Long distance services. Long distance services revenues decreased $5.4 million to $30.3 million in the second quarter of 2010 compared to the same period in 2009. The decrease was primarily attributable to a decrease in the number of subscriber lines from June 30, 2009 to June 30, 2010.

Data and Internet services. Data and Internet services revenues increased $0.7 million to $29.0 million in the second quarter of 2010 compared to the same period in 2009. Data access lines increased during the three months ended June 30, 2010.

Other services. Other services revenues increased $0.1 million to $11.3 million in the second quarter of 2010 compared to the same period in 2009.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $11.8 million to $112.0 million in the second quarter of 2010 compared to the same period in 2009. This decrease is mainly attributable to a $2.5 million decrease of deferred activation fee costs, a $2.2 million decrease in access expenses and reductions in certain employee expenses.

Selling, general and administrative. Selling, general and administrative expenses increased $2.4 million to $101.0 million in the second quarter of 2010 compared to the same period in 2009. The increase is primarily attributable to an increase in certain employee expenses, a $3.1 million increase in professional fees related to the Amendments to our 2009 quarterly filings on Form 10−Q/A as well as increased audit work due to the material weaknesses discussed in Item 4. Controls and Procedures, and a $1.4 million increase in other operating taxes offset by a $1.9 million reduction in bad debt expense.

Depreciation and amortization. Depreciation and amortization expense increased $1.7 million to $70.6 million in the second quarter of 2010 compared to the same period in 2009, due primarily to higher gross plant asset balances, including capitalized software placed into service upon termination of the Transition Services Agreement.

Other Results

Interest expense. Interest expense decreased $19.1 million to $35.7 million in the second quarter of 2010 compared to the same period in 2009. Upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Notes and the Swaps as it is unlikely that such interest expense will be paid or will become an allowed priority secured or unsecured claim. We have continued to accrue interest expense on the Pre−petition Credit Facility, as such interest is considered an allowed claim pursuant to the Plan.

Gain on derivative instruments. Gain on derivative instruments represents net gains and losses recognized on the change in fair market value of interest rate swap derivatives. During the three months ended June 30, 2009, we recognized non−cash gains of $7.2 million related to our derivative financial instruments. In connection with the filing of the Chapter 11 Cases, the Swaps were terminated by the counterparties and have been recorded on the consolidated balance sheet at the termination values provided by the counterparties. Accordingly, we recognized no gain or loss on derivative instruments during the three months ended June 30, 2010.

Gain on early retirement of debt. Gain on early retirement of debt represents a $7.5 million net gain recognized on the repurchase of $12.0 million aggregate principal amount of the Old Notes during the three months ended June 30, 2009. We did not retire any debt during the three months ended June 30, 2010 and thus did not recognize any gain or loss on early retirement of debt during such period.

Other expense. Other expense includes non−operating gains and losses such as those incurred on sale or disposal of equipment. Other expense increased $3.0 million to $3.1 million in the second quarter of 2010 compared to the same period in 2009 primarily due to write−off of certain assets during the three months ended June 30, 2010.

Reorganization items. Reorganization items represent expense or income amounts that have been recognized as a direct result of the Chapter 11 Cases. For more information, see note 2 to the Condensed Consolidated Financial Statements.

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the three months ended June 30, 2010 and 2009 was 21.9% benefit and 39.7% benefit, respectively. The decrease in the effective tax rate is primarily due to non−deductible restructuring charges and post−petition interest.

Net loss. Net loss for the three months ended June 30, 2010 was $36.6 million compared to net loss of $28.2 million for the same period in 2009. The difference in net loss between 2010 and 2009 is a result of the factors discussed above.

Six Months Ended June 30, 2010 Compared with Six Months Ended June, 2009

The following table sets forth the percentages of revenues represented by selected items reflected in the consolidated statements of operations. The year−to−year comparisons of financial results are not necessarily indicative of future results (in thousands, except percentage of revenues data):

	2010	% of Revenues	2009	% of Revenues
Revenues	$ 549,265	100%	$ 584,060	100%
Operating expenses				
Cost of services and sales	242,667	44	273,242	47
Selling, general and administrative	196,090	36	186,885	32
Depreciation and amortization	140,904	26	136,727	23
Total operating expenses	579,661	106	596,854	102
Loss from operations	(30,396)	(6)	(12,794)	(2)
Interest expense	(70,351)	(13)	(108,288)	(18)
Gain on derivative instruments	—	—	20,131	3
Gain on early retirement of debt	—	—	12,357	2
Other income (expense)	(3,112)	—	6,219	1
Loss before reorganization items and income taxes	(103,859)	(19)	(82,375)	(14)
Reorganization items	(15,042)	(3)	—	—
Loss before income taxes	(118,901)	(22)	(82,375)	(14)
Income tax (expense) benefit	6,744	1	31,907	5
Net loss	$ (112,157)	(21)%	$ (50,468)	(9)%

Revenues decreased $34.8 million to $549.3 million during the six months ended June 30, 2010 compared to 2009. We derive our revenues from the following sources:

Local calling services. Local calling services revenues decreased $22.8 million to $214.7 million during the six months ended June 30, 2010 compared to the same period in 2009. This decrease is primarily due to an 11.6% decline in total voice access lines in service at June 30, 2010 compared to June 30, 2009. The revenue decline was mainly driven by the effects of competition and technology substitution.

Access. Access revenues increased $6.7 million to $194.8 million during the six months ended June 30, 2010 compared to the same period in 2009. Of this increase, $11.6 million is attributable to an increase in interstate access revenues, partially offset by a $4.9 million decrease in intrastate access revenues. Interstate access revenues have increased due to an increase in minutes of use associated with switched access revenues.

Long distance services. Long distance services revenues decreased $18.0 million to $61.1 million during the six months ended June 30, 2010 compared to the same period in 2009. The decrease was primarily attributable to a decrease in the number of subscriber lines from June 30, 2009 to June 30, 2010.

Data and Internet services. Data and Internet services revenues decreased $0.4 million to $56.0 million during the six months ended June 30, 2010 compared to the same period in 2009.

Other services. Other services revenues decreased $0.3 million to $22.7 million during the six months ended June 30, 2010 compared to the same period in 2009.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $30.6 million to $242.7 million during the six months ended June 30, 2010 compared to the same period in 2009.

Selling, general and administrative. Selling, general and administrative expenses increased $9.2 million to $196.1 million during the six months ended June 30, 2010 compared to the same period in 2009. The increase is primarily attributable to a $4.1 million increase in professional fees related to the Amendments to our 2009 quarterly filings on Form 10−Q/A as well as increased audit work due to the material weaknesses discussed in Item 4. Controls and Procedures, as well as a $4.0 million increase in pension and post−retirement medical costs and a $1.7 million increase in bad debt expense.

Depreciation and amortization. Depreciation and amortization expense increased $4.2 million to $140.9 million during the six months ended June 30, 2010 compared to the same period in 2009, due primarily to higher gross plant asset balances, including capitalized software placed into service upon termination of the Transition Services Agreement.

Other Results

Interest expense. Interest expense decreased $37.9 million to $70.4 million during the six months ended June 30, 2010 compared to the same period in 2009. Upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Notes and the Swaps in accordance with the Reorganizations Topic of the ASC as it is unlikely that such interest expense will be paid or will become an allowed priority secured or unsecured claim. We have continued to accrue interest expense on the Pre−petition Credit Facility, as such interest is considered an allowed claim pursuant to the Plan.

Gain on derivative instruments. Gain on derivative instruments represents net gains and losses recognized on the change in fair market value of interest rate swap derivatives. During the six months ended June 30, 2009, we recognized non−cash gains of $20.1 million related to our derivative financial instruments. In connection with the filing of the Chapter 11 Cases, the Swaps were terminated by the counterparties and have been recorded on the consolidated balance sheet at the termination values provided by the counterparties. Accordingly, we recognized no gain or loss on derivative instruments during the six months ended June 30, 2010.

Gain on early retirement of debt. Gain on early retirement of debt represents a $13.2 million net gain recognized on the repurchase of $19.9 million aggregate principal amount of the Old Notes during the six months ended June 30, 2009, partially offset by a loss of $0.8 million attributable to writing off a portion of the unamortized debt issue costs associated with our Pre−petition Credit Facility. We did not retire any debt during the six months ended June 30, 2010 and thus did not recognize any gain or loss on early retirement of debt during such period.

Other income (expense). Other income (expense) includes non−operating gains and losses such as those incurred on sale or disposal of equipment. Other expense was ($3.1) million during the six months ended June 30, 2010, compared with other income of $6.2 million during the six months ended June 30, 2009. We recognized a one−time gain of $5.4 million during the six months ended June 30, 2009 related to the settlement under a transition agreement (the "Transition Agreement") we entered into with Verizon on January 30, 2009, in connection with the Cutover, as contemplated by the Transition Services Agreement. Other expense during the six months ended June 30, 2010 consists primarily of the write−off of certain assets.

Reorganization items. Reorganization items represent expense or income amounts that have been recognized as a direct result of the Chapter 11 Cases. For more information, see note 2 to the Condensed Consolidated Financial Statements.

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the six months ended June 30, 2010 and 2009 was 5.7% benefit and 38.7% benefit, respectively. The effective tax rate for the six months ended June 30, 2010 was impacted by a one−time, non−cash income tax charge of $6.8 million, as a result of the enactment of the Health Care Act. The decrease in our income tax benefit was also impacted by non−deductible restructuring charges and post−petition interest.

Net loss. Net loss for the six months ended June 30, 2010 was $112.2 million compared to net loss of $50.5 million for the same period in 2009. The difference in net loss between 2010 and 2009 is a result of the factors discussed above.

Off−Balance Sheet Arrangements

We do not have any off−balance sheet arrangements.

Critical Accounting Policies

Our critical accounting policies are as follows:

- Revenue recognition;
- Allowance for doubtful accounts;
- Accounting for pension and other post−retirement benefits;
- Accounting for income taxes;
- Depreciation of property, plant and equipment;
- Valuation of long−lived assets, including goodwill;
- Accounting for software development costs; and
- Purchase accounting.

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for local telephone, long distance, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non−recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. We make estimated adjustments, as necessary, to revenue or accounts receivable for known billing errors. At June 30, 2010 and December 31, 2009, we recorded revenue reserves of $14.0 million and $22.6 million, respectively. The decrease in revenue reserves during the six months ended June 30, 2010 is primarily the result of credits that have been issued to customers.

Allowance for Doubtful Accounts. In evaluating the collectability of our accounts receivable, we assess a number of factors, including a specific customer's or carrier's ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to reduce the related accounts receivable to the amount we ultimately expect to collect from customers and carriers. If circumstances change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our accounts receivable could be further reduced from the levels reflected in our accompanying condensed consolidated balance sheet.

Accounting for Pension and Other Post−retirement Benefits. Some of our employees participate in our pension plans and other post−retirement benefit plans. In the aggregate, the pension plan benefit obligations exceed the fair value of pension plan assets, resulting in expense. Other post−retirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant pension and other post−retirement benefit plan assumptions, including the discount rate used, the long term rate of return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations.

Accounting for Income Taxes. Our current and deferred income taxes are affected by events and transactions arising in the normal course of business, as well as in connection with the adoption of new accounting standards and non−recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual payments may differ from these estimates as a result of changes in tax laws, as well as unanticipated future transactions affecting related income tax balances. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the Income Taxes Topic of the ASC, which requires the use of a two step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions.

Depreciation of Property, Plant and Equipment. We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight−line composite rates over estimated useful lives ranging from three to 50 years. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives. This method requires the periodic revision of depreciation rates. Changes in the estimated useful lives of property, plant and equipment or depreciation methods could have a material effect on our results of operations.

Valuation of Long−lived Assets, Including Goodwill. We review our long−lived assets, including goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we review goodwill and non−amortizable intangible assets for impairment on an annual basis. Several factors could trigger an impairment review such as:

- significant underperformance relative to expected historical or projected future operating results;
- significant regulatory changes that would impact future operating revenues;
- significant negative industry or economic trends; and
- significant changes in the overall strategy in which we operate our overall business.

Goodwill was $595.1 million at June 30, 2010. We have recorded intangible assets related to the acquired companies' customer relationships and trade names of $251.3 million as of June 30, 2010. As of June 30, 2010, there was $50.8 million of accumulated amortization recorded. The customer relationships are being amortized over a weighted average life of approximately 9.7 years. The trade name has an indefinite life and is, therefore, not amortized. The intangible assets are included in intangible assets on our condensed consolidated balance sheet.

We are required to perform an impairment review of goodwill and non−amortizable intangible assets as required by the Intangibles−Goodwill and Other Topic of the ASC annually or when impairment indicators are noted. Goodwill impairment is determined using a two−step process. Step one compares the estimated fair value of our single wireline reporting unit (calculated using the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares our fair value, as measured by our market capitalization, to our carrying amount, which represents our stockholders' equity balance. As of June 30, 2010, stockholders' deficit totaled $326.9 million. The income approach compares our fair value, as measured by discounted expected future cash flows, to our carrying amount. If our carrying amount exceeds our estimated fair value, there is a potential impairment and step two must be performed.

Step two compares the implied fair value of our goodwill (i.e., our fair value less the fair value of our assets and liabilities, including identifiable intangible assets) to our goodwill carrying amount. If the carrying amount of our goodwill exceeds the implied fair value of our goodwill, the excess is required to be recorded as an impairment.

We performed step one of our annual goodwill impairment assessment as of October 1, 2009 and concluded that there was no indication of impairment at that time. In light of the Chapter 11 Cases, we performed an interim goodwill impairment assessment as of December 31, 2009 and determined that goodwill was not impaired.

Our only non−amortizable intangible asset is the trade name of Legacy FairPoint acquired in the Merger. Consistent with the valuation methodology used to value the trade name at the Merger, we assess the fair value of the trade name based on the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. We performed our annual non−amortizable intangible asset impairment assessment as of October 1, 2009 and concluded that there was no indication of impairment at that time. In light of the Chapter 11 Cases, we performed an interim non−amortizable intangible asset impairment assessment as of December 31, 2009 and determined that our trade name was not impaired.

For our non−amortizable intangible asset impairment assessments at October 1, and December 31, 2009, we made certain assumptions including an estimated royalty rate, an effective tax rate and a discount rate, and applied these assumptions to projected future cash flows of our consolidated FairPoint Communications, Inc. business, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may have resulted in the recognition of an impairment loss.

We determined as of December 31, 2009 that a possible impairment of long−lived assets was indicated by the filing of the Chapter 11 Cases as well as a significant decline in the fair value of our common stock. In accordance with the Property, Plant, and Equipment Topic of the ASC, we performed a recoverability test, based on undiscounted projected future cash flows associated with our long−lived assets, and determined that long−lived assets were not impaired at that time.

While no impairment charges resulted from the analyses performed at October 1, and December 31, 2009, asset values may be adjusted in the future due to the outcome of the Chapter 11 Cases or the application of "fresh start" accounting upon the Company's emergence from Chapter 11.

Accounting for Software Development Costs. We capitalize certain costs incurred in connection with developing or obtaining internal use software in accordance with the Intangibles−Goodwill and Other Topic of the ASC. Capitalized costs include direct development costs associated with internal use software, including direct labor costs and external costs of materials and services. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

Purchase Accounting. Prior to the adoption of the ASC we recognized the acquisition of companies in accordance with SFAS 141. The cost of an acquisition is allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the acquisition, with amounts exceeding the fair value being recorded as goodwill. All future business combinations will be recognized in accordance with the Business Combinations Topic of the ASC.

New Accounting Standards

On January 1, 2010, we adopted the accounting standard update regarding fair value measurements and disclosures, which requires additional disclosures regarding assets and liabilities measured at fair value. The adoption of this accounting standard update had no impact on our consolidated results of operations and financial position.

On June 15, 2009, we adopted the accounting standard relating to subsequent events. This standard establishes principles and requirements for identifying, recognizing and disclosing subsequent events. This standard requires that an entity identify the type of subsequent event as either recognized or unrecognized, and disclose the date through which the entity has evaluated subsequent events. This standard is effective for interim or annual financial periods ending after June 15, 2009. The adoption of this standard had no impact on the Company's consolidated results of operations and financial position.

Inflation

We do not believe inflation has a significant effect on our operations.

Liquidity and Capital Resources

On October 26, 2009, we filed the Chapter 11 Cases. The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by the Chapter 11 Cases. The Chapter 11 Cases involve various restrictions on our activities, limitations on financing, the need to obtain Bankruptcy Court approval for various matters and uncertainty as to relationships with others with whom we may conduct or seek to conduct business. As a result of the risks and uncertainties associated with the Chapter 11 Cases, the value of our securities and how our liabilities will ultimately be treated is highly speculative. We urge that appropriate caution be exercised with respect to existing and future investments in any of the liabilities and/or securities of the Company. See note 1 to the Condensed Consolidated Financial Statements for a further description of the Chapter 11 Cases, the impact of the Chapter 11 Cases, the proceedings in Bankruptcy Court and our status as a going concern. In addition, see "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10−K for the year ended December 31, 2009 and "Part II—Item 1A. Risk Factors" contained in our Quarterly Report on Form 10−Q for the quarterly period ended March 31, 2010 and in this Quarterly Report.

Our short term and long term liquidity needs arise primarily from: (i) interest and principal payments on our indebtedness; (ii) capital expenditures; and (iii) working capital requirements as may be needed to support and grow our business. Notwithstanding the direct impact of the Chapter 11 Cases on our liquidity, including the stay of payments on our indebtedness, our current and future liquidity is greatly dependent upon our operating results. We expect that our primary sources of liquidity during the pendency of the Chapter 11 Cases will be cash flow from operations, cash on hand and funds available under the DIP Credit Agreement. We expect that after the Effective Date, our short term and long term liquidity needs will continue to arise primarily from: (i) interest and principal payments on our indebtedness; (ii) capital expenditures; and (iii) working capital requirements as may be needed to support and grow our business. We expect that our primary sources of liquidity after the Effective Date will be cash flow from operations, cash on hand and funds available under the Exit Facility Loans.

We have applied for stimulus funding under the American Recovery and Reinvestment Act of 2009 which, among other programs, provides for $7.2 billion for broadband development in unserved and underserved areas of the United States. We cannot predict whether we will receive any grant funding.

The Chapter 11 Cases were filed to gain liquidity for our continuing operations while we restructure our balance sheet to allow us to be a viable going concern. Our continuation as a going concern is contingent upon, among other things, our ability: (i) to comply with the terms and conditions of the DIP Credit Agreement; (ii) to obtain the necessary approvals of the Plan from the PUCs and the FCC; (iii) to obtain Bankruptcy Court approval of the Plan and to consummate the Plan; (iv) to generate sufficient cash flow from operations; and (v) to obtain financing sources to meet our future obligations. We believe the consummation of a successful restructuring under the Bankruptcy Code is critical to our continued viability and long−term liquidity. While we believe we will be able to achieve these objectives through the Chapter 11 reorganization process, there can be no certainty that we will be successful in doing so.

In connection with the Chapter 11 Cases, the DIP Borrowers entered into the DIP Credit Agreement. The DIP Credit Agreement provides for a revolving facility in an aggregate principal amount of up to $75 million, of which up to $30 million is also available in the form of one or more letters of credit that may be issued to third parties for the account of the Company and its subsidiaries. Pursuant to the Interim Order, the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis, pending a final hearing before the Bankruptcy Court on November 18, 2009, in an aggregate amount of $20 million. On March 11, 2010 the Bankruptcy Court entered a final order in connection with the DIP Credit Agreement, permitting the DIP Borrowers access to the total $75 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court. For a further description of the DIP Credit Agreement and the terms thereof, see note 1 to the Condensed Consolidated Financial Statements. Upon satisfaction of certain conditions precedent, including the Company successfully exiting from the Chapter 11 Cases, the DIP Financing will roll into a new revolving credit facility with a five−year term. As of June 30, 2010, the Company had not borrowed any amounts under the DIP Credit Agreement and letters of credit totaling $17.9 million had been issued and were outstanding under the DIP Credit Agreement.

Cash and cash equivalents at June 30, 2010 totaled $112.3 million compared to $109.4 million at December 31, 2009, excluding restricted cash of $3.5 million and $4.0 million, respectively.

Net cash provided by operating activities was $113.7 million and $27.7 million for the six months ended June 30, 2010 and 2009, respectively. The significant increase in net cash provided by operating activities is primarily attributable to the non−payment of interest and other pre−petition liabilities subject to compromise during the pendency of the Chapter 11 Cases.

Net cash used in investing activities was $114.5 million and $88.9 million for the six months ended June 30, 2010 and 2009, respectively. These cash flows primarily reflect capital expenditures of $114.6 million and $90.1 million for the six months ended June 30, 2010 and 2009, respectively.

Net cash provided by financing activities was $3.8 million and $71.8 million for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, we drew down $5.5 million on letters of credit under the Pre−petition Credit Facility and incurred $1.1 million of loan origination costs on the DIP Credit Facility. For the six months ended June 30, 2009, net proceeds from FairPoint's issuance of long−term debt were $50.0 million, repayment of long−term debt was $18.7 million and dividends paid to stockholders was $23.0 million.

We expect our capital expenditures will be approximately $190 million to $210 million in 2010. However, this expectation does not take into account the effect that the filing of the Chapter 11 Cases will have on the capital expenditure requirements imposed by the PUCs in Maine and New Hampshire and by the Vermont Board as a condition to the approval of the Merger and whether such requirements will be enforceable against us in the future if the Plan is not consummated. We anticipate that we will fund these expenditures through cash flows from operations, cash on hand and funds available under the DIP Credit Agreement and, after the Effective Date, the Exit Facility.

We expect our cash contributions to our Company sponsored employee pension plans and post−retirement medical plans will be approximately $1.0 million in 2010.

Our Pre−petition Credit Facility

Our $2,030 million Pre−petition Credit Facility consists of the Revolving Credit Facility, the Term Loan and the Delayed Draw Term Loan. Spinco drew $1,160 million under the Term Loan immediately prior to being spun off by Verizon, and then FairPoint drew $470 million under the Term Loan and $5.5 million under the Delayed Draw Term Loan concurrently with the closing of the Merger.

Subsequent to the Merger, we borrowed the remaining $194.5 million available under the Delayed Draw Term Loan. These funds were used for certain capital expenditures and other expenses associated with the Merger.

On October 5, 2008, the administrative agent under our Pre−petition Credit Facility filed for bankruptcy. The administrative agent accounted for thirty percent of the loan commitments under the Revolving Credit Facility. On January 21, 2009, we entered into the Pre−petition Credit Facility Amendment under which, among other things, the administrative agent resigned and was replaced by a new Pre−petition Administrative Agent. In addition, the resigning administrative agent's undrawn commitments under the Revolving Credit Facility, totaling $30.0 million, were terminated and are no longer available to us.

The Revolving Credit Facility has a swingline sub−facility in the amount of $10.0 million and a letter of credit sub−facility in the amount of $30.0 million, which allows for issuances of standby letters of credit for our account. Our Pre−petition Credit Facility also permits interest rate and currency exchange swaps and similar arrangements that we may enter into with the lenders under our Pre−petition Credit Facility and/or their affiliates.

As of June 30, 2010, we had borrowed $155.5 million under the Revolving Credit Facility, including $5.5 million of funds drawn down under letters of credit during the six months ended June 30, 2010, and there were no outstanding letters of credit. Upon the event of default under the Pre−petition Credit Facility relating to the Chapter 11 Cases described herein, the commitments under the Revolving Credit Facility were automatically terminated. Accordingly, as of June 30, 2010, no funds remained available under the Revolving Credit Facility.

The Term Loan B Facility and the Delayed Draw Term Loan will mature in March 2015 and the Revolving Credit Facility and the Term Loan A Facility will mature in March 2014. Each of the Term Loan A Facility, the Term Loan B Facility and the Delayed Draw Term Loan are repayable in quarterly installments in the manner set forth in our Pre−petition Credit Facility.

Borrowings under our Pre−petition Credit Facility bear interest at variable interest rates. Interest rates for borrowings under our Pre−petition Credit Facility are, at our option, for the Revolving Credit Facility and for the Term Loans at either (i) the Eurodollar rate, as defined in the Pre−petition Credit Facility, plus an applicable margin or (ii) the base rate, as defined in the Pre−petition Credit Facility, plus an applicable margin.

Our Pre−petition Credit Facility contains customary affirmative covenants and also contains negative covenants and restrictions, including, among others, with respect to the redemption or repurchase of our other indebtedness, loans and investments, additional indebtedness, liens, capital expenditures, changes in the nature of our business, mergers, acquisitions, asset sales and transactions with affiliates.

Scheduled amortization payments on our Pre−petition Credit Facility began in 2009. No principal payments are due on the Notes prior to their maturity. As a result of the Chapter 11 Cases, we do not expect to make any additional principal or interest payments on our pre−petition debt.

Following the filing of the Chapter 11 Cases, we have made no payments on our pre−petition debt. During the three months and six months ended June 30, 2009, we repaid $6.3 million of principal under the Term Loan A Facility, and during the three months and six months ended June 30, 2009, we repaid $2.8 million and $6.1 million, respectively, of principal under the Term Loan B Facility.

Prior to the filing of the Chapter 11 Cases, we failed to make principal and interest payments due under our Pre−petition Credit Facility on September 30, 2009. The failure to make the principal payment on the due date and failure to make the interest payment within five days of the due date constituted events of default under our Pre−petition Credit Facility. An event of default under our Pre−petition Credit Facility permits the lenders under our Pre−petition Credit Facility to accelerate the maturity of the loans outstanding thereunder, seek foreclosure upon any collateral securing such loans and terminate any remaining commitments to lend to us. The occurrence of an event of default under the Pre−petition Credit Facility constituted an event of default under the Swaps. In addition, we failed to make payments due under the Swaps on September 30, 2009, which failure resulted in an event of default under the Swaps upon the expiration of a three business day grace period.

In addition, as a result of the Restatement, we determined that we were not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under our Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

Our Pre−petition Notes

Spinco issued, and we assumed in the Merger, \$551.0 million aggregate principal amount of the Old Notes. The Old Notes mature on April 1, 2018 and are not redeemable at our option prior to April 1, 2013. Interest is payable on the Old Notes semi−annually, in cash, on April 1 and October 1. The Old Notes bear interest at a fixed rate of $13^{1}/_{8}$% and principal is due at maturity. The Old Notes were issued at a discount and, accordingly, at the date of their distribution, the Old Notes had a carrying value of \$539.8 million (principal amount at maturity of \$551.0 million less discount of \$11.2 million). Following the filing of the Chapter 11 Cases, the remaining \$9.9 million of discount on the Notes was written off in order to adjust the carrying amount of our pre−petition debt to the Bankruptcy Court approved amount of the allowed claims for our pre−petition debt.

Upon the consummation of the Exchange Offer and the corresponding consent solicitation, substantially all of the restrictive covenants in the indenture governing the Old Notes were deleted or eliminated and certain of the events of default and various other provisions contained therein were modified.

Pursuant to the Exchange Offer, on July 29, 2009, we exchanged \$439.6 million in aggregate principal amount of the Old Notes (which amount was equal to approximately 83% of the then outstanding Old Notes) for \$458.5 million in aggregate principal amount of the New Notes (which amount includes New Notes issued to tendering noteholders as payment for accrued and unpaid interest on the exchanged Old Notes up to, but not including, the Settlement Date). The New Notes mature on April 2, 2018 and bear interest at a fixed rate of $13^{1}/_{8}$%, payable in cash, except that the New Notes bore interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009. In addition, we were permitted to pay the interest payable on the New Notes for the Initial Interest Payment Period in the form of cash, by capitalizing such interest and adding it to the principal amount of the New Notes or a combination of both cash and such capitalization of interest, at our option.

In connection with the Exchange Offer and the corresponding consent solicitation, we also paid a cash consent fee of \$1.6 million in the aggregate to holders of Old Notes who validly delivered and did not revoke consents in the consent solicitation prior to a specified early consent deadline.

The New Indenture limits, among other things, our ability to incur additional indebtedness, issue certain preferred stock, repurchase our capital stock or subordinated debt, make certain investments, create certain liens, sell certain assets or merge or consolidate with or into other companies, incur restrictions on the ability of our subsidiaries to make distributions or transfer assets to us and enter into transactions with affiliates.

The New Indenture also restricts our ability to pay dividends on or repurchase our common stock under certain circumstances.

Following the filing of the Chapter 11 Cases, we have made no payments on our pre−petition debt. During the three months and six months ended June 30, 2009, we repurchased $12.0 million and $19.9 million, respectively, in aggregate principal amount of the Old Notes for an aggregate purchase price of $4.1 million and $6.3 million, respectively, in cash. In total, including amounts prepaid under the Term Loan A Facility and repaid under the Term Loan B Facility, we retired $21.1 million and $32.3 million of outstanding debt during the three months and six months ended June 30, 2009, respectively.

Prior to the filing of the Chapter 11 Cases, we failed to make the October 1, 2009 interest payment on the Notes. The failure to make the interest payment on the Notes constituted an event of default under the Notes upon the expiration of a thirty day grace period. An event of default under the Notes permits the holders of the Notes to accelerate the maturity of the Notes. In addition, the filing of the Chapter 11 Cases constituted an event of default under the New Notes. See note 1 to the Condensed Consolidated Financial Statements.

In addition, as a result of the Restatement, we determined that we were not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under our Pre−petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre−petition Credit Facility and the Swaps, and may have constituted an event of default under the Notes, in each case at June 30, 2009.

Other Pre−petition Agreements

As a condition to the approval of the Merger and related transactions by state regulatory authorities, we agreed to make capital expenditures following the completion of the Merger. Pursuant to the Maine Merger Order, we agreed that, following the closing of the Merger, we will make capital expenditures in Maine during the first three years after the closing of $48 million in the first year and an average of $48 million in the first two years and an average of $47 million in the first three years. We are also required to expend over a five year period not less than $40 million on equipment and infrastructure to expand the availability of broadband services in Maine, which is expected to result in capital expenditures in Maine in excess of the minimum capital expenditure requirements described above.

The Vermont Merger Order also requires us to make capital expenditures in Vermont during the first three years after the closing of the Merger in the amount of $41 million for the first year and averaging $40 million per year in the first two years and averaging $40 million per year in the first three years following the closing. Pursuant to the Vermont, we are required to remove double poles in Vermont, make service quality improvements and address certain broadband build−out commitments under a performance enhancement plan in Vermont, using, in the case of double pole removal, $6.7 million provided by the Verizon Group and, in the case of service quality improvements under the performance enhancement plan, $25 million provided by the Verizon Group. In Vermont we have also agreed to certain broadband build−out milestones that require us to reach 100% broadband availability in 50% of our exchanges in Vermont, which could result in capital expenditures of $44 million over such period in addition to the minimum capital expenditures required by the Vermont as set forth above.

Pursuant to the New Hampshire Merger Order, we are also required to make capital expenditures in New Hampshire of at least $52 million during each of the first three years after the closing of the Merger and $49 million during each of the fourth and fifth years after the closing of the Merger. The amount of any shortfall in any year must be expended in the following year, and the amount of any excess in any year may be deducted from the amount required to be expended in the following year. If any shortfall in any year exceeds $3 million, then the amount that we are required to spend in the following year shall be increased by 150% of the amount of such shortfall. If there is any shortfall at the end of the fifth year after the closing of the Merger, we will be required to spend 150% of the amount of such shortfall at the direction of the NHPUC. The NHPUC may require that a portion of these increased capital expenditures be directed toward state programs rather than invested in our assets. We are required to spend at least $56.4 million over the 60−month period following the closing of the Merger on broadband infrastructure in New Hampshire, which is expected to result in capital expenditures in New Hampshire in excess of the minimum capital expenditure requirements described above.

We also had the availability of $49.2 million contributed to us by the Verizon Group, and $1.1 million in interest earned thereon, to make capital and operating expenditures in New Hampshire in addition to those described above for unexpected infrastructure improvements proposed by us and approved by the NHPUC. These funds were reflected on the Company's March 31, 2009 balance sheet as restricted cash to be used only in accordance with a January 23, 2008 settlement agreement among Verizon, us and the staff of the NHPUC. During the three months ended June 30, 2009, we requested that these funds be made available for general working capital purposes. By letter, dated as of May 12, 2009, the NHPUC approved our request, conditioned upon our commitment to invest funds on certain NHPUC approved network improvements in New Hampshire on the following schedule: $15 million by the end of 2010, an additional $20 million by the end of 2011 and an additional $30 million by the end of 2012. The NH Investment Commitment is inclusive of the $50 million previously required by the NHPUC.

Additionally, the Merger Orders include a requirement that we pay the greater of $45 million or 90% of our free cash flow (defined as the cash flow remaining after all operating expenses, interest payments, tax payments, capital expenditures, dividends and other routine cash expenditures have occurred) annually to reduce the principal amount of our indebtedness, until certain financial ratio tests have been satisfied.

We expect that the Merger Orders will be amended by the Regulatory Settlements. For more information regarding the Regulatory Settlements, see "Part I—Item 1. Business—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" contained in our Annual Report on Form 10−K for the year ended December 31, 2009. In addition, for information regarding the impact of the Regulatory Settlements on the Merger Restricted Cash and certain SQI penalties, see notes 3(e) and 14(c), respectively, to the Condensed Consolidated Financial Statements.

The MPUC and NHPUC have approved the Regulatory Settlements for Maine and New Hampshire. However, the Vermont Board has rejected the Regulatory Settlement for Vermont. As described in note 1 to the Condensed Consolidated Financial Statements, we expect to provide supplemental information to the Vermont Board. If we are unable to obtain the Vermont Board's approval of the Regulatory Settlement for Vermont, it is unclear what effect the filing of the Chapter 11 Cases will have on the requirements, including SQI penalties, imposed by the Vermont Merger Order and whether the requirements of the Vermont Merger Order would be enforceable against us in the future.

On January 30, 2009, we entered into the Transition Agreement with Verizon. The Transition Services Agreement and related agreements had required us to make payments totaling approximately $45.4 million to Verizon in the first quarter of 2009, including a one−time fee of $34.0 million due at Cutover, with the balance related to the purchase of certain internet access hardware. The settlement set forth in the Transition Agreement resulted in a $22.7 million improvement in our cash flow for the six months ended June 30, 2009.

Summary of Contractual Obligations

The tables set forth below contain information with regard to disclosures about contractual obligations and commercial commitments.

The following table discloses aggregate information about our contractual obligations as of June 30, 2010 and the periods in which payments are due:

	Payments due by period				
	Total	Less than 1 year	1−3 years	3−5 years	More than 5 years
	(Dollars in thousands)				
Contractual obligations:					
Long−term debt, including current maturities (a)	$ 2,520,959	$ 49,575	$ 201,600	$ 1,719,788	$ 549,996
Interest payments on long−term debt obligations (b)(c)	579,645	135,587	259,182	184,876	—
Capital lease obligations	8,510	2,615	3,489	2,406	—
Operating leases	42,435	10,635	17,284	9,725	4,791
Total obligations	$ 3,151,549	$ 198,412	$ 481,555	$ 1,916,795	$ 554,787

(a) Includes $550.0 million of the Notes. Long−term debt maturities represent the normal contractual payment schedule. All payments have been stayed by the filing of the Chapter 11 Cases. All obligations under the Pre−petition Credit Facility, the Notes and the Swaps have been classified as liabilities subject to compromise in the Condensed Consolidated Financial Statements. See note 8 to the Condensed Consolidated Financial Statements for more information.

(b) Excludes amortization of estimated capitalized debt issuance costs.

(c) Interest payments on long−term debt represent the normal contractual interest payment schedule, based on default rates as defined in the Pre−petition Credit Facility. All payments have been stayed by the filing of the Chapter 11 Cases.

The following table discloses aggregate information about our derivative financial instruments as of June 30, 2010, the source of carrying value of these instruments and their maturities.

	Carrying Value of Contracts at Period End				
	Total	Less than 1 year	1−3 years	3−5 years	More than 5 years
	(Dollars in thousands)				
Source of fair value:					
Derivative financial instruments(1)(2)	$ (98,833)	(98,833)	—	—	—

(1) In connection with the filing of the Chapter 11 Cases, the derivative financial instruments were terminated by the counterparties. Accordingly, the carrying value of the Swaps at June 30, 2010 represents the termination value of the Swaps as determined by the respective counterparties following the event of default described herein. See note 7 to the Condensed Consolidated Financial Statements for more information.

(2) The Swaps have been classified as liabilities subject to compromise in the Condensed Consolidated Financial Statements. See note 7 to the Condensed Consolidated Financial Statements for more information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of June 30, 2010, we had total debt of $2,521.0 million, consisting of both fixed rate and variable rate debt with interest rates ranging from 6.750% to 13.125% per annum, including applicable margins. As of June 30, 2010, the fair value of our debt was approximately $1,420.3 million. Our Term Loan A Facility and Revolving Credit Facility mature in 2014, our Term Loan B Facility and Delayed Draw Term Loan mature in 2015 and the Notes mature in 2018.

We use variable and fixed rate debt to finance our operations, capital expenditures and acquisitions. The variable rate debt obligations expose us to variability in interest payments due to changes in interest rates. We believe it is prudent to limit the variability of a portion of our interest payments. To meet this objective, from time to time, we entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These Swaps effectively changed the variable rate on the debt obligations to a fixed rate. Under the terms of the Swaps, we made a payment if the variable rate was below the fixed rate, or we received a payment if the variable rate was above the fixed rate. Pursuant to our Pre−petition Credit Facility, we were required to reduce the risk of interest rate volatility with respect to at least 50% of our Term Loan borrowings.

In connection with the Chapter 11 Cases, all of the Swaps were terminated by the respective counterparties thereto.

We do not hold or issue derivative financial instruments for trading or speculative purposes.

We are also exposed to market risk from changes in the fair value of our pension plan assets. For the three months and six months ended June 30, 2010, the actual loss on the pension plan assets has been approximately 3.3% and 1.2%, respectively. Net periodic benefit cost for 2010 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. Should our actual return on plan assets continue to be significantly lower than our expected return assumption, our net periodic benefit cost will increase in future periods and we may be required to contribute additional funds to our pension plans after 2010.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, we carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a−15(e) of the Exchange Act). Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective due to the following material weaknesses which were identified in our Annual Report on Form 10−K for the year ended December 31, 2009 and which remain in existence as of the date of this report:

1. Our information technology controls were not adequate. Adequate testing was not performed to ensure that certain revenue transactions were properly accounted for and transferred from

our billing system to our general ledger. Also, access to our information systems was not appropriately restricted.

2. Our management oversight and review procedures designed to monitor the accuracy of period−end accounting activities were ineffective. Specifically, our account reconciliation processes were not adequate to properly identify and resolve discrepancies between our billing system and our general ledger in a timely manner. In addition, control weaknesses existed relating to revenue, operating expenses, accounts receivable, fixed assets and income taxes.

As of February of 2010, our management believes that it has corrected the primary issues that led to the Restatement. Specifically, we have:

1. Corrected the billing system settings so that they properly transfer the identified transactions to the general ledger; and

2. Enhanced our account reconciliation and review procedures to detect this type of error on a timely basis in the future.

Management has also implemented quarterly reviews of access to our information systems to identify and correct potential access exceptions more timely.

In addition, the following actions are underway:

1. Development of a testing process relating to general ledger recording of revenue transactions;

2. Modification of certain Oracle responsibilities to address issues relating to access to our information systems;

3. Development of improved termination communication processes to improve timeliness of removal of employees from our information systems upon termination;

4. Further improvement of our account reconciliation procedures, including review of reconciliations, to help identify potential errors; and

5. Implementation of income tax management software to automate more of our tax computations and to facilitate improvements to our tax review procedures.

However, certain of the issues that led to the identified material weaknesses remain open at this time. We believe these measures and other planned process improvements will adequately remediate the material weaknesses described above and will strengthen our internal controls over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address these material weaknesses or determine to modify certain of the remediation procedures described above. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a−15(f) and 15d−15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As indicated above, we continue to significantly expand our internal control over financial reporting in order to encompass the new internal control structure associated with our Northern New England operations and remediate the identified control deficiencies. Accordingly, we continue to develop a significant number of new processes, systems and related controls governing various aspects of our financial reporting process, particularly relating to our Northern New England operations and the consolidation of our Northern New England operations with Legacy FairPoint's operations. The processes we have developed include, but are not limited to, information technology, order provisioning, customer billing, payment processing, credit and collections, inventory management, accounts payable, payroll, human resource administration, tax, general ledger accounting and external reporting.

With the exception of the foregoing, there have been no changes in our internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. With the exception of the Chapter 11 Cases, management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations. To the extent that we are currently involved in any litigation and/or regulatory proceedings, such proceedings have been stayed as a result of the filing of the Chapter 11 Cases. For a discussion of the Chapter 11 Cases, see note 1 to the Condensed Consolidated Financial Statements.

We are subject to certain service quality requirements in the states of Maine, New Hampshire and Vermont. Failure to meet these requirements in any of these states may result in penalties being assessed by the appropriate state regulatory body. As of June 30, 2010, we have recognized an estimated liability of $29.0 million for SQI penalties based on metrics defined by PUCs in Maine and New Hampshire and by the Vermont Board. However, during February 2010, we reached agreements with the state regulatory authorities in each of Maine, New Hampshire and Vermont, which, among other things, related to the payment of SQI penalties. Term sheets executed with the state regulatory authorities of New Hampshire and Vermont defer fiscal 2008 and 2009 SQI penalties until December 31, 2010 and include a clause whereby such penalties may be forgiven in part or in whole if we meet certain metrics for the twelve−month period ending December 31, 2010. In addition, the term sheet executed with the state regulatory authority in Maine deferred our fiscal 2008 and 2009 SQI penalties until March 2010. The MPUC and NHPUC have approved the Regulatory Settlements for Maine and New Hampshire. However, the Vermont Board has rejected the Regulatory Settlement for Vermont. As described in note 1 to the Condensed Consolidated Financial Statements, we expect to provide supplemental information to the Vermont Board. If we are unable to obtain the Vermont Board's approval of the Regulatory Settlement for Vermont, it is unclear what effect the filing of the Chapter 11 Cases will have on the requirements, including SQI penalties, imposed by the Vermont Merger Order and whether the requirements of the Vermont Merger Order would be enforceable against us in the future.

Item 1A. Risk Factors.

(a) The risk factor presented below amends and restates the corresponding risk factor previously disclosed in "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10−K for the year ended December 31, 2009 under the heading "Risks Related to the Chapter 11 Cases."

We may not be able to obtain confirmation of the Plan.

Even though the requisite majorities of impaired creditors have voted to accept the Plan, it is possible that the Bankruptcy Court will not confirm the Plan or that other conditions to the confirmation of the Plan, including, without limitation, obtaining the requisite approval from the Vermont Board, will not be met.

Pursuant to the Plan Support Agreement, we committed to the achievement of certain milestones, including obtaining an order by the Bankruptcy Court confirming a Chapter 11 plan of reorganization reflecting the proposed financial restructuring described in the Plan Term Sheet on or before 5:00 P.M. Eastern Time on July 8, 2010. We did not obtain such an order before this deadline and accordingly the Plan Support Agreement, by its terms, expired on July 8, 2010 and was not renewed or extended. As a result, even though the requisite majorities of impaired creditors, including the Consenting Lenders, have voted to accept the Plan, if and to the extent there are any material modifications to the Plan affecting the treatment of the impaired creditors under the Plan, the Consenting Lenders would not be required to support or vote to approve the Plan as so modified.

In addition, the Plan was filed and accepted within the period in which we hold the exclusive right to file and seek confirmation of a plan of reorganization. Accordingly, no party in interest may file or solicit acceptances of a competing plan at this time. We also have the exclusive right to file a new plan until August 21, 2010. Given that we do not expect the Bankruptcy Court to confirm the Plan prior to the Exclusivity Period Expiration Date, we intend to file a motion with the Bankruptcy Court to extend the Exclusivity Period Expiration Date to a later date. However, we cannot make any assurances as to whether the Bankruptcy Court will grant our motion to extend the Exclusivity Period Expiration Date, or, if the Exclusivity Period Expiration Date is extended, whether we will be able to obtain confirmation of the Plan prior to the ultimate expiration of the Exclusivity Period Expiration Date. If we do not have the exclusive right to file and seek confirmation of a plan of reorganization, any party in interest would be able to file or support a competing plan of reorganization.

If the Plan is not confirmed by the Bankruptcy Court and certain other conditions precedent to the Plan are not met and/or waived, it is unclear whether we would be able to reorganize our business and what, if anything, holders of claims against us would ultimately receive with respect to their claims.

(b) The following risk factor is added to the risk factors previously disclosed in "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10−K for the year ended December 31, 2009, as supplemented by "Part II—Item 1A. Risk Factors" of our Quarterly Report on Form 10−Q for the quarterly period ended March 31, 2010, as the final risk factor under the heading "Risks Related to Our Business."

Increases in costs for pension benefits and retiree healthcare benefits may reduce our profitability and increase our funding commitments.

The costs of pension benefits and post−retirement healthcare benefits have a significant impact on our financial condition, results of operations and liquidity. Our costs of maintaining these plans, and the future funding requirements for these plans, are affected by several factors including the recently enacted Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010, the enactment of any similar health care reform measures at the state level, increases in healthcare costs, decreases in investment returns on funds held by our pension plan trusts and changes in the discount rates used to calculate pension and post−retirement healthcare expenses. If we are unable to limit future increases in the costs of our benefit plans, those costs could negatively impact our financial condition, results of operations and liquidity and increase our funding commitments.

There have been no other material changes to the risk factors disclosed in our Annual Report on Form 10−K for the year ended December 31, 2009, as supplemented by our Quarterly Report on Form 10−Q for the quarterly period ending March 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We did not sell any unregistered equity securities during the quarter ended June 30, 2010.

Item 3. Defaults Upon Senior Securities.

For a discussion of certain events of default that occurred during the year ended December 31, 2009, see note 1 to the Condensed Consolidated Financial Statements.

Item 4. (Removed and Reserved).

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report are listed in the index to exhibits immediately preceding such exhibits, which index to exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized, and the undersigned also has signed this Quarterly Report in his capacity as the Registrant's Executive Vice President and Chief Financial Officer (Principal Financial Officer).

FAIRPOINT COMMUNICATIONS, INC.

Date: September 29, 2010

By: /s/ AJAY SABHERWAL

Name: Ajay Sabherwal
Title: *Executive Vice President and Chief Financial Officer*

Exhibit Index

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of January 15, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(1)
2.2	Amendment No. 1 to the Agreement and Plan of Merger, dated as of April 20, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(1)
2.3	Amendment No. 2 to the Agreement and Plan of Merger, dated as of June 28, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(2)
2.4	Amendment No. 3 to the Agreement and Plan of Merger, dated as of July 3, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(3)
2.5	Amendment No. 4 to the Agreement and Plan of Merger, dated as of November 16, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(4)
2.6	Amendment No. 5 to the Agreement and Plan of Merger, dated as of February 25, 2008, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(5)
2.7	Distribution Agreement, dated as of January 15, 2007, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(1)
2.8	Amendment No. 1 to Distribution Agreement, dated as of March 30, 2007, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(1)
2.9	Amendment No. 2 to Distribution Agreement, dated as of June 28, 2007, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(1)
2.10	Amendment No. 3 to Distribution Agreement, dated as of July 3, 2007, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(1)
2.11	Amendment No. 4 to Distribution Agreement, dated as of February 25, 2008, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(5)
2.12	Amendment No. 5 to the Distribution Agreement, dated as of March 31, 2008, by and between Verizon Communications Inc. and Northern New England Spinco Inc.(6)
2.13	Transition Services Agreement, dated as of January 15, 2007, by and among Verizon Information Technologies LLC, Northern New England Telephone Operations Inc., Enhanced Communications of Northern New England Inc. and FairPoint.(1)
2.14	Amendment No. 1 to the Transition Services Agreement, dated as of March 31, 2008, by and among FairPoint, Northern New England Telephone Operations LLC, Enhanced Communications of Northern New England Inc. and Verizon Information Technologies LLC.(6)
2.15	Master Services Agreement, dated as of January 15, 2007, by and between FairPoint and Capgemini U.S. LLC.(1)
2.16	First Amendment to Master Services Agreement, dated as of July 6, 2007, by and between FairPoint and Capgemini U.S. LLC.(3)

Exhibit No.	Description
2.17	Second Amendment to Master Services Agreement, dated as of February 25, 2008, by and between FairPoint and Capgemini U.S. LLC.(5)
2.18	Letter Agreement, dated as of January 17, 2008, by and between FairPoint and Capgemini U.S. LLC.(7)
2.19	Amendment to Letter Agreement, dated as of February 28, 2008, by and between FairPoint and Capgemini U.S. LLC.(8)
2.20	Employee Matters Agreement, dated as of January 15, 2007, by and among Verizon Communications Inc., Northern New England Spinco Inc. and FairPoint.(1)
2.21	Tax Sharing Agreement, dated as of January 15, 2007, by and among FairPoint, Verizon Communications Inc. and Northern New England Spinco Inc.(9)
2.22	Partnership Interest Purchase Agreement, dated as of January 15, 2007, by and among Verizon Wireless of the East LP, Cellco Partnership d/b/a Verizon Wireless and Taconic Telephone Corp.(9)
2.23	Joinder Agreement, dated as of April 5, 2007, by and among Warwick Valley Telephone Company, Taconic Telephone Corp., Cellco Partnership d/b/a Verizon Wireless and Verizon Wireless of the East LP.(10)
2.24	Publishing Agreement, dated as of March 31, 2008, by and between FairPoint and Idearc Media Corp.(6)
2.25	Branding Agreement, dated as of March 31, 2008, by and between FairPoint and Idearc Media Corp.(6)
2.26	Non−Competition Agreement, dated as of March 31, 2008, by and between FairPoint and Idearc Media Corp.(6)
2.27	Listing License Agreement, dated as of March 31, 2008, by and between FairPoint and Idearc Media Corp.(6)
2.28	Intellectual Property Agreement, dated as of March 31, 2008, by and between FairPoint and Verizon Communications Inc.(6)
2.29	Transition Period Trademark License Agreement, dated as of March 31, 2008, by and between FairPoint and Verizon Communications Inc.(6)
2.30	Transition Agreement, dated as of January 30, 2009, by and among Verizon Communications Inc., Verizon New England Inc., Verizon Information Technologies LLC, FairPoint, Northern New England Telephone Operations LLC, Telephone Operating Company of Vermont LLC and Enhanced Communications of Northern New England Inc.(11)
3.1	Eighth Amended and Restated Certificate of Incorporation of FairPoint.(12)
3.2	Amended and Restated By Laws of FairPoint.(12)
4.1	Indenture, dated as of March 31, 2008, by and between Northern New England Spinco Inc. and U.S. Bank National Association.(6)
4.2	Second Supplemental Indenture, dated as of July 17, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association.(13)

Exhibit No.	Description
4.3	Registration Rights Agreement, dated as of March 31, 2008, by and among FairPoint Communications, Inc., Banc of America Securities LLC, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated.(6)
4.4	Form of $13^{1}/_{8}$% Senior Note due 2018 (included in Exhibit 4.1).(6)
4.5	Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association.(13)
4.6	Form of $13^{1}/_{8}$% Senior Note due 2018 (included in Exhibit 4.6).(13)
10.1	Credit Agreement, dated as of March 31, 2008, by and among FairPoint, Northern New England Spinco Inc., Bank of America, N.A, as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co−documentation agents, and Lehman Commercial Paper Inc., as administrative agent and Lenders party thereto.(6)
10.2	Amendment, Waiver, Resignation and Appointment Agreement, dated as of January 21, 2009, by and among FairPoint, Lenders party thereto, Lehman Commercial Paper Inc. and Bank of America, N.A.(14)
10.3	Subsidiary Guaranty, dated as of March 31, 2008, by and among FairPoint Broadband, Inc., MJD Ventures, Inc., MJD Services Corp., S T Enterprises, Ltd., FairPoint Carrier Services, Inc., FairPoint Logistics, Inc. and Lehman Commercial Paper Inc.(6)
10.4	Pledge Agreement, dated as of March 31, 2008, by and among FairPoint, MJD Ventures, Inc., MJD Services Corp., S T Enterprises, Ltd., FairPoint Carrier Services, Inc., FairPoint Broadband, Inc., FairPoint Logistics, Inc., Enhanced Communications of Northern New England, Inc., Utilities, Inc., C−R Communications, Inc., Comerco, Inc., GTC Communications, Inc., St. Joe Communications, Inc., Ravenswood Communications, Inc., Unite Communications Systems, Inc. and Lehman Commercial Paper Inc.(6)
10.5	Deposit Agreement, dated as of March 31, 2008, by and among Northern New England Telephone Operations LLC, Telephone Operating Company of Vermont LLC and Lehman Commercial Paper Inc.(6)
10.6	Debtor−in−Possession Credit Agreement, dated as of October 27, 2009, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America, N.A., as administrative agent, and lenders party thereto.(15)
10.7	First Amendment to Debtor−in−Possession Credit Agreement, dated as of December 1, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.8	Second Amendment to Debtor−in−Possession Credit Agreement, dated as of December 10, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.9	Third Amendment to Debtor−in−Possession Credit Agreement, dated as of December 15, 2009, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.10	Fourth Amendment to Debtor−in−Possession Credit Agreement, dated as of January 13, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)

Exhibit No.	Description
10.11	Fifth Amendment to Debtor−in−Possession Credit Agreement, dated as of January 28, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.12	Sixth Amendment to Debtor−in−Possession Credit Agreement, dated as of January 29, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.13	Seventh Amendment to Debtor−in−Possession Credit Agreement, dated as of February 8, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.14	Eighth Amendment to Debtor−in−Possession Credit Agreement, dated as of February 24, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.15	Ninth Amendment to Debtor−in−Possession Credit Agreement, dated as of February 26, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.16	Tenth Amendment to Debtor−in−Possession Credit Agreement, dated as of March 9, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.17	Eleventh Amendment to Debtor−in−Possession Credit Agreement, dated as of April 30, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.(16)
10.18	Twelfth Amendment to Debtor−in−Possession Credit Agreement, dated as of May 21, 2010, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America N.A., as administrative agent, and the lenders party thereto.*
10.19	Debtor−in−Possession Subsidiary Guaranty, dated as of October 30, 2009, by and among certain subsidiaries of FairPoint Communications, Inc. and Bank of America, N.A.(15)
10.20	Debtor−in−Possession Pledge Agreement, dated as of October 30, 2009, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., certain subsidiaries of FairPoint Communications, Inc. and Bank of America, N.A.(15)
10.21	Debtor−in−Possession Security Agreement, dated as of October 30, 2009, by and among FairPoint Communications, Inc., FairPoint Logistics, Inc., certain subsidiaries of FairPoint Communications, Inc. and Bank of America, Inc.(15)
10.22	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its Subsidiaries.(17)
10.23	Employment Agreement, dated as of June 11, 2009, by and between FairPoint and David L. Hauser.(18)
10.24	Registration Rights Letter Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.25	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Peter G. Nixon.(19)
10.26	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Shirley J. Linn.(19)

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Exhibit No.	Description
10.27	FairPoint Amended and Restated 1998 Stock Incentive Plan.(20)
10.28	FairPoint Amended and Restated 2000 Employee Stock Incentive Plan.(21)
10.29	FairPoint 2005 Stock Incentive Plan.(12)
10.30	FairPoint Communications, Inc. 2008 Annual Incentive Plan.(22)
10.31	FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(22)
10.32	Nonqualified Deferred Compensation Adoption Agreement.(11)
10.33	Nonqualified Deferred Compensation Plan Document.(11)
10.34	Form of February 2005 Restricted Stock Agreement.(23)
10.35	Form of Director Restricted Stock Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(24)
10.36	Form of Director Restricted Unit Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(24)
10.37	Form of Non−Director Restricted Stock Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(25)
10.38	Form of Non−Director Restricted Stock Agreement—FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(20)
10.39	Form of Performance Unit Award Agreement 2008−2009 Award (Performance Unit Award, dated as of April 1, 2008, by and between FairPoint and Eugene B. Johnson).(26)
10.40	Form of Performance Unit Award Agreement 2008−2010 Award.(22)
10.41	Form of Performance Unit Award Agreement 2009−2011 Award.(27)
10.42	Form of Director Restricted Unit Agreement—FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(27)
10.43	FairPoint Communications, Inc. Restricted Stock Award Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.44	FairPoint Communications, Inc. Non−Qualified Stock Option Award Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.45	FairPoint Communications, Inc. Performance Unit Award Agreement for Performance Period Beginning July 1, 2009 and Ending December 31, 2010, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.46	FairPoint Communications, Inc. Performance Unit Award Agreement for Performance Period Beginning July 1, 2009 and Ending December 31, 2011, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.47	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(28)
10.48	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(6)
10.49	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(29)
10.50	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(7)

Exhibit No.	Description
10.51	Letter Agreement, dated as of March 30, 2008, by and between the Staff of the New Hampshire Public Utilities Commission and Verizon Communications Inc.(6)
10.52	Letter, dated as of May 12, 2009, from the Staff of the New Hampshire Public Utilities Commission to FairPoint.(18)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Quarterly Report).
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.*†
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.*†
99.1	Order of the Maine Public Utilities Commission, dated February 1, 2008.(30)
99.2	Order of the Vermont Public Service Board, dated February 15, 2008.(31)
99.3	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(5)

* Filed herewith.

† Pursuant to SEC Release No. 33−8238, this certification will be treated as "accompanying" this Quarterly Report on Form 10−Q and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

(1) Incorporated by reference to the Registration Statement on Form S−4 of FairPoint, declared effective as of July 16, 2007.

(2) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on June 28, 2007.

(3) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on July 9, 2007.

(4) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on November 16, 2007.

(5) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on February 27, 2008.

(6) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on April 3, 2008.

(7) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on January 24, 2008.

(8) Incorporated by reference to the Annual Report on Form 10−K of FairPoint for the year ended December 31, 2007.

(9) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on January 19, 2007.

(10) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on April 10, 2007.

(11) Incorporated by reference to the Annual Report on Form 10−K of FairPoint for the year ended December 31, 2008.

(12) Incorporated by reference to the Annual Report on Form 10−K of FairPoint for the year ended December 31, 2004.

(13) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on August 3, 2009.

(14) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on January 22, 2009.

(15) Incorporated by reference to the Quarterly Report on Form 10−Q of FairPoint for the period ended September 30, 2009.

(16) Incorporated by referenced to the Annual Report on Form 10−K of FairPoint for the year ended December 31, 2009.

(17) Incorporated by reference to the Quarterly Report on Form 10−Q of FairPoint for the period ended September 30, 2000.

(18) Incorporated by reference to the Quarterly Report on Form 10−Q of FairPoint for the period ended June 30, 2009.

(19) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on March 19, 2007.

(20) Incorporated by reference to the Registration Statement on Form S−4 of FairPoint, declared effective as of August 9, 2000.

(21) Incorporated by reference to the Annual Report on Form 10−K of FairPoint for the year ended December 31, 2003.

(22) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on June 23, 2008.

(23) Incorporated by reference to the Registration Statement on Form S−1 of FairPoint, declared effective as of February 3, 2005.

(24) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on June 20, 2005.

(25) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on September 23, 2005.

(26) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on April 1, 2008.

(27) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on March 9, 2009.

(28) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on December 13, 2007.

(29) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on January 8, 2008.

(30) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on February 6, 2008.

(31) Incorporated by reference to the Current Report on Form 8−K of FairPoint filed on February 21, 2008.

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Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a−14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Paul H. Sunu, certify that:

1. I have reviewed this Quarterly Report on Form 10−Q/A of FairPoint Communications, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the Company and have:

   (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and

   (iv) disclosed in this Quarterly Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: September 29, 2010

/s/ PAUL H. SUNU

Paul H. Sunu
Chief Executive Officer

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Exhibit 31.2

CERTIFICATION
PURSUANT TO 17 CFR 240.13a−14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Ajay Sabherwal, certify that:

1. I have reviewed this Quarterly Report on Form 10−Q/A of FairPoint Communications, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the Company and have:

   (i) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (iii) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and

   (iv) disclosed in this Quarterly Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: September 29, 2010

/s/ AJAY SABHERWAL

Ajay Sabherwal
Chief Financial Officer

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Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10−Q/A of FairPoint Communications, Inc. (the "Company") for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes−Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PAUL H. SUNU

Paul H. Sunu
Chief Executive Officer
September 29, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit 32.1

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10−Q/A of FairPoint Communications, Inc. (the "Company") for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes−Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ AJAY SABHERWAL

Ajay Sabherwal
Chief Financial Officer
September 29, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit 32.2