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, 2009.

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 definition 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 ☐ (Do not check if a smaller reporting company) 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 ☒

As of July 31, 2009, there were 90,020,657 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: **None**

EXPLANATORY NOTE

FairPoint Communications, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A (this "Amendment No. 1") 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. On February 23, 2010 the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission (the "SEC") describing such accounting errors and certain billing adjustments. The accounting error and the billing and other adjustments resulted in an overstatement of revenue for the three and six months ended June 30, 2009 of $14.8 million and $27.2 million, respectively, an understatement of operating expenses for the three 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 each case as reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which was originally filed with the SEC on August 5, 2009 (the "Original Filing"). The restatement of the interim condensed consolidated financial statements contained in this Amendment No. 1 (the "restatement"), which restatement accounts for the foregoing overstatements and understatements, resulted in a reduction in net income of $10.3 million and $23.9 million, net of income taxes, for the three and six months ended June 30, 2009, respectively. In addition, as a result of the restatement, the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under its credit facility (as defined herein) for the measurement period ended June 30, 2009, which constituted an event of default under the credit facility and the Company's interest rate swap agreements and may have constituted an event of default under the notes (as defined herein). As such, the Company has classified its obligations under these debt instruments as current liabilities as of June 30, 2009. The restatement is discussed in more detail in note 1 to the "Condensed Consolidated Financial Statements" contained in this Amendment No. 1.

For ease of reference, this Amendment No. 1 amends and restates the Original Filing in its entirety. However, "Part I—Item 1. Financial Statements," "Part I—Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part I—Item 4. Controls and Procedures," "Part II—Item 1A. Risk Factors, Part II—Item 3. Defaults Upon Senior Securities" and "Part II—Item 6. Exhibits" are the only sections in which revisions to the Original Filing have been made. In addition, as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company's principal executive officer and principal financial officer have provided new Rule 13a-14(a) certifications and Section 1350 certifications in connection with this Amendment No. 1.

The information in this Amendment No. 1 that is not affected by the restatement of the interim condensed consolidated financial statements from the Original Filing remains unchanged and reflects the disclosure at the time of the Original Filing. Therefore, this Amendment No. 1 should be read in conjunction with the Company's other filings made with the SEC subsequent to the Original Filing.

INDEX

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:

- our ability to restructure our capital structure;
- future performance generally;
- sources and uses of liquidity;
- 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);
- our dividend policy and expectations regarding dividend payments;
- 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 carryforwards to offset anticipated tax liabilities;
- our ability to meet obligations to our company sponsored pension plans;
- our ability to remediate material weaknesses in our internal controls over financial reporting;
- 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, referred to as 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, 2008 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 periodic 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," the "Company," "our 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

Condensed Consolidated Balance Sheets

June 30, 2009 and December 31, 2008

(in thousands, except share data)

	June 30, 2009 (Unaudited) Restated	December 31, 2008
Assets		
Current assets:		
Cash	$ 80,964	$ 70,325
Restricted cash	1,981	8,144
Accounts receivable, net	152,269	173,589
Materials and supplies	36,871	38,694
Other	30,268	28,747
Deferred income tax, net	39,246	31,418
Total current assets	**341,599**	**350,917**
Property, plant and equipment, net	1,995,692	2,013,515
Intangibles assets, net	223,105	234,481
Prepaid pension asset	9,741	8,708
Debt issue costs, net	23,617	26,047
Restricted cash	1,378	60,359
Other assets	16,432	21,094
Goodwill	595,120	619,372
Total assets	**$3,206,684**	**$3,334,493**
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of long term debt	$2,488,647	$ 45,000
Current portion of capital lease obligations	2,046	2,231
Accounts payable	158,863	147,778
Dividends payable	—	23,008
Accrued interest payable in cash	3,834	18,844
Accrued interest payable in kind	14,423	—
Interest rate swaps	62,824	41,274
Other non-operating accrued liability	—	19,000
Other accrued liabilities	68,234	70,887
Total current liabilities	**2,798,871**	**368,022**
Long term liabilities:		
Capital lease obligations	6,584	7,522
Accrued pension obligation	49,507	46,801
Employee benefit obligations	239,152	225,840
Deferred income taxes	112,137	154,757
Unamortized investment tax credits	5,068	5,339
Other long term liabilities	18,006	35,492
Long term debt, net of current portion	—	2,425,253
Interest rate swap agreements	—	41,681
Total long-term liabilities	**430,454**	**2,942,685**
Stockholders' equity (deficit):		
Common stock, $0.01 par value, 200,000,000 shares authorized; 89,496,847 and 88,995,572 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	895	890
Additional paid-in capital	736,469	735,719
Retained deficit	(628,787)	(578,319)
Accumulated other comprehensive loss	(131,218)	(134,504)
Total stockholders' equity (deficit)	**(22,641)**	**23,786**
Total liabilities and stockholders' equity (deficit)	**$3,206,684**	**$3,334,493**

See accompanying notes to condensed consolidated financial statements (unaudited)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three and six months ended June 30, 2009 and 2008

(Unaudited)

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2009 Restated	2008	2009 Restated	2008
Revenues	**$284,762**	**$344,690**	**$ 584,060**	**$627,104**
Operating expenses:				
Cost of services and sales, excluding depreciation and amortization	123,003	133,900	268,266	269,737
Selling, general and administrative expense, excluding depreciation and amortization	99,449	102,290	191,861	165,406
Depreciation and amortization	68,860	69,741	136,727	123,666
Total operating expenses	**291,312**	**305,931**	**596,854**	**558,809**
Income (loss) from operations	**(6,550)**	**38,759**	**(12,794)**	**68,295**
Other income (expense):				
Interest expense	(54,809)	(45,123)	(108,288)	(59,645)
Gain on derivative instruments	7,233	43,123	20,131	43,123
Gain on early retirement of debt	7,494	—	12,357	—
Other	(58)	264	6,219	1,250
Total other expense	(40,140)	(1,736)	(69,581)	(15,272)
Income (loss) before income taxes	(46,690)	37,023	(82,375)	53,023
Income tax (expense) benefit	18,527	(13,909)	31,907	(20,366)
Net income (loss)	**$(28,163)**	**$ 23,114**	**$ (50,468)**	**$ 32,657**
Weighted average shares outstanding:				
Basic	89,364	88,725	89,168	62,077
Diluted	89,364	89,190	89,168	62,483
Earnings per share:				
Basic	$ (0.32)	$ 0.26	$ (0.57)	$ 0.53
Diluted	(0.32)	0.26	(0.57)	0.52

See accompanying notes to condensed consolidated financial statements (unaudited)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Deficit)

Six months ended June 30, 2009

(Unaudited)

(in thousands)

	Common Stock		Additional paid-in capital	Retained deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity (deficit)
	Shares	Amount				
Balance at December 31, 2008	88,996	$890	$735,719	$(578,319)	$(134,504)	$ 23,786
Net loss (restated)	—	—	—	(50,468)	—	(50,468)
Issuance of 2008 Interim Awards	502	5	(5)	—	—	—
Forfeiture of restricted shares	(1)	—	—	—	—	—
Stock based compensation expense	—	—	755	—	—	755
Employee benefit adjustment to comprehensive income	—	—	—	—	3,286	3,286
Balance at June 30, 2009 (restated)	89,497	$895	$736,469	$(628,787)	$(131,218)	$(22,641)

See accompanying notes to condensed consolidated financial statements (unaudited)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income

Three and six months ended June 30, 2009 and 2008

(Unaudited)

(in thousands, except per share data)

	Three Months ended June 30,		Six Months ended June 30,	
	2009	2008	2009	2008
Net (loss) income (restated)	**$(28,163)**	**$23,114**	**$(50,468)**	**$32,657**
Other comprehensive income, net of taxes:				
Defined benefit pension and post-retirement plans (net of $1.2 million and $2.1 million taxes, respectively)	1,930	—	3,286	—
Total other comprehensive income	**1,930**	—	**3,286**	—
Comprehensive (loss) income (restated)	**$(26,233)**	**$23,114**	**$(47,182)**	**$32,657**

See accompanying notes to condensed consolidated financial statements (unaudited)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2009 and 2008

(Unaudited)

(in thousands)

	Six months ended June 30,	
	2009	2008
	Restated	
Cash flows from operating activities:		
Net (loss) income	$(50,468)	$ 32,657
Adjustments to reconcile net income to net cash provided by operating activities excluding impact of acquisitions:		
Deferred income taxes	(34,022)	24,489
Provision for uncollectible revenue	15,777	7,543
Depreciation and amortization	136,727	123,666
Non-cash interest expense	14,423	—
SFAS 106 post-retirement accruals	15,908	29,103
Gain on derivative instruments	(20,131)	(43,123)
Gain on early retirement of debt, net of cash fees	(12,477)	—
Other non-cash items	6,429	(26,406)
Changes in assets and liabilities arising from operations:		
Accounts receivable	7,725	(24,287)
Prepaid and other assets	(3,350)	(40,750)
Accounts payable and other accrued liabilities	(31,286)	(38,965)
Accrued interest payable	(15,011)	18,476
Other assets and liabilities, net	(2,585)	4,113
Other	—	(16,221)
Total adjustments	78,127	17,638
Net cash provided by operating activities	27,659	50,295
Cash flows from investing activities:		
Acquired cash balance, net	—	11,552
Net capital additions	(90,081)	(98,348)
Net proceeds from sales of investments and other assets	1,230	235
Net cash used in investing activities	(88,851)	(86,561)
Cash flows from financing activities:		
Loan origination costs	(521)	(29,238)
Proceeds from issuance of long term debt	50,000	1,676,000
Repayments of long term debt	(18,673)	(687,491)
Contributions from Verizon	—	344,629
Restricted cash	65,143	(80,886)
Repayment of capital lease obligations	(1,122)	(1,637)
Dividends paid to stockholders	(22,996)	(1,173,961)
Net cash provided by financing activities	71,831	47,416
Net increase in cash	10,639	11,150
Cash, beginning of period	70,325	—
Cash, end of period	$ 80,964	$ 11,150
Supplemental disclosure of cash flow information:		
Non-cash equity consideration	—	316,290
Non-cash issuance of senior notes	—	551,000

See accompanying notes to condensed consolidated financial statements (unaudited)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited)

(1) Restatement of Financial Statements

The Company is restating its previously issued interim consolidated financial statements included in the Original Filing to reflect the effect of an accounting error resulting from a deficiency in the transfer of certain known customer billing adjustments from the Company's billing platform to its general ledger, a one-time non-operating loss related to a disputed claim, as well as certain other adjustments. This error and these adjustments resulted in an overstatement of revenue for the three and six months ended June 30, 2009 of $14.8 million and $27.2 million, respectively, an understatement of operating expenses for the three 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 each case as reported in the Original Filing. The restatement of the interim condensed consolidated financial statements contained in this Amendment No. 1, which restatement accounts for the foregoing overstatements and understatements, resulted in a reduction in net income of $10.3 million and $23.9 million, net of income taxes, for the three and six months ended June 30, 2009, respectively.

As a result of the restatement, the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under its credit facility (as defined in note 3(l) to the condensed consolidated financial statements) for the measurement period ended June 30, 2009. Failure to comply with this covenant constitutes an event of default under the credit facility, which permits the lenders to accelerate the maturity of loans outstanding thereunder, seek foreclosure upon any collateral securing such loans and terminate any remaining commitments to lend to the Company. In addition, the occurrence of an event of default under the credit facility constitutes an event of default under the Company's interest rate swap agreements and such defaults under the credit facility and interest rate swap agreements may constitute an event of default under the notes (as defined in note 6 to the condensed consolidated financial statements), in each case at June 30, 2009. As such, the Company has classified its obligations under the credit facility, the interest rate swap agreements and the notes as current liabilities as of June 30, 2009.

On October 26, 2009 FairPoint Communications and all of its direct and indirect subsidiaries filed voluntary petitions for relief under Chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the Southern District of New York. The cases are being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335.

(1) Restatement of Financial Statements (Continued)

The revisions applied to the affected individual line items in the interim condensed consolidated financial statements are summarized as follows:

Condensed Consolidated Balance Sheets
(in thousands, except share data)

	June 30, 2009	
	As previously reported	As restated
Assets		
Accounts receivable, net	190,551	152,269
Deferred income tax, net	29,241	39,246
Total current assets	369,876	341,599
Property, plant, and equipment, net	1,996,335	1,995,692
Total assets	3,235,604	3,206,684
Liabilities and Stockholders' Equity (Deficit)		
Current portion of long term debt	45,000	2,488,647
Accrued interest payable in kind	—	14,423
Interest rate swaps	43,438	62,824
Total current liabilities	321,415	2,798,871
Deferred income taxes	117,184	112,137
Accrued interest payable in kind	14,423	—
Long term debt, net of current portion	2,443,647	—
Interest rate swap agreements	19,386	—
Total long-term liabilities	2,912,957	430,454
Retained deficit	(604,914)	(628,787)
Total stockholders' equity (deficit)	1,232	(22,641)
Total liabilities and stockholders' equity (deficit)	3,235,604	3,206,684

(1) Restatement of Financial Statements (Continued)

Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	As previously reported	As restated	As previously reported	As restated
Revenues	299,611	284,762	611,241	584,060
Cost of services and sales, excluding depreciation and amortization	122,707	123,003	267,854	268,266
Selling, general and administrative expense, excluding depreciation and amortization	97,986	99,449	190,398	191,861
Depreciation and amortization	68,629	68,860	136,496	136,727
Total operating expenses	289,322	291,312	594,748	596,854
Income (loss) from operations	10,289	(6,550)	16,493	(12,794)
Other	(58)	(58)	15,857	6,219
Total other expense	(40,140)	(40,140)	(59,943)	(69,581)
Income (loss) before income taxes	(29,851)	(46,690)	(43,450)	(82,375)
Income tax (expense) benefit	12,033	18,527	16,855	31,907
Net loss	(17,818)	(28,163)	(26,595)	(50,468)
Earnings per share, basic	(0.20)	(0.32)	(0.30)	(0.57)
Earnings per share, diluted	(0.20)	(0.32)	(0.30)	(0.57)

Consolidated Statements of Stockholders' Equity (Deficit)
(in thousands)

	Six months ended June 30, 2009	
	As previously reported	As restated
Net loss	(26,595)	(50,468)
Retained deficit	(604,914)	(628,787)
Total stockholders' equity (deficit)	1,232	(22,641)

Consolidated Statements of Comprehensive (Loss) Income
(in thousands)

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	As previously reported	As restated	As previously reported	As restated
Net loss	(17,818)	(28,163)	(26,595)	(50,468)
Comprehensive loss	(15,888)	(26,233)	(23,309)	(47,182)

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited) (Continued)

(1) Restatement of Financial Statements (Continued)

Consolidated Statements of Cash Flow
(in thousands)

	Six months ended June 30, 2009	
	As previously reported	As restated
Net loss	(26,595)	(50,468)
Deferred income taxes	(18,970)	(34,022)
Provision for uncollectible revenue	14,314	15,777
Depreciation and amortization	136,496	136,727
Accounts receivable	(29,094)	7,725
Total adjustments	54,666	78,127
Net cash provided by operating activities	28,071	27,659
Net capital additions	(90,493)	(90,081)
Net cash used in investing activities	(89,263)	(88,851)

(2) 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 is the seventh largest telephone company in the United States based on the number of access lines as of June 30, 2009. FairPoint operates in 18 states with approximately 1.7 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, 2009.

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 is treated as the acquirer for accounting purposes. The financial statements reflect the transaction as if Spinco had issued consideration to FairPoint stockholders. As a result, for the six months ended June 30, 2008, the statement of operations and the financial information derived from the statement of operations in this Quarterly Report reflect the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008 and the combined financial results of Spinco and Legacy FairPoint for the three months ended June 30, 2008.

In order to effect the merger described above, the Company issued 53,760,623 shares to Verizon stockholders for their interest in Spinco. Accordingly, the number of common shares outstanding, par value, paid in capital and per share information included herein has been retroactively restated to give effect to the merger.

(2) Organization and Basis of Financial Reporting (Continued)

Historical Verizon Northern New England business

The Verizon Northern New England business, prior to the merger, was comprised of carved-out components from each of Verizon New England, NYNEX Long Distance Company and Bell Atlantic Communications, referred to as VLD, Verizon Internet Services Inc. and GTE.Net LLC, referred to as VOL, and Verizon Select Services Inc., referred to as VSSI, collectively referred to as the Verizon Companies.

Prior to the merger, financial statements were not prepared for the Verizon Northern New England business, as it was not operated as a separate business. The Verizon Northern New England business financial statements for all periods prior to the merger have been prepared in accordance with U.S. generally accepted accounting principles using specific information where available and allocations where data was not maintained on a state-specific basis within the Verizon Northern New England business' books and records.

The Verizon Northern New England business financial statements for all periods prior to the merger include the wireline-related businesses, Internet access, long distance and customer premises equipment services provided by the Verizon Northern New England business to customers in the states of Maine, New Hampshire and Vermont. All significant intercompany transactions have been eliminated. The financial statements prior to the merger also include the assets, liabilities and expenses related to employees who supported the Verizon Northern New England business, some of whom remained employees of the Verizon Northern New England business following the acquisition of the Verizon Northern New England business by FairPoint rather than becoming employees of FairPoint.

The preparation of financial information related to Verizon New England's, VLD's, VOL's and VSSI's operations in the states of Maine, New Hampshire and Vermont, which are included in the balance sheet and statements of operations of the Verizon Northern New England business for all periods prior to the merger, was based on the following:

Verizon New England: For the balance sheet, property, plant and equipment, accumulated depreciation, intangible assets, materials and supplies and certain other assets and liabilities were determined based upon state specific records; accounts receivable were allocated based upon applicable billing system data; short term investments, prepaid pension assets, accrued payroll related liabilities and employee benefit obligations were allocated based on employee headcount; and accounts payable were allocated based upon applicable operating expenses. The remaining assets and liabilities were primarily allocated based upon the percentage of the Verizon Northern New England business revenues, operating expenses and headcount to the total revenues, operating expenses and headcount of Verizon New England. For the statements of operations, operating revenues and operating expenses were based on state specific records.

VLD: For the balance sheet, receivables were allocated based on the applicable operating revenues and accounts payable were allocated based on applicable operating expenses. For the statements of operations, operating revenues were determined using applicable billing system data; cost of services and sales and selling, general and administrative expenses were allocated based on the percentage of the Verizon Northern New England business revenues related to the VLD component to the total VLD revenues applied to operating expenses for total VLD.

VOL: For the balance sheet, receivables were allocated based on applicable operating revenues; other current assets were determined using applicable billing system data; accounts payable were

(2) Organization and Basis of Financial Reporting (Continued)

allocated based on the applicable operating expenses; and other current liabilities, which consisted of advanced billings, were allocated based on applicable operating revenues. For the statements of operations, operating revenues were determined using applicable billing system data and average access lines in service; cost of services and sales, selling, general and administrative expenses and interest expense were allocated based on the percentage of the Verizon Northern New England business revenues related to the VOL component to the total VOL revenues applied to operating expenses and interest expense for total VOL.

VSSI: For the balance sheet, receivables were allocated based on the applicable operating revenues and accounts payable were allocated based on applicable operating expenses. For the statements of operations, operating revenues were identified using applicable system data; cost of services and sales and selling, general and administrative expenses were allocated based on the percentage of the Verizon Northern New England business revenues related to the VSSI component to the total VSSI revenues applied to operating expenses for total VSSI.

Management believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of the Verizon Northern New England business for periods prior to the merger.

(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.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of plant, property and equipment, pension and post-retirement benefit assumptions, purchase price allocation for the acquisition of Legacy FairPoint and income taxes. In addition, estimates were made to determine the allocations used in preparing the historical combined financial statements as described above.

(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. These charges are billed based on toll or access tariffs approved by the local state's public utilities commission. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association or by the individual company and approved by the Federal Communications Commission (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

(3) Accounting Policies (Continued)

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.

(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.

(e) Restricted Cash

As of March 31, 2008, the closing date of the merger, the Company had $80.9 million of restricted cash. Pursuant to the regulatory orders issued in connection with the merger, 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 as of May 12, 2009, the New Hampshire Public Utilities Commission (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. This investment commitment is inclusive of the $50 million previously required by the NHPUC.

(3) Accounting Policies (Continued)

As of June 30, 2009, the Company had released $78.5 million of the restricted cash, including $1.5 million in interest earned on such restricted cash, for approved expenditures under the required projects and had forfeited an additional $0.5 million to the Vermont Public Service Board due to an inability to spend the full $12.5 million allocated for such projects in the 2008 calendar year.

As of June 30, 2009, the Company had $3.4 million of restricted cash of which $2.0 million is shown in current assets and $1.4 million is shown as a non-current asset on the condensed consolidated balance sheet.

(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 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.

(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 large number of customers in several states.

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 the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

As a result of interest rate swap agreements, as of June 30, 2009, approximately 76% of the Company's indebtedness effectively bore interest at fixed rates rather than variable rates. The Company's ability to hedge its interest rate risk is dependent on the solvency of those banks with whom the Company enters into swap agreements.

(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

(3) Accounting Policies (Continued)

anticipated positive net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

At June 30, 2009 and December 31, 2008, accumulated depreciation for property, plant and equipment was $4.1 billion and $4.0 billion, respectively.

The estimated asset lives used 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.

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense.

(j) Long-Lived Assets

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). Under SFAS No. 144, 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.

(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 American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). 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 allow the software to perform a task it previously did not perform. 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 Financial Accounting Standard No. 34, *Capitalization of Interest Cost* ("FAS 34").

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 SOP 98-1. 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, 2009, the Company had capitalized $106.9 million of MSA costs under SOP 98-1 and an additional $6.9 million of interest costs under FAS 34.

In addition to the MSA, the Company has other agreements and projects for which costs are capitalized in accordance with SOP 98-1 and FAS 34. During the three and six months ended June 30, 2009, the Company capitalized $6.6 million and $11.5 million, respectively, in software costs in addition to those capitalized under the MSA. During the three and six months ended June 30, 2009, the Company capitalized $0.5 million in interest costs in addition to those capitalized under the MSA.

(l) Debt Issue Costs

On March 31, 2008, immediately prior to the merger, Legacy FairPoint and Spinco entered into a $2,030.0 million senior secured credit facility (the "credit facility"), consisting of a non-amortizing revolving facility in an aggregate principal amount of $200.0 million (the "revolver"), a senior secured term loan A facility in an aggregate principal amount of $500.0 million (the "term loan A facility"), a senior secured term loan B facility in the aggregate principal amount of $1,130.0 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 $200.0 million (the "delayed draw term loan"). The Company incurred $29.2 million of debt issue costs associated with the credit facility 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 credit facility under which, among other things, the administrative agent resigned and was replaced by a new 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 with this amendment and began to amortize these costs over the remaining life of the loan.

Concurrent with the amendment, the Company wrote off $0.8 million of the unamortized debt issue costs associated with the original credit facility, in accordance with EITF 98-14, *Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements*.

(3) Accounting Policies (Continued)

As of June 30, 2009, the Company had capitalized debt issue and offering costs of $23.6 million, net of amortization.

(m) Advertising Costs

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 SFAS No. 142, *Goodwill and Other Intangible Assets,* 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 Company, which represents its shareholders' equity balance. As of June 30, 2009, shareholders' deficit totaled $22.6 million. The income approach compares the fair value of the Company, as measured by discounted expected future cash flows, to the carrying amount of the Company. If the Company's carrying amount exceeds its estimated fair value, there is a potential impairment and step two of the analysis must be performed.

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, 2008 and concluded that there was no impairment at that time. In light of the Company's operating performance during the first half of 2009, which has been impacted by issues associated with the January 30, 2009 systems cutover, the Company performed another goodwill impairment assessment as of June 30, 2009. After performing the impairment test at June 30, 2009, the Company determined goodwill was not impaired.

While no impairment charges resulted from the analysis performed at June 30, 2009, impairment charges may occur in the future due to changes in the performance and future prospects for the business, the outcome of the Company's debt restructuring efforts, changes in estimated discount rates or other factors.

As of June 30, 2009, the Company had goodwill of $595.1 million.

(3) Accounting Policies (Continued)

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

	At June 30, 2009
Customer lists (weighted average 9.7 years):	
Gross carrying amount	$208,504
Less accumulated amortization	(28,215)
Net customer lists	180,289
Non-Compete agreement (weighted average 1 year):	
Gross carrying amount	358
Less accumulated amortization	(358)
Net non-compete agreement	—
Trade names (indefinite life):	
Gross carrying amount	42,816
Total intangible assets, net	$223,105

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

(o) Accounting for Income Taxes

The Company accounts for income taxes for interim periods in accordance with SFAS No. 109 *"Accounting for Income Taxes"* ("SFAS 109") and FASB Interpretation ("FIN") No. 18 *"Accounting for Income Taxes in Interim Periods"* ("FIN 18"). FIN 18 requires the tax (or benefit) related to ordinary income (or loss) to be computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items to be individually computed and recognized when the items occur unless a reliable estimated annual effective tax rate cannot be calculated.

This process involves estimating the actual current tax exposure and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's condensed consolidated balance sheets. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes the recovery is not likely, it must establish a valuation allowance. Further, to the extent that the Company establishes a valuation allowance or increases this allowance in a financial accounting period, the Company must include a tax provision, or reduce its tax benefit in the condensed consolidated statement of operations. In performing the assessment, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company uses its judgment to determine its provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets.

(3) Accounting Policies (Continued)

(p) Stock-based Compensation Plans

The Company accounts for its stock-based compensation plans in accordance with SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are 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 SFAS No. 123(R) 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.

On March 3, 2009, the Company's compensation committee approved the award of performance units under the FairPoint Communications, Inc. 2008 Long Term Incentive Plan for the performance period beginning January 1, 2009 and ending December 31, 2011 to certain key employees. As of June 30, 2009, no shares of common stock had been issued pursuant to these grants.

On June 10, 2009, the Company's compensation committee approved the award of certain equity incentives to David L. Hauser, the Company's new Chairman and Chief Executive Officer, as an inducement to accept employment with the Company (the "inducement awards"). As provided in Mr. Hauser's employment agreement, dated June 11, 2009, the inducement awards include: (i) options to purchase 1,600,000 shares of the Company's common stock (the "inducement options"); (ii) restricted shares of the Company's common stock valued at $4,000,000 (the "inducement restricted stock"); and (iii) performance units for two performance periods beginning on July 1, 2009 and ending on December 31, 2010 and December 31, 2011, respectively (the "inducement performance units"). The inducement options were granted on July 1, 2009, at an exercise price of $0.95 per share. The inducement options will vest and become exercisable in three equal annual installments commencing on July 1, 2010, provided that Mr. Hauser remains employed by the Company through each such date. The inducement restricted stock will be awarded in the following three installments: (i) $500,000 on July 1, 2009; (ii) $1,750,000 on July 1, 2010; and (iii) $1,750,000 on July 1, 2011, and will be valued based on the average closing prices of the Company's common stock during the thirty calendar days immediately preceding the applicable award date. Accordingly, on July 1, 2009, 523,810 shares of restricted stock were awarded to Mr. Hauser. The inducement restricted stock will become fully vested on July 1, 2012, provided that Mr. Hauser remains employed by the Company through such date. The inducement performance units will be earned and paid in shares of the Company's common stock, based on the Company's performance during the performance periods, with a target amount of 200% of Mr. Hauser's base salary and a maximum of 400% of Mr. Hauser's base salary. The number of shares subject to the inducement options and the option exercise price will be adjusted, and additional shares of inducement restricted stock will be awarded, as necessary to preserve the value of the inducement options and the inducement restricted stock awarded on July 1, 2009 if, prior to December 31, 2010, the Company completes a restructuring of its indebtedness.

(3) Accounting Policies (Continued)

(q) Employee Benefit Plans

The Company accounts for pensions and other post-retirement benefit plans in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS 158"). SFAS 158 requires the recognition of a defined benefit post-retirement plan's funded status as either an asset or liability on the balance sheet. SFAS 158 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 SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* 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 SFAS No. 141R, *Business Combinations* ("SFAS 141R"), 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 SFAS 141R.

(4) Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited) (Continued)

(4) Recent Accounting Pronouncements (Continued)

FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS 161 did not have any impact on the Company's consolidated results of operations and financial position.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective for interim or annual periods ending after September 15, 2009. The adoption of SFAS 162 is not expected to have any impact on the Company's consolidated results of operations and financial position.

In April 2009, the FASB issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, ("FSP FAS 107-1"). FSP FAS 107-1 extends the disclosure requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 did not have any impact on the Company's consolidated results of operations and financial position.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes principles and requirements for identifying, recognizing and disclosing subsequent events. SFAS 165 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. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have any 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.

(6) Acquisitions and Dispositions

On March 31, 2008, the Company completed the merger with Spinco. The merger was accounted for as a reverse acquisition of FairPoint by Spinco under the purchase method of accounting because Verizon's stockholders owned a majority of the shares of the combined Company following the merger. The merger consideration was $316.3 million. Spinco was a wholly-owned subsidiary of Verizon that owned Verizon's local exchange and related business activities in Maine, New Hampshire and Vermont. Spinco was spun off from Verizon immediately prior to the merger. Spinco served approximately 1,562,000 access line equivalents as of the date of acquisition.

(6) Acquisitions and Dispositions (Continued)

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 local exchange business of Verizon New England in Maine, New Hampshire and Vermont and the customers of the Verizon Group's related long distance and Internet service provider businesses in those states to Spinco and the entities (including an entity formed for holding Vermont property) that became Spinco's subsidiaries. In connection with these restructuring transactions, and immediately prior to closing of the merger on March 31, 2008, the Verizon Group contributed certain of those assets and all of the direct and indirect equity interests of those entities to Spinco in exchange for:

- the issuance of additional shares of Spinco common stock that were distributed in a spin-off, referred to as the distribution;
- a special cash payment of $1,160.0 million to the Verizon Group; and
- the issuance by Spinco to the Verizon Group of the senior notes with an aggregate principal value of $551.0 million, issued at a discount of $11.2 million (the "notes").

As a result of these transactions, the Verizon Group received $1.7 billion of combined cash and principal amount of notes.

The Verizon Group also contributed approximately $316.0 million in cash to Spinco at the time of the spin-off, in addition to the amount of working capital, subject to adjustment, that it was required to contribute pursuant to the distribution agreement that was in effect prior to the merger. During the third quarter of 2008, the Company settled the working capital adjustment with Verizon, resulting in an additional contribution to the Company of approximately $29.0 million from Verizon. In connection with this working capital settlement, the Company paid Verizon $66.3 million for certain payables (offset by any receivables) owed to Verizon affiliates.

After the contribution and immediately prior to the merger, Verizon spun off Spinco by distributing all of the shares of Spinco common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders. We refer collectively to the transactions described above as the spin-off.

The merger was accounted for using the purchase method of accounting for business combinations and, accordingly, the acquired assets and liabilities of Legacy FairPoint were recorded at their estimated fair values as of the date of acquisition, and Legacy FairPoint's results of operations have been included in the Company's consolidated financial statements from the date of acquisition. During the first quarter of 2009, the Company recorded an adjustment to its deferred tax account which decreased the excess of the purchase price over fair value by $24.3 million. Based upon the Company's purchase price allocation, the excess of the purchase price over the fair value of the net tangible assets acquired was approximately $846.8 million. The Company recorded an intangible asset related to the acquired customer relationships of $208.5 million, an intangible asset related to trade names of $42.8 million and an intangible asset related to a non-compete agreement of $0.4 million. The remaining $595.1 million was recognized as goodwill. The estimated weighted average useful lives of the intangible assets are 9.7 years for the customer relationships, one year for the non-compete agreement and trade names have an indefinite useful life.

(6) Acquisitions and Dispositions (Continued)

The allocation of the total net purchase price of the merger is shown in the table below (in thousands):

Cash	$ 11,401
Current assets	57,178
Property, plant and equipment	303,261
Investments	8,748
Excess cost over fair value of net assets acquired	595,120
Intangible assets	251,678
Other assets	127,034
Current liabilities	(179,146)
Long term debt	(687,491)
Other liabilities	(171,493)
Total net purchase price	$ 316,290

The following unaudited pro forma information presents the combined results of operations of the Company as though the merger and related transactions had been consummated on January 1, 2008. These results include certain adjustments, mainly associated with increased interest expense on debt and amortization of intangible assets related to the acquisitions and the related income tax effects. The pro forma financial information does not necessarily reflect the actual results of operations had the merger been consummated at the beginning of the period or which may be attained in the future (in thousands, except per share data).

	Pro forma six months ended June 30, 2008
	(unaudited)
Revenue	$694,108
Income from continuing operations	13,600
Net income	13,600
Earnings per common share from continuing operations:	
Basic	$ 0.15
Diluted	0.15
Earnings per common share:	
Basic	$ 0.15
Diluted	0.15

(7) Income Taxes

For the three months and six months ended June 30, 2009, the Company recorded an income tax benefit of $18.5 million and $31.9 million, respectively, resulting in an effective tax rate of 39.7% and 38.7%, respectively, compared to an effective tax rate of 37.6% expense and 38.4% expense for the three months and six months ended June 30, 2008, respectively.

FIN 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") requires the Company to apply a "more likely than not" threshold to the recognition and de-recognition of uncertain tax positions. The

(7) Income Taxes (Continued)

Company's unrecognized tax benefits totaled $5.4 million and $8.6 million as of June 30, 2009 and December 31, 2008, respectively. The reduction in unrecognized tax benefits was the result of the effective settlement of Spinco's IRS audit involving the 2000 through 2003 tax years and did not have a material impact on the Company's tax provision for the three months or six months ended June 30, 2009. Of the $5.4 million of unrecognized tax benefits at June 30, 2009, $1.0 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.

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the six months ended June 30, 2009, there was a $0.5 million decrease in interest and penalties, primarily as a result of the effective settlement of Spinco's IRS audit involving the 2000 through 2003 tax years. Cumulative interest and penalties totaled $0.7 million and $1.2 million, net of tax, as of June 30, 2009 and December 31, 2008, respectively.

At June 30, 2009, the Company had federal and state net operating loss carryforwards of $421.2 that will expire from 2019 to 2029. At June 30, 2009, 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" 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 (see Note 6) 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.

The Company or one of its subsidiaries files income tax returns in the federal jurisdiction, and with various state and local governments. The Company is no longer subject to federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004. As of June 30, 2009, Spinco was under IRS audit for the 2004 through 2006 fiscal years. Management believes that the Company has adequately provided for any adjustments that may arise from these audits.

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.

(8) Interest Rate Swap Agreements

The Company assesses interest rate 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

(8) Interest Rate Swap Agreements (Continued)

cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the Company's future cash flows.

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 believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, from time to time, the Company enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps effectively change the variable rate on the debt obligations to a fixed rate. Under the terms of the interest rate swaps, the Company makes a payment if the variable rate is below the fixed rate, or it receives a payment if the variable rate is above the fixed rate.

As a result of the restatement, the Company incurred an event of default on the swaps. See note 1.

The chart below provides details of each of the Company's interest rate swap agreements.

Effective Date:	Notional Amount	Rate	Rate, including applicable margin	Expiration Date
February 8, 2005	$130.0 Million	4.11%	6.86%	December 31, 2009
April 29, 2005	$50.0 Million	4.72%	7.47%	March 31, 2012
June 30, 2005	$50.0 Million	4.69%	7.44%	March 31, 2011
June 30, 2006	$50.0 Million	5.36%	8.11%	December 31, 2009
December 31, 2007	$65.0 Million	4.91%	7.66%	December 30, 2011
December 31, 2007	$75.0 Million	5.46%	8.21%	December 31, 2010
December 31, 2008	$100.0 Million	5.02%	7.77%	December 31, 2010
December 31, 2009	$150.0 Million	5.65%	8.40%	December 31, 2011
June 30, 2008	$100.0 Million	4.99%	7.74%	December 30, 2010
June 30, 2008	$100.0 Million	4.95%	7.70%	June 30, 2010
June 30, 2008	$100.0 Million	5.45%	8.20%	December 31, 2010
June 30, 2008	$100.0 Million	5.30%	8.05%	December 30, 2010
June 30, 2008	$100.0 Million	4.50%	7.25%	December 31, 2010
June 30, 2008	$100.0 Million	4.50%	7.25%	December 31, 2010
December 31, 2010	$300.0 Million	4.49%	7.24%	December 31, 2012
June 30, 2008	$250.0 Million	3.25%	6.00%	December 31, 2010

As a result of the merger, the Company reassessed the accounting treatment of its swaps and determined that, beginning on April 1, 2008, these swaps did not meet the criteria for hedge accounting. Therefore, the changes in fair value of the swap contracts subsequent to the merger have been recorded as other income (expense) on the condensed consolidated statement of operations. As a result of these swap agreements, approximately 76% of the Company's indebtedness effectively bore interest at fixed rates rather than variable rates as of June 30, 2009. At June 30, 2009, the fair market value of these swaps was a net liability of approximately $62.8 million, all of which has been included in current liabilities due to the event of default described in note 1. The Company has recognized gains of $7.2 million and $20.1 million, respectively on derivative instruments on the consolidated statement of operations as a result of changes in the fair value of the swap agreements during the three months and six months ended June 30, 2009.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited) (Continued)

(8) Interest Rate Swap Agreements (Continued)

The following table summarizes the location and fair value of the Company's derivative instruments in the condensed consolidated balance sheets as of June 30, 2009 and December 31, 2008 (in thousands):

	Fair Value of Liability Derivatives at	
	June 30, 2009	December 31, 2008
Derivatives not designated as hedging instruments under SFAS 133:		
Interest rate contracts located within the balance sheet caption:		
Current liabilities—Interest rate swaps	$62,824	$41,274
Long term liabilities—Interest rate swaps	—	41,681
Total derivatives not designated as hedging instruments under SFAS 133	$62,824	$82,955

The following table summarizes the location and amount of gains on the Company's derivative instruments in the condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008 (in thousands):

	Location of Gain Recognized in Income on Derivatives	Amount of Gain Recognized in Income on Derivatives			
		Three months ended June 30,		Six months ended June 30,	
		2009	2008	2009	2008
Derivatives not designated as hedging instruments under SFAS 133					
Interest rate contracts	Gain on derivative instruments	$7,233	$43,123	$20,131	$43,123
Total derivatives not designated as hedging instruments under SFAS 133		$7,233	$43,123	$20,131	$43,123

(9) Long Term Debt

Long term debt for the Company at June 30, 2009 and December 31, 2008 is shown below (in thousands):

	June 30, 2009	December 31, 2008
Senior secured credit facility, variable rates ranging from 2.94% to 5.75% (weighted average rate of 4.84%) at June 30, 2009, due 2014 to 2015	$ 1,967,625	$1,930,000
Senior notes, 13.125%, due 2018	531,085	551,000
Discount on senior notes, 13.125%, due 2018	(10,063)	(10,747)
Total outstanding long term debt	2,488,647	2,470,253
Less current portion	(2,488,647)	(45,000)
Total long term debt, net of current portion	$ —	$2,425,253

(9) Long Term Debt (Continued)

The estimated fair value of our long term debt at June 30, 2009 is $1,056.1 million.

The approximate aggregate maturities of long term debt for each of the five years subsequent to June 30, 2009 are as follows (in thousands):

Quarter ending June 30,	
2010	$ 45,000
2011	49,075
2012	61,300
2013	136,300
2014	273,800
Thereafter	1,933,235
	$2,498,710

Prior to March 31, 2008, debt held by the Verizon Northern New England business was recorded at the Verizon consolidated level and interest expense was allocated to the Verizon Northern New England business.

On March 31, 2008, immediately prior to the merger, FairPoint and Spinco entered into a $2,030 million credit facility consisting of a revolver in an aggregate principal amount of $200.0 million, a term loan A facility in an aggregate principal amount of $500 million, a term loan B facility in the aggregate principal amount of $1,130 million and together with the term loan A facility, referred to as the term loan, and a delayed draw term loan in an aggregate principal amount of $200 million. Spinco drew $1,160 million under the term loan immediately prior to the spin-off, 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.

On October 5, 2008 the administrative agent under the 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 an amendment to the credit facility under which, among other things, the administrative agent resigned and was replaced by a new 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 subfacility in the amount of $10 million and a letter of credit subfacility in the amount of $30 million, which will allow issuances of standby letters of credit by the Company. The credit facility also permits interest rate and currency exchange swaps and similar arrangements that the Company may enter into with the lenders under the credit facility and/or their affiliates.

As of June 30, 2009, the Company had borrowed $150.0 million under the revolving credit facility and letters of credit had been issued for $17.9 million. Accordingly, as of June 30, 2009, the remaining amount available under the revolving credit facility was $2.4 million. The Company also had pending commitments for additional letters of credit totaling $1.5 million as of June 30, 2009.

(9) Long Term Debt (Continued)

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 credit facility beginning June 30, 2009.

Interest rates for borrowings under the credit facility will be, at the Company's option, for the revolver and for the term loans at either (a) the Eurodollar rate, as defined in the credit agreement, plus an applicable margin or (b) the base rate, as defined in the credit agreement, plus an applicable margin.

The Company's Term Loan B 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 Company's effective interest rate on all of its debt, which includes the impact of interest rate swaps, as of June 30, 2009 is 8.37%.

The credit facility provides for payment to the lenders of a commitment fee on the average daily unused portion of the revolver 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 credit facility also provides for payment to the lenders of a commitment fee from the closing date of the 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 credit facility requires the Company first to prepay outstanding term loan A loans in full, including any applicable fees, interest and expenses and, to the extent that no term loan A loans remain outstanding, term loan B 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 Company's credit facility requires it to prepay outstanding term loans on the date the Company delivers a compliance certificate pursuant to the credit agreement 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 dividend payment and less its amortization payments made on the term loans pursuant to the Company's credit agreement. 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 credit facility.

(9) Long Term Debt (Continued)

Under the 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 credit facility contains customary affirmative covenants. The 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 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 credit facility and certain events of bankruptcy and insolvency.

After giving effect to the restatement of the Company's financial statements for the quarterly period ended June 30, 2009, the Company was not in compliance with the financial covenants contained in the credit facility for the measurement period ended June 30, 2009, which constituted an event of default under the credit facility and the swaps and may have constituted an event of default under the notes. See note 1 to the condensed consolidated financial statements contained herein. The historical disclosure contained below does not take the restatement into account.

After giving effect to the conversion of a portion of the Company's cash interest expense to non-cash interest expense as a result of the exchange offer (see note 17), the Company was able to maintain compliance with all the financial covenants contained in the credit facility as of June 30, 2009. However, the Company currently expects that it may be at risk of failing to comply with the interest coverage ratio maintenance covenant and/or the leverage ratio maintenance covenant in the credit facility for the measurement period ending September 30, 2009. If the Company is unable to comply with either the interest coverage ratio maintenance covenant or the leverage maintenance covenant, such failure would constitute an event of default under the credit facility, which would permit the lenders under the 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. If the lenders under the credit facility were to exercise such remedies, the Company does not believe that it could refinance the credit facility on reasonable terms, or at all, in the current lending environment.

The credit agreement also contains restrictions on the Company's ability to pay dividends on or repurchase its common stock.

The 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 credit facility.

The 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.

(9) Long Term Debt (Continued)

On March 31, 2008, Spinco issued $551.0 million aggregate principal amount of the notes. The 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 notes semi-annually in cash on April 1 and October 1 of each year. The notes bear interest at a fixed rate of 13⅛% and principal is due at maturity. The notes were issued at a discount and, accordingly, at the date of their distribution, the notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million).

The indenture governing the notes 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 restriction on the ability of the Company's subsidiaries to make distributions or transfer assets to the Company and enter into transactions with affiliates.

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

During the three and six months ended June 30, 2009, the Company repurchased $12.0 million and $19.9 million, respectively, in aggregate principal amount of the notes for an aggregate purchase price of $4.1 million and $6.3 million, respectively, in cash. In addition, for the three and six months ended June 30, 2009, the Company repaid $6.3 million of principal under the term loan A facility of its credit facility and for the three and six months ended June 30, 2009, repaid $2.8 million and $6.1 million, respectively, of principal under the term loan B facility of its credit facility. In total, the Company retired $21.1 million and $32.3 million of outstanding debt during the three and six months ended June 30, 2009, respectively.

For a discussion of the exchange offer relating to the notes which was initiated on June 24, 2009, see note 17.

(10) Employee Benefit Plans

The Company remeasured its pension and other post-employment benefit assets and liabilities as of December 31, 2008, in accordance with SFAS 158. This measurement is based on a 5.99% discount rate, as well as certain other valuation assumption modifications. Additionally, the Company remeasured its management pension plan as of June 30, 2009 to recognize a settlement charge in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. This measurement is based on a 6.64% discount rate.

Prior to the merger, the Verizon Northern New England business participated in Verizon's benefit plans. Verizon maintained noncontributory defined benefit pension plans for many of its employees. The post-retirement health care and life insurance plans for the Verizon Northern New England business' retirees and their dependents were both contributory and noncontributory and included a limit on the Companies' share of cost for recent and future retirees. The Verizon Northern New England business also sponsored defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. A measurement date of December 31 was used for the pension and post-retirement health care and life insurance plans.

The structure of Verizon's benefit plans did not provide for the separate attribution of the related pension and post-retirement assets and obligations at the Verizon Northern New England business

(10) Employee Benefit Plans (Continued)

level. Because there was not a separate plan for the Verizon Northern New England business, the annual income and expense related to such assets and obligations were allocated to the Verizon Northern New England business and are reflected as prepaid pension assets and employee benefit obligations in the balance sheet prior to the merger.

After June 30, 2006, Verizon management employees, including management employees of the Verizon Northern New England business, ceased to earn pension benefits or earn service towards the company retiree medical subsidy. In addition, new management employees hired after December 31, 2005 were not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 were not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, Verizon Northern New England business management employees received an increased company match on their savings plan contributions.

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

In 2009, the Company does not expect to make a contribution to the qualified pension plans, but it does expect to incur $0.6 million in post-retirement healthcare plan expenditures.

For the three months and six months ended June 30, 2009, the actual gain on the pension plan assets has been approximately 13.8% and 0.7%, respectively. Net periodic benefit cost for 2009 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. Should the 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 2009.

Pension plan assets at June 30, 2009 include an additional transfer of assets from Verizon, estimated to be between $29.8 and $41.3 million, pending final actuarial settlement. This estimate reflects an initial estimate of between $38.5 and $50.0 million as of December 31, 2008, reduced by a final asset transfer of $9.0 million on June 1, 2009 related to the management pension plan, and adjusted for gains and losses since December 31, 2008. For purposes of determining fair value of plan assets at June 30, 2009, the Company has assumed a final transfer of $29.8 million from Verizon for the associate pension plan. The final transfer will be made from Verizon's defined benefit plans' trusts upon final validation by actuaries and the Company of the census information and related actuarial

(10) Employee Benefit Plans (Continued)

calculations in accordance with relevant statutory and regulatory guidelines and an employee matters agreement with Verizon. The assets transferred from the Verizon benefit plans' trusts to the Company's benefit plans' trusts have been invested by the plans' trustee in various equity and fixed income securities. The final asset transfer will include investment return or loss on the final transfer amount from March 31, 2008 until the date of the final asset transfer equivalent to the rate of return in the Verizon pension trusts.

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 months ended March 31, 2009, the Company generally matched in the Legacy FairPoint 401(k) plans 100% of each employee's contribution up to 3% of compensation and 50% of additional contributions up to 6% or as otherwise required by the relevant collective bargaining agreement; in the Northern New England 401(k) management plan an amount equal to 100% of each employee's contribution up to 6% of base compensation; and in the Northern New England 401(k) plan for union associates an amount equal to 82% of each employee's contribution up to 6% of base compensation.

Effective for the first full payroll period in April 2009, matching contributions made to the Company's 401(k) plans for certain employees may be made in the form of the Company's common stock or in cash. Generally, each participant in these plans would receive a dollar-for-dollar match of FairPoint stock or cash up to 5% of the participant's eligible compensation. For the three months ended June 30, 2009, the foregoing matching contributions were made in the form of cash. Certain participants in the Company's 401(k) plans who are covered by collective bargaining agreements will continue to have their Company matching contributions determined under the prior formula and made in cash.

Total Company contributions to all 401(k) Plans were $2.4 million and $2.3 million for the three months ended June 30, 2009 and 2008, respectively, and were $4.9 million and $5.1 million for the six months ended June 30, 2009 and 2008, respectively. The $2.4 million of Company contributions during the three months ended June 30, 2009 includes a lump sum contribution of $0.9 million made on July 15 to match certain employee contributions made during the three months ended June 30, 2009.

(11) Accumulated Other Comprehensive Loss

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

	June 30, 2009	December 31, 2008
Accumulated other comprehensive loss, net of taxes:		
Defined benefit pension and post-retirement plans	$(131,218)	$(134,504)
Total accumulated other comprehensive loss	$(131,218)	$(134,504)

Other Comprehensive Loss for the six months ended June 30, 2009 includes amortization of defined benefit pension and post-retirement plan related prior service costs and actuarial gains and

(11) Accumulated Other Comprehensive Loss (Continued)

losses included in Accumulated Other Comprehensive Loss. Defined benefit pension and post-retirement plan activity during the three months ended March 31, 2008 included $49.5 million (net of $32.8 million taxes) in connection with the merger, which is reflected as a reduction to Accumulated Other Comprehensive Loss. This amount represents the allocation of previously existing plan assets, obligations and prior service costs to the surviving benefit plans upon merger.

(12) Earnings Per Share

Earnings per share has been computed in accordance with SFAS No. 128, *Earnings Per Share*. 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 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,	
	2009	2008	2009	2008
Weighted average number of common shares used for basic earnings per share	89,364	88,725	89,168	62,077
Effect of potential dilutive shares	—	465	—	406
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	89,364	89,190	89,168	62,483
Anti-dilutive shares excluded from the above reconciliation	644	494	882	509

Since the Company incurred a loss for the three and six months ended June 30, 2009, all potentially dilutive securities are anti-dilutive and are, therefore, excluded from the determination of diluted earnings per share.

(13) Stockholders' Equity (Deficit)

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, 2009, there were 89,496,847 shares of common stock outstanding and 200,000,000 shares of common stock were authorized.

(14) Transactions with Affiliates

The Verizon Northern New England business' financial statements for periods prior to the merger include the following transactions with Verizon and related subsidiaries:

The Verizon Northern New England business' operating revenue includes transactions with Verizon for the provision of local telephone services, network access, billing and collection services, interconnection agreements and the rental of facilities and equipment. These services were reimbursed by Verizon based on tariffed rates, market prices, negotiated contract terms that approximated market rates, or actual costs incurred by the Verizon Northern New England business.

The Verizon Northern New England business reimbursed Verizon for specific goods and services it provided to, or arranged for, the Verizon Northern New England business based on tariffed rates, market prices or negotiated terms that approximated market rates. These goods and services included items such as communications and data processing services, office space, professional fees and insurance coverage.

The Verizon Northern New England business also reimbursed Verizon for the Verizon Northern New England business' share of costs incurred by Verizon to provide services on a common basis to all of its subsidiaries. These costs included allocations for legal, security, treasury, tax and audit services. The allocations were based on actual costs incurred by Verizon and periodic studies that identified employees or groups of employees who were totally or partially dedicated to performing activities that benefited the Verizon Northern New England business, in activities such as investor relations, financial planning, marketing services and benefits administration. These allocations were based on actual costs incurred by Verizon, as well as on the size of the Verizon Northern New England business relative to other Verizon subsidiaries. The Company believes that these cost allocations are reasonable for the services provided. The Company also believes that these cost allocations are consistent with the nature and approximate amount of the costs that the Verizon Northern New England business would have incurred on a stand-alone basis.

The Verizon Northern New England business also recognized an allocated portion of interest expense in connection with contractual agreements between the Verizon Companies and Verizon for the provision of short term financing and cash management services. Verizon issues commercial paper and obtains bank loans to fund the working capital requirements of Verizon's subsidiaries, including the Verizon Group, and invests funds in temporary investments on their behalf. The Verizon Group also recognized interest expense related to a promissory note held by Verizon.

The affiliate operating revenue and expense amounts do not include affiliate transactions between Verizon and VLD's, VOL's and VSSI's operations in Maine, New Hampshire and Vermont. Because the Verizon Northern New England business' operating expenses associated with VLD, VOL and VSSI were determined predominantly through allocations, separate identification of the affiliate transactions was not readily available.

(15) Fair Value Measurements

SFAS No. 157, *Fair Value Measurements* (SFAS No. 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. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2, which delays

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited) (Continued)

(15) Fair Value Measurements (Continued)

the effective date of SFAS No. 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 Company elected a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating goodwill, investments, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities until fiscal years beginning after November 15, 2008. As of January 1, 2009, the Company adopted FSP 157-2 which did not have a material impact on the Company's financial statements. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material to the Company's financial statements.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis (at least annually) as of June 30, 2009 (in thousands):

	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps (1)	$(62,824)	—	(62,824)	—

(1) Fair value of interest rate swaps at June 30, 2009 was calculated by the Company using valuation methodologies consistent with those of the counterparties to the underlying contracts. These market values were then discounted for the Company's risk of non-performance, which is represented by the market spread on our debt as of June 30, 2009. See note 8 for more information.

(16) Commitments and Contingencies

(a) Leases

Future minimum lease payments under capital leases and non-cancelable operating leases as of June 30, 2009 are as follows (in thousands):

	Capital Leases	Operating Leases
Twelve months ending June 30:		
2010	$ 3,085	$ 11,735
2011	2,563	9,283
2012	1,841	8,172
2013	1,648	6,934
2014	1,534	4,999
Thereafter	872	8,226
Total minimum lease payments	$11,543	$ 49,349
Less interest and executory cost	(2,913)	
Present value of minimum lease payments	8,630	
Less current installments	(2,046)	
Long term obligations at June 30, 2009	$ 6,584	

(16) Commitments and Contingencies (Continued)

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. Management believes that the Company 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.

(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, 2009, the Company has recognized an estimated liability for service quality penalties based on historical assessments. However, additional penalties may be assessed as a result of service quality issues related to the systems cutover, which could have a material adverse effect on the Company's financial position, results of operations and liquidity.

(17) Subsequent Events

(a) Exchange Offer

On June 24, 2009, the Company launched an offer to exchange (the "exchange offer") all of the outstanding notes for new 13⅛% senior notes due 2018 (the "new notes"). Concurrently with the exchange offer, the Company solicited consents (the "consent solicitation") from holders of the notes for certain amendments to the indenture under which the notes were issued to eliminate or amend substantially all of the restrictive covenants and modify a number of the events of default and certain other provisions previously contained in the indenture (collectively, the "proposed amendments").

(b) Issuance of New Notes and Payment of Consent Fee

On July 29, 2009 (the "settlement date"), the Company successfully consummated the exchange offer. On the settlement date, the proposed amendments became operative and $439.6 million in aggregate principal amount of the notes (which amount was equal to approximately 83% of the then outstanding notes) were exchanged for $439.6 million in aggregate principal amount of the new notes. The new notes will mature on April 2, 2018 and will bear interest at a fixed rate of 13⅛%, payable in cash, except that the new notes will bear interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009 (the "initial interest payment period"). In addition, the Company is 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 its option. Notwithstanding the foregoing, to the extent the Company pays the interest payable on the notes on October 1, 2009 in cash, then it will, at its option, be required to either (i) pay interest on the new notes in cash at a rate of 13⅛% for the initial interest payment period or (ii) pay interest on the new

(17) Subsequent Events (Continued)

notes by capitalizing such interest and adding it to the principal amount of the new notes at a rate of 17% per annum for the initial interest payment period. The Company currently intends 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.

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 notes in the exchange offer as payment for accrued and unpaid interest on the exchanged notes up to, but not including, the settlement date of the exchange offer. In accordance with SFAS No. 6, *Classification of Short Term Obligations Expected to Be Refinanced*, the Company has classified the accrued interest on the exchanged notes as of June 30, 2009 of $14.4 million as a current liability on the condensed consolidated balance sheet.

The indenture governing the new notes, which the Company entered into with U.S. Bank National Association, as trustee, on July 29, 2009 (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 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 notes exchanged in the exchange offer.

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

The following discussion should be read in conjunction with the financial statements of the Company and the notes thereto, and gives effect to the restatement of our interim condensed consolidated financial statements as discussed in note 1 to the condensed consolidated financial statements. This discussion continues to reflect financial results and events as of the date of the Original Filing and has not been updated to reflect other events occurring after the date of the Original Filing or to modify or update those disclosures affected by subsequent events. This amended report for the quarter ended June 30, 2009 is being filed concurrently with amended reports on Forms 10-Q/A for prior quarterly periods ended March 31, and September 30, 2009, containing restated interim condensed consolidated financial statements as of and for the interim periods then ended.

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, 2008, "Part II—Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2009 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, video and Internet and broadband product offerings. We are one of the largest telephone companies in the United States focused on serving rural and small urban communities, and are the 7th largest local telephone company in the United States, in each case based on number of access lines as of June 30, 2009. We operate in 18 states with approximately 1.7 million access line equivalents (including voice access lines and high speed data lines, which include DSL, wireless broadband and cable modem) in service as of June 30, 2009.

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

We are subject to regulation primarily by federal and state governmental agencies. At the federal level, the Federal Communications Commission (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 Telecommunications Act of 1996, 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. We have obtained permission to continue to operate under this 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 local exchange carriers, 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.

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, dated as of January 15, 2007, which we entered into with certain subsidiaries of Verizon in connection with the merger, as amended on March 31, 2008 (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 on January 30, 2009 (the "cutover"), 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 have had limited ability during the first half of 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.

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 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.

We have since worked diligently to remedy these issues and we now believe that most areas of the business are operating at or near normal levels. The order backlog has been reduced significantly and order handle times continue to be reduced. Provisioning of new orders has steadily improved and call volumes into the customer service centers have returned to pre-cutover levels. In addition, certain systems functionality which supports collection efforts has only recently become available. Nevertheless, delays in implementing the collections software functionality, together with other cutover issues, have caused an increase in accounts receivable, which has adversely impacted our liquidity.

Because of 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. We expect to continue to incur a modest amount of incremental costs during the third quarter of 2009 as we fully complete our cutover restoration efforts.

In addition to the significant incremental expenses we incurred as a result of these cutover issues, we have been unable to fully implement our operating plan for 2009 and effectively compete in the marketplace, which we believe is having an adverse effect on our business, financial condition, results of operations and liquidity, as well as our ability to continue to comply with the financial covenants in our credit agreement.

Recent Developments

Exchange Offer, Issuance of New Notes and Payment of Consent Fee

Primarily as a result of the cutover issues and the other events referenced above, we believed that we were at risk of failing to comply with the interest coverage ratio maintenance covenant in our credit facility, dated as of March 31, 2008, which we entered into with Spinco and lenders and agents party thereto, as amended (the "credit facility"), when measured for the period ending June 30, 2009. Given that we believe that our credit facility is a valuable asset and that we may not be able to refinance the credit facility or obtain new financing on reasonable terms, if at all, in the current lending environment, we initiated preliminary discussions with the administrative agent under our credit facility regarding a waiver of this potential breach of the interest coverage ratio maintenance covenant for the measurement period ending June 30, 2009. At the time of such discussions, the administrative agent indicated that such a waiver would require a significant cash fee, likely result in additional restrictive provisions being placed on us and likely require us to renegotiate certain provisions in our credit facility following expiration of such waiver. We ultimately elected not to pursue a waiver and instead launched an offer on June 24, 2009 to exchange (the "exchange offer") all of our 13⅛% senior notes due 2018 (the "notes") for new 13⅛% senior notes due 2018 (the "new notes"). The exchange offer was primarily designed to reduce our cash interest expense for the quarters ending June 30, 2009 and September 30, 2009 and to help us maintain compliance with the interest coverage ratio maintenance covenant in our credit facility for the measurement period ending June 30, 2009.

Concurrently with the exchange offer, we solicited consents (the "consent solicitation") from holders of the notes for certain amendments to the indenture under which the notes were issued, dated as of March 31, 2008, between Spinco and U.S. Bank National Association, as trustee, as amended (the "indenture"), to eliminate or amend substantially all of the restrictive covenants and modify a number of the events of default and certain other provisions previously contained in the indenture (collectively, the "proposed amendments").

On July 29, 2009 (the "settlement date"), we successfully consummated the exchange offer. On the settlement date of the exchange offer, the proposed amendments became operative and $439.6 million in aggregate principal amount of the notes (which amount was equal to approximately 83% of the then outstanding notes) were exchanged for $439.6 million in aggregate principal amount of the new notes. The new notes will mature on April 2, 2018 and will bear interest at a fixed rate of 13⅛%, payable in cash, except that the new notes will bear interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009 (the "initial interest payment period"). In addition, we are 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. Notwithstanding the foregoing, to the extent we pay the interest payable on the notes on October 1, 2009 in cash, then we will, at our option, be required to either (i) pay interest on the new notes in cash at a rate of 13⅛%

for the initial interest payment period or (ii) pay interest on the new notes by capitalizing such interest and adding it to the principal amount of the new notes at a rate of 17% per annum for the initial interest payment period. We currently intend 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.

In addition, pursuant to the terms of the exchange offer, an additional $18.9 million in aggregate principal amount of new notes were issued to holders who tendered their notes in the exchange offer as payment for accrued and unpaid interest on the exchanged notes up to, but not including, the settlement date. In accordance with SFAS No. 6, *Classification of Short Term Obligations Expected to Be Refinanced*, we have classified the accrued interest of $14.4 million on the exchanged notes as of June 30, 2009 as a current liability on the condensed consolidated balance sheet.

The indenture governing the new notes, which we entered into with U.S. Bank National Association, as trustee, on July 29, 2009 (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.

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 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 notes exchanged in the exchange offer.

The Restructuring Plan

After giving effect to the restatement of our financial statements for the quarterly period ended June 30, 2009, we were not in compliance with the financial covenants contained in the credit facility for the measurement period ended June 30, 2009. See note 1 to the condensed consolidated financial statements contained herein. The historical disclosure contained below does not take the restatement into account.

After giving effect to the conversion of a portion of our cash interest expense to non-cash interest expense as a result of the exchange offer, we were able to maintain compliance with all the financial covenants contained in the credit facility as of June 30, 2009. However, we currently expect that the exchange offer may not provide a sufficient reduction in our cash interest expense to prevent a breach of the interest coverage ratio maintenance covenant in our credit facility for the measurement period ending September 30, 2009. In addition, we currently expect that we may be in breach of the leverage ratio maintenance covenant in our credit facility as early as the measurement period ending September 30, 2009. If we are unable to comply with either the interest coverage ratio maintenance covenant and/or the leverage maintenance covenant, such failure would constitute an event of default under our credit facility, which would permit the lenders under our 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. If the lenders under our credit facility exercised such remedies, we do not believe that we could refinance the credit facility on reasonable terms, or at all, in the current lending environment.

In order to address these issues, we are developing a restructuring plan with the assistance of Rothschild Inc. ("Rothschild"), the financial advisor we retained to assist with our efforts to restructure our capital structure.

As currently contemplated, the restructuring plan will relate to our outstanding notes and new notes and will be generally designed to (i) reduce our indebtedness and interest expense, (ii) improve our liquidity and financial and operational flexibility in order to allow us to compete more effectively and generate long term revenue growth and (iii) help us maintain compliance with the maintenance covenants in our credit facility. We anticipate that the restructuring plan will include, among other things, an offer to exchange all of our outstanding notes and new notes for shares of our capital stock. We expect consummation of such a transaction will be highly dilutive to our current stockholders.

In the event that the restructuring plan is not consummated, including because noteholders fail to support the restructuring plan or we are unable to obtain stockholder approval if required, we will consider all other restructuring alternatives available to us, which may include the commencement of an in-court resolution under chapter 11 of the U.S. Bankruptcy Code ("chapter 11"), with or without a pre-arranged plan of reorganization. There can be no assurance that any restructuring arrangement or plan that we pursue will be successful, or what the terms thereof would be or what, if anything, our existing debt and equity holders would receive in any restructuring, which will depend on our enterprise value, although we believe than any restructuring would be highly dilutive to our current stockholders. In addition, we can make no assurances with respect to what the value of our debt and equity will be following the consummation of any restructuring.

Appointment of Chairman of the Board and Chief Executive Officer

On June 16, 2009, our board of directors announced that it had appointed David L. Hauser to serve as our chairman and chief executive officer, which appointment became effective on July 1, 2009, and Eugene B. Johnson announced his retirement as our chairman and chief executive officer and his resignation from our board of directors, which retirement and resignation became effective on June 30, 2009. In addition, effective July 1, 2009, Mr. Hauser no longer serves as a member of any committee of our board of directors.

Non-compliance with New York Stock Exchange Continued Listing Standards

On July 24, 2009, we were notified by the New York Stock Exchange (the "NYSE") that we were not in compliance with the NYSE's continued listing standards (the "non-compliance notice") because the thirty day average market capitalization of our common stock had been less than $75 million (the "$75 million rule"). Under the NYSE rule, we have 45 calendar days from receipt of the non-compliance notice to respond to the NYSE by submitting a business plan demonstrating our strategy for regaining compliance with the $75 million rule within 18 months of receipt of the non-compliance notice (the "plan"). If the NYSE accepts the plan, we will be subject to quarterly monitoring for compliance with the plan. If the NYSE does not accept the plan, we will be subject to suspension by the NYSE and delisting by the SEC.

We intend to submit a plan to the NYSE that will enable us to regain compliance with the $75 million rule through the deleveraging of our current capital structure and the execution of certain growth initiatives in the business and broadband markets in northern New England.

Our common stock remains listed on the NYSE under the symbol "FRP" but has been assigned a ".BC" indicator by the NYSE to signify that we are not currently in compliance with the NYSE's continued listing standards. The ".BC" indicator would be removed at such time as we are deemed compliant with the NYSE's continued listing standards.

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 the merger agreement, 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 is deemed to be the acquirer. As a result, for the six months ended June 30, 2008, the statement of operations and the financial information derived from the statement of operations in this Quarterly Report reflect the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008 and the combined financial results of Spinco and Legacy FairPoint for the three months ended June 30, 2008. For more information, see note 2 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 Statement of Financial Accounting, or SFAS, No. 131, "Disclosures about Segments of an Enterprise and Related Information."

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, referred to as UNEs, interconnection revenues from competitive local exchange carriers 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), public (coin) telephone, billing and collection, directory services and the sale and maintenance of customer premise equipment.

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,	
	2009	2008	2009	2008	2009	2008	2009	2008
	Restated		Restated		Restated		Restated	
Revenue Source:								
Local calling services	$114,707	$149,591	$237,527	$281,766	40%	43%	41%	45%
Access	94,905	101,402	188,032	180,420	33%	30%	32%	29%
Long distance services	35,701	49,090	79,096	90,357	13%	14%	13%	14%
Data and Internet services	28,219	30,552	56,413	52,572	10%	9%	10%	8%
Other services	11,230	14,055	22,992	21,989	4%	4%	4%	4%
Total	$284,762	$344,690	$584,060	$627,104	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 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.

Because the Verizon Northern New England business had been operating as the local exchange carrier of Verizon in Maine, New Hampshire and Vermont, and not as a standalone telecommunications provider, the historical operating results of the Verizon Northern New England business for the three months ended March 31, 2008 include approximately $58 million of expenses for services provided by the Verizon Group, including information systems and information technology, shared assets including office space outside of New England, supplemental customer sales and service and operations. During January 30, 2009, we operated under the transition services agreement, under which we incurred $15.9 million of expenses. As of January 30, 2009, we began performing these services internally or obtaining them from third-party service providers and not from Verizon.

Acquisitions and Dispositions

On March 31, 2008, we completed the merger with Spinco. The merger of Legacy FairPoint and Spinco was accounted for as a reverse acquisition of Legacy FairPoint by Spinco under the purchase method of accounting because Verizon's stockholders owned at least a majority of the shares of the combined Company following the merger. The merger consideration was $316.3 million. Spinco was a wholly-owned subsidiary of Verizon that owned Verizon's local exchange and related business activities in Maine, New Hampshire and Vermont. Spinco was spun off from Verizon immediately prior to the merger. Spinco served approximately 1,562,000 access line equivalents as of the date of acquisition.

Results of Operations

Three Months Ended June 30, 2009 Compared with Three Months Ended June 30, 2008

The following table sets forth the percentages of revenues represented by selected items reflected in the 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):

	2009	% of Revenues	2008	% of Revenues
	Restated	Restated		
Revenues	$284,762	100%	$344,690	100%
Operating expenses				
Cost of services and sales	123,003	43	133,900	39
Selling, general and administrative	99,449	35	102,290	30
Depreciation and amortization	68,860	24	69,741	20
Total operating expenses	291,312	102	305,931	89
Income from operations	(6,550)	(2)	38,759	11
Interest expense	(54,809)	(19)	(45,123)	(13)
Gain on derivative instruments	7,233	2	43,123	13
Gain on early retirement of debt	7,494	3	—	—
Other income (expense)	(58)	—	264	—
Income (loss) before income taxes	(46,690)	(16)	37,023	11
Income tax (expense) benefit	18,527	6	(13,909)	(4)
Net income (loss)	$(28,163)	(10)%	$ 23,114	7%

Revenues decreased $59.9 million to $284.8 million in the second quarter of 2009 compared to 2008. Revenues in each of our revenue categories have been impacted by weakness in the economy during recent months which has caused a decrease in discretionary consumer spending and resulted in an increase in access line losses and a decrease in usage. Additionally, because of cutover issues that have prevented us from executing fully on our operating plan for 2009, our revenue has continued to decline. We derive our revenues from the following sources:

Local calling services. Local calling services revenues decreased $34.9 million to $114.7 million during the second quarter of 2009 compared to the same period in 2008. This decrease is primarily due to an 11.2% decline in total voice access lines in service at June 30, 2009 compared to June 30, 2008. The revenue decline was mainly driven by the effects of competition and technology substitution.

Access. Access revenues decreased $6.5 million to $94.9 million during the second quarter of 2009 compared to the same period in 2008. This decrease consisted of a $2.5 million decrease in intrastate access revenues and a $4.0 million decrease in interstate revenues, reflecting the impact of access line loss and technology substitution.

Long distance services. Long distance services revenues decreased $13.4 million to $35.7 million in the second quarter of 2009 compared to the same period in 2008. The decrease was primarily attributable to a decrease in the number of subscriber lines in 2009, partially offset by increased revenue from bundled product offerings designed to retain customers and generate more revenue.

Data and Internet services. Data and Internet services revenues decreased $2.3 million to $28.2 million in the second quarter of 2009 compared to the same period in 2008. This decrease is primarily due to a slowing in our high speed data subscriber growth, caused by an absence of promotional advertising of our data and Internet products due to cutover issues.

Other services. Other services revenues decreased $2.8 million to $11.2 million in the second quarter of 2009 compared to the same period in 2008.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $10.9 million to $123.0 million in the second quarter of 2009 compared to the same period in 2008. The decrease is primarily related to the elimination of costs under the transition services agreement with Verizon, which was terminated on January 30, 2009 (the "TSA"). The elimination of transition services agreement costs has been partially offset by direct costs incurred by us to operate the Northern New England operations. Costs incurred under the transition services agreement accounted for $18.9 million of cost of services and sales during the second quarter of 2008.

Selling, general and administrative. Selling, general and administrative expenses decreased $2.8 million to $99.4 million in the second quarter of 2009 compared to the same period in 2008. The decrease is primarily related to the elimination of costs under the transition services agreement, which has been partially offset by direct costs incurred by us to operate the Northern New England operations as well as increased bad debt expense and costs incurred to effect a restructuring of our capital structure. Costs incurred under the transition services agreement accounted for $30.6 million of selling, general and administrative expense during the second quarter of 2008.

Depreciation and amortization. Depreciation and amortization expense decreased $0.9 million to $68.9 million in the second quarter of 2009 compared to the same period in 2008. Adjustments of $4.6 million related to the second quarter of 2008 were recorded in the third quarter of 2008. Excluding the impact of these adjustments, depreciation and amortization expense would have increased $3.7 million, due primarily to increased gross plant asset balances, including capitalized software placed into service upon termination of the TSA.

Other Results

Interest expense. Interest expense increased $9.7 million to $54.8 million in the second quarter of 2009 compared to the same period in 2008. This increase is due to the debt that we incurred subsequent to June 30, 2008. Accrued and unpaid interest on the notes exchanged in the exchange offer through July 28, 2009 was paid on July 29, 2009 in the form of additional new notes totaling $18.9 million (or $14.4 million for the three months ended June 30, 2009). Interest expense paid in the form of new notes has been treated as non-cash for purposes of our financial debt covenants.

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.

Gain on early retirement of debt. Gain on early retirement of debt represents a $7.5 million gain recognized on the repurchase of $12.0 million aggregate principal amount of the notes during the three months ended June 30, 2009.

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on sale of equipment. Other expense was ($0.1) million in the second quarter of 2009, compared with other income of $0.3 million in the same period in 2008.

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 in the second quarter of 2009 and 2008 was 39.7% benefit and 37.6% expense, respectively.

Net income (loss). Net loss for the three months ended June 30, 2009 was ($28.2) million compared to net income of $23.1 million for the same period in 2008. The difference in net income (loss) between 2009 and 2008 is a result of the factors discussed above.

Six Months Ended June 30, 2009 Compared with Six Months Ended June 30, 2008

The following table sets forth the percentages of revenues represented by selected items reflected in the 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):

	2009	% of Revenues	2008	% of Revenues
	Restated	Restated		
Revenues	$ 584,060	100%	$627,104	100%
Operating expenses				
Cost of services and sales	268,266	46	269,737	43
Selling, general and administrative	191,861	33	165,406	26
Depreciation and amortization	136,727	23	123,666	20
Total operating expenses	596,854	102	558,809	89
Income from operations	(12,794)	(2)	68,295	11
Interest expense	(108,288)	(18)	(59,645)	(10)
Gain on derivative instruments	20,131	3	43,123	7
Gain on early retirement of debt	12,357	2	—	—
Other income	6,219	1	1,250	—
Income (loss) before income taxes	(82,375)	(14)	53,023	8
Income tax (expense) benefit	31,907	5	(20,366)	(3)
Net income (loss)	$ (50,468)	(9)%	$ 32,657	5%

Revenues decreased $43.0 million to $584.1 million in 2009 compared to 2008. The acquisition of Legacy FairPoint contributed $123.7 million and $66.0 million to total revenues in the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, combined total revenue would have decreased $100.7 million. Revenues in each of our revenue categories have been impacted by weakness in the economy during recent months which has caused a decrease in discretionary consumer spending and resulted in an increase in access line losses and a decrease in usage. Additionally, because of cutover issues that have prevented us from executing fully on our operating plan for 2009, our revenue has continued to decline. We derive our revenues from the following sources:

Local calling services. Local calling services revenues decreased $44.2 million to $237.5 million during the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $36.6 million and $20.9 million to local revenue for the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, local calling services revenues would have decreased $59.9 million compared to the prior year. This decrease is primarily due to an 11.2% decline in total voice access lines in service at June 30, 2009 compared to June 30, 2008. The revenue decline was mainly driven by the effects of competition and technology substitution.

Access. Access revenues increased $7.6 million to $188.0 million during the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $47.2 million and $24.0 million to access revenues for the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, access revenues would have decreased by $15.6 million. Of this decrease, $11.5 million was attributable to a decrease in interstate revenues and $4.1 million was attributable to a decrease in intrastate revenues, reflecting the impact of access line loss and technology substitution.

Long distance services. Long distance services revenues decreased $11.3 million to $79.1 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $13.8 million and $7.6 million to long distance revenues in the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, long distance revenues would have decreased $17.5 million. The decrease was primarily attributable to a decrease in the number of subscriber lines in 2009, partially offset by increased revenue from bundled product offerings designed to retain customers and generate more revenue.

Data and Internet services. Data and Internet services revenues increased $3.8 million to $56.4 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $17.9 million and $9.2 million to data and Internet services revenues in the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, data and Internet services revenues would have decreased $4.9 million. This decrease is primarily due to a slowing in our high speed data subscriber growth, caused by an absence of promotional advertising of our data and Internet products due to cutover issues.

Other services. Other services revenues increased $1.0 million to $23.0 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $8.3 million and $4.3 million to other services revenues in the six months ended June 30, 2009 and 2008, respectively. Excluding the impact of the merger, other services revenues would have decreased $3.0 million.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $1.5 million to $268.3 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $44.9 million and $23.7 million to cost of services and sales expenses in the six months ended June 30, 2009 and 2008, respectively. Also included in cost of services and sales for the six months ended June 30, 2009 and 2008 are $6.1 million and $18.9 million, respectively, of expenses related to the transition services agreement with Verizon, which was terminated on January 30, 2009. Excluding the impact of the merger and the transition services agreement, cost of services and sales would have declined $9.9 million. The decline reflects the elimination of costs allocated from Verizon affiliates prior to the closing of the merger, which has more than offset direct costs incurred by us to operate our Northern New England operations.

Selling, general and administrative. Selling, general and administrative expenses increased $26.5 million to $191.9 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $42.4 million and $16.6 million to selling, general and administrative expenses in the six months ended June 30, 2009 and 2008, respectively. Included in selling, general and administrative expenses for the six months ended June 30, 2009 and 2008 are $9.8 million and $30.6 million, respectively, of expenses related to the transition services agreement and $28.0 million and $10.0 million, respectively, of non-recurring cutover related costs (which we are allowed to add back to adjusted EBITDA under our credit facility). Excluding the impact of the merger and the transition services agreement, selling, general and administrative expenses would have increased $3.5 million. The increase is primarily due to increases in bad debt expense and other operating expenses, as well as costs incurred to effect a restructuring of our capital structure.

Depreciation and amortization. Depreciation and amortization expense increased $13.1 million to $136.7 million in the six months ended June 30, 2009 compared to the same period in 2008. Legacy FairPoint contributed $19.2 million and $13.8 million to depreciation and amortization expenses in the six months ended June 30, 2009 and 2008, respectively. Adjustments of $4.6 million related to the second quarter of 2008 were recorded in the third quarter of 2008. Excluding the impact of the merger and these adjustments, depreciation and amortization expense would have increased $12.3 million, due primarily to increased gross plant asset balances, including capitalized software placed into service upon termination of the TSA. Also contributing to the increase in depreciation and amortization expense is an increase of $5.6 million in amortization expense on intangible assets acquired in the merger, as no such amortization expense was recognized during the first quarter of 2008, prior to the merger.

Other Results

Interest expense. Interest expense increased $48.6 million to $108.3 million in the six months ended June 30, 2009 compared to the same period in 2008. This increase is due to the debt that we incurred upon and subsequent to the closing of the merger. Accrued and unpaid interest on the notes exchanged in the exchange offer through July 28, 2009 was paid on July 29, 2009 in the form of additional new notes totaling $18.9 million (or $14.4 million for the six months ended June 30, 2009). Interest expense paid in the form of new notes has been treated as non-cash for purposes of our financial debt covenants.

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 and 2008, we recognized non-cash gains of $20.1 million and $43.1 million, respectively, related to our derivative financial instruments.

Gain on early retirement of debt. Gain on early retirement of debt represents $13.2 million net gains recognized on the repurchase of $19.9 million aggregate principal amount of the 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 credit facility.

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on sale of equipment. Other income increased $5.0 million to $6.2 million in the six months ended June 30, 2009 compared to the same period in 2008. The increase was primarily attributable to a one-time gain of $5.4 million recognized in the first quarter of 2009 related to the settlement under the transition agreement.

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 in the six months ended June 30, 2009 and 2008 was 38.7% benefit and 38.4% expense, respectively.

Net income (loss). Net loss for the six months ended June 30, 2009 was ($50.5) million compared to net income of $32.7 million for the same period in 2008. The difference in net income (loss) between 2009 and 2008 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.

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 FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), 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. 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, 2009. We have recorded intangible assets related to the acquired companies' customer relationships and trade names of $251.7 million as of June 30, 2009. As of June 30, 2009, there was $28.6 million of accumulated amortization recorded. These intangible assets are being amortized over a weighted average life of approximately 9.7 years. The intangible assets are included in intangible assets on our condensed consolidated balance sheet.

We are required to perform an impairment review of goodwill as required by SFAS No. 142, *Goodwill and Other Intangible Assets* 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 shareholders' equity balance. As of June 30, 2009, shareholders' deficit totaled $22.6 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, 2008 and concluded that there was no indication of impairment at that time. In light of our operating performance during the first half of 2009, which has been impacted by issues associated with the January 30, 2009 systems cutover, we performed another goodwill impairment assessment as of June 30, 2009. After applying the impairment test at June 30, 2009, it was determined that goodwill was not impaired.

While no impairment charges resulted from the analysis performed at June 30, 2009, impairment charges may occur in the future due to changes in our performance and future prospects for our business, the outcome of our debt restructuring efforts, changes in estimated discount rates or other factors.

Accounting for Software Development Costs. We capitalize certain costs incurred in connection with developing or obtaining internal use software in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (98-1). 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 SFAS No. 141R, *Business Combinations* ("SFAS 141R") we 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 SFAS 141R.

New Accounting Standards

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"). SFAS 141R replaces SFAS 141 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This standard is effective for fiscal years beginning after December 15, 2008 and early adoption was prohibited. We will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS 161 did not have a material impact on our results of operations and financial position.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The adoption of SFAS 162 is not expected to have any impact on our consolidated results of operations and financial position.

In April 2009, the FASB issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1"). FSP FAS 107-1 extends the disclosure requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", to interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 did not have any impact on our consolidated results of operations and financial position.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes principles and requirements for identifying, recognizing and disclosing subsequent events. SFAS 165 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. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have any impact on our consolidated results of operations and financial position.

Inflation

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

Liquidity and Capital Resources

Our short term and long term liquidity needs arise primarily from: (i) interest and principal payments on our indebtedness; (ii) capital expenditures, including those mandated by the state regulatory orders approving the merger; (iii) working capital requirements as may be needed to support the growth of our business; (iv) dividend payments, if any, on our common stock; (v) obligations under our employee benefit plans; and (vi) potential acquisitions.

We have a highly leveraged capital structure and have essentially fully drawn all borrowings available under our credit facility. In the future, we expect that our primary sources of liquidity will be cash flow from operations and cash on hand. Because of cutover issues that have prevented us from executing fully on our operating plan for 2009, our revenue has continued to decline. In addition, cash collections have remained below pre-cutover levels and we have incurred significant incremental costs to operate our Northern New England operations, causing further stress on our liquidity position.

Cash and cash equivalents at June 30, 2009 totaled $81.0 million compared to $92.5 million at March 31, 2009, excluding restricted cash of $3.4 million and $55.2 million, respectively. During the three months ended June 30, 2009, $51.8 million was released from restricted cash, including $50.2 million released pursuant to a letter dated May 12, 2009 from the NHPUC allowing these funds to be used for general working capital purposes. On April 1, 2009, interest payments totaling $35.6 million were made to holders of the notes and during the three months ended June 30, 2009, debt service payments of $45.3 million were made pursuant to our credit facility. At July 31, 2009, cash and cash equivalents was $75.6 million. We expect to make debt service payments under our credit facility totaling approximately $46.1 million during the three months ending September 30, 2009.

In addition, as a result of the cutover-related issues and the continuing adverse general economic conditions, prior to June 30, 2009, we believed that we were at risk of failing to comply with the interest coverage ratio maintenance covenant in our credit facility when measured for the period ending June 30, 2009. Given that we believe that our credit facility is a valuable asset, which we may not be able to refinance on reasonable terms, if at all, in the current lending environment, we initiated preliminary discussions with the administrative agent under our credit facility regarding a waiver of this potential breach of the interest coverage ratio maintenance covenant for the measurement period ending June 30, 2009. At the time, the administrative agent indicated that such a waiver would require a significant cash fee, likely result in additional restrictive provisions being placed on us and likely require us to renegotiate certain provisions in our credit facility following the expiration of such waiver. We ultimately elected not to enter into such a waiver and instead launched the exchange offer on June 24, 2009, which exchange offer was primarily designed to reduce our cash interest expense for the quarters ending June 30, 2009 and September 30, 2009 and to help us maintain compliance with the interest coverage ratio maintenance covenant in our credit facility for the measurement period ending June 30, 2009.

On July 29, 2009, we successfully consummated the exchange offer. On the settlement date, $439.6 million in aggregate principal amount of the notes (which amount was equal to approximately 83% of the then outstanding notes) were exchanged 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 notes up to, but not including, the settlement date of the exchange offer). Interest expense paid in the form of new notes has been treated as non-cash for purposes of our financial debt covenants and, in accordance with SFAS No. 6, *Classification of Short Term Obligations Expected to Be Refinanced*, we have classified the June 30, 2009 balance of $14.4 million accrued interest on the exchanged notes as a current liability on the condensed consolidated balance sheet. 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 notes who validly delivered and did not revoke consents in the consent solicitation prior to a specified early consent deadline.

After giving effect to the restatement of our financial statements for the quarterly period ended June 30, 2009, we were not in compliance with the financial covenants contained in the credit facility for the measurement period ended June 30, 2009. See note 1 to the condensed consolidated financial statements contained herein. The historical disclosure contained below does not take the restatement into account.

After giving effect to the conversion of a portion of our cash interest expense to non-cash interest expense as a result of the exchange offer, we were able to maintain compliance with all the financial covenants contained in the credit facility as of June 30, 2009. However, we currently expect that the exchange offer may not provide a sufficient reduction in our cash interest expense to prevent a breach of the interest coverage ratio maintenance covenant in our credit facility for the measurement period ending September 30, 2009. In addition, we currently expect that we may be in breach of the leverage ratio maintenance covenant in our credit facility as early as the measurement period ending September 30, 2009. If we are unable to comply with either the interest coverage ratio maintenance covenant or the leverage maintenance covenant, such failure would constitute an event of default under our credit facility, which would permit the lenders under our 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. If the lenders under our credit facility were to exercise such remedies, we do not believe that we could refinance the credit facility on reasonable terms, or at all, in the current lending environment.

In order to address these issues, we are developing a restructuring plan with the assistance of Rothschild. As currently contemplated, the restructuring plan will relate to our outstanding notes and new notes and will be generally designed to (i) reduce our indebtedness and interest expense, (ii) improve our liquidity and financial and operational flexibility in order to allow us to compete more effectively and generate long term revenue growth and (iii) help us maintain compliance with the maintenance covenants in our credit facility. We anticipate that the restructuring plan will contemplate, among other things, an offer to exchange all of our outstanding notes and new notes for shares of our capital stock. We expect consummation of such a transaction will be highly dilutive to our current stockholders.

In the event that the restructuring plan is not consummated, including because noteholders fail to support the restructuring plan or we are unable to obtain stockholder approval if required, we will consider all other restructuring alternatives available to us, which may include the commencement of an in-court resolution under chapter 11, with or without a pre-arranged plan of reorganization. There can be no assurance that any restructuring arrangement or plan that we pursue will be successful, or what the terms thereof would be or what, if anything, our existing debt and equity holders would receive in any restructuring, which will depend on our enterprise value, although we believe than any restructuring would be highly dilutive to our current stockholders. In addition, we can make no assurances with respect to what the value of our debt and equity will be following the consummation of any restructuring.

On March 4, 2009, our board of directors voted to suspend the quarterly dividend. This action was taken to increase financial flexibility and enable us to begin to focus on strengthening our capital structure. This action was expected to improve our liquidity by approximately $93 million annually.

Our $2,030 million senior secured credit facility consists of a non-amortizing revolving facility in an aggregate principal amount of $200 million, a senior secured term loan A facility in an aggregate principal amount of $500 million, a senior secured term loan B facility in the aggregate principal amount of $1,130 million and a delayed draw term loan facility in an aggregate principal amount of $200 million. 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 credit facility filed for bankruptcy. The administrative agent accounted for thirty percent of the loan commitments under our revolving credit facility. On January 21, 2009, we entered into an amendment to our credit facility under which, among other things, the administrative agent resigned and was replaced by a new administrative agent. In addition, the resigning administrative agent's undrawn commitments under our revolving credit facility, totaling $30.0 million, were terminated and are no longer available to us.

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

As of June 30, 2009, we had borrowed $150.0 million under our revolving credit facility and letters of credit had been issued for $17.9 million. Accordingly, as of June 30, 2009, the remaining amount available under our revolving credit facility is $2.4 million. As of June 30, 2009, we also had pending commitments for additional letters of credit totaling, $1.5 million.

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 credit facility.

Interest rates for borrowings under our credit facility are, at our option, for the revolver and for the term loans at either (a) the Eurodollar rate, as defined in the credit agreement, plus an applicable margin or (b) the base rate, as defined in the credit agreement, plus an applicable margin.

Our 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.

Borrowings under our credit facility bear interest at variable interest rates. We have entered into various interest rate swap agreements which are detailed in note 8 of the notes to our condensed consolidated financial statements for the six months ended June 30, 2009 included in this Quarterly Report. As a result of these swap agreements, approximately 76% of our indebtedness effectively bore interest at fixed rates rather than variable rates as of June 30, 2009. After these interest rate swap agreements expire, our annual debt service obligations on such portion of the term loans will vary from year to year unless we enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge. To the extent interest rates increase in the future, we may not be able to enter into new interest rate swaps or to purchase interest rate caps or other interest rate hedges on acceptable terms.

Spinco issued, and we assumed in the merger, $551.0 million aggregate principal amount of the notes. The notes mature on April 1, 2018 and are not redeemable at our option prior to April 1, 2013. Interest is payable on the notes semi-annually, in cash, on April 1 and October 1. The notes bear interest at a fixed rate of 13⅛% and principal is due at maturity. These notes were issued at a discount and, accordingly, at the date of their distribution, the notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million).

Upon the consummation of the exchange offer and the corresponding consent solicitation, substantially all of the restrictive covenants in the indenture 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 notes (which amount was equal to approximately 83% of the then outstanding 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 notes up to, but not including, the settlement date of the exchange offer). The new notes will mature on April 2, 2018 and will bear interest at a fixed rate of 13⅛%, payable in cash, except that the new notes will bear interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009. In addition, we are 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. Notwithstanding the foregoing, to the extent we pay the interest payable on the notes on October 1, 2009 in cash, then we will, at our option, be required to either (i) pay interest on the new notes in cash at a rate of 13⅛% for the initial interest payment period or (ii) pay interest on the new notes by capitalizing such interest and adding it to the principal amount of the new notes at a rate of 17% per annum for the initial interest payment period. We currently intend to make 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.

The indenture governing the new notes 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 indenture on the new notes also restricts our ability to pay dividends on or repurchase our common stock under certain circumstances.

During the three and six months ended June 30, 2009, we repurchased $12.0 million and $19.9 million, respectively, in aggregate principal amount of the notes for an aggregate purchase price of $4.1 million and $6.3 million, respectively, in cash. In addition, for the three and six months ended June 30, 2009, we repaid $6.3 million of principal under the term loan A facility of our credit facility and for the three 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 of our credit facility. In total, we retired $21.1 million and $32.3 million of outstanding debt during the three and six months ended June 30, 2009, respectively.

Our ability to service our indebtedness will depend on our ability to generate sufficient cash in the future. Scheduled amortization payments began on the term loan A facility of our credit facility in 2009 and will begin on the term loan B facility of our credit facility in 2010 and on the delayed draw facility in 2011. No principal payments are due on the notes prior to their maturity. We will need to refinance all or a portion of our indebtedness on or before maturity and may not be able to refinance our indebtedness on commercially reasonable terms or at all.

Net cash provided by operating activities was $27.7 million and $50.3 million for the six months ended June 30, 2009 and 2008, respectively.

Net cash used in investing activities was $88.9 million and $86.6 million for the six months ended June 30, 2009 and 2008, respectively. These cash flows primarily reflect capital expenditures of $90.1 million and $98.3 million for the six months ended June 30, 2009 and 2008, respectively. Net cash used in investing activities also includes acquired cash of $11.6 million for the six months ended June 30, 2008.

Net cash provided by financing activities was $71.8 million and $47.4 million for the six months ended June 30, 2009 and 2008, respectively. 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 to stockholders was $23.0 million. Additionally, $65.1 million was released from restricted cash during the six months ended June 30, 2009.

We expect our capital expenditures will be approximately $190 million to $210 million in 2009. We anticipate that we will fund these expenditures through cash flows from operations and cash on hand.

We expect our contributions to our employee pension plans and post-retirement medical plans will be approximately $0.6 million in 2009.

As a condition to the approval of the merger and related transactions by state regulatory authorities, we have agreed to make capital expenditures following the completion of the merger. As a condition to the approval of the transactions by the state regulatory authority in Maine, 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 order issued by the state regulatory authority in Vermont 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 order, 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 order as set forth above.

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 New Hampshire Public Utilities Commission (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 have 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 settlement agreement dated as of January 23, 2008, with certain affiliates of Verizon 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. This investment commitment is inclusive of the $50 million previously required by the NHPUC.

Additionally, the orders issued by the state regulatory authorities in Maine, New Hampshire and Vermont in connection with their approval of the merger 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.

On January 30, 2009, we entered into the transition agreement with Verizon in connection with the cutover of certain back office systems, as contemplated by the transition services agreement. 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, 2009 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
			(in thousands)		
Long term debt, including current maturities(a)(b)	$2,498,710	$ 45,000	$110,375	$410,100	$1,933,235
Interest payments on long term debt obligations(c)	991,992	205,886	359,069	319,595	107,442
Capital lease obligations	11,543	3,085	4,404	3,182	872
Operating leases	49,349	11,735	17,455	11,933	8,226
Total projected contractual obligations	$3,551,594	$265,706	$491,303	$744,810	$2,049,775

(a) Includes $531.1 million of the notes. See note 9 to the "Condensed Consolidated Financial Statements" for more information.

(b) As a result of the events of default described in note 1 to the condensed consolidated financial statements, we have classified our obligations under the credit facility and the notes as current liabilities as of June 30, 2009.

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

The following table discloses aggregate information about our derivative financial instruments as of June 30, 2009, including the source of fair value of these instruments and their maturities.

	Fair 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)	$(62,824)	(43,438)	(19,077)	(309)	—

(1) Fair value of interest rate swaps at June 30, 2009 is based on information provided by the counterparties in order to compute the value of the underlying contracts using consistent methodologies. These market values were then discounted for the Company's risk of non-performance, which is represented by the market spread on our debt as of June 30, 2009. See note 8 to the "Condensed Consolidated Financial Statements" for more information.

(2) As a result of the events of default described in note 1 to the condensed consolidated financial statements, we have classified our obligations under the swaps as current liabilities as of June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of June 30, 2009, approximately 76% of our indebtedness bore interest at fixed rates or effectively at fixed rates. As of June 30, 2009, we had total debt of $2,488 million, net of discount of $10.1 million, consisting of both fixed rate and variable rate debt with interest rates ranging from 2.938% to 13.125% per annum, including applicable margins. As of June 30, 2009, the fair value of our debt was approximately $1,056 million, net of discount of $10.1 million. Our term loan A facility and revolver 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 enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps effectively change the variable rate on the debt obligations to a fixed rate. Under the terms of the interest rate swaps, we make a payment if the variable rate is below the fixed rate, or we receive a payment if the variable rate is above the fixed rate. Pursuant to our credit facility, we are required to reduce the risk of interest rate volatility with respect to at least 50% of our term loan borrowings.

The chart below provides details of each of our interest rate swap agreements.

Effective Date:	Notional Amount	Rate	Rate, including applicable margin	Expiration Date
February 8, 2005	$130.0 Million	4.11%	6.86%	December 31, 2009
April 29, 2005	$50.0 Million	4.72%	7.47%	March 31, 2012
June 30, 2005	$50.0 Million	4.69%	7.44%	March 31, 2011
June 30, 2006	$50.0 Million	5.36%	8.11%	December 31, 2009
December 31, 2007	$65.0 Million	4.91%	7.66%	December 30, 2011
December 31, 2007	$75.0 Million	5.46%	8.21%	December 31, 2010
December 31, 2008	$100.0 Million	5.02%	7.77%	December 31, 2010
December 31, 2009	$150.0 Million	5.65%	8.40%	December 31, 2011
June 30, 2008	$100.0 Million	4.99%	7.74%	December 30, 2010
June 30, 2008	$100.0 Million	4.95%	7.70%	June 30, 2010
June 30, 2008	$100.0 Million	5.45%	8.20%	December 31, 2010
June 30, 2008	$100.0 Million	5.30%	8.05%	December 30, 2010
June 30, 2008	$100.0 Million	4.50%	7.25%	December 31, 2010
June 30, 2008	$100.0 Million	4.50%	7.25%	December 31, 2010
December 31, 2010	$300.0 Million	4.49%	7.24%	December 31, 2012
June 30, 2008	$250.0 Million	3.25%	6.00%	December 31, 2010

At June 30, 2009, the fair market value of these swaps is a net liability of approximately $62.8 million, all of which has been included in current liabilities due to the event of default described in note 1 to the condensed consolidated financial statements.

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 six months ended June 30, 2009, the actual gain on the pension plan assets has been approximately 0.7%. Net periodic benefit cost for 2009 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 2009.

Item 4. Controls and Procedures (Restated).

Evaluation of Disclosure Controls and Procedures

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.

At the time of the Original Filing, our principal executive officer and principal financial officer concluded that our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) were effective as of June 30, 2009. Subsequent to that evaluation, as a result of the restatement described in the "Explanatory Note" and note 1 to the "Condensed Consolidated Financial Statements" contained in this Amendment No. 1, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2009 because of the material weaknesses described below.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the reporting company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our fiscal 2009 year-end reconciliation and closing procedures, we determined that the restatement described in the "Explanatory Note" and note 1 to the "Condensed Consolidated Financial Statements" contained in this Amendment No. 1 was necessary. As a result of identifying this matter, we re-evaluated our internal controls over financial reporting and have concluded that the following material weaknesses existed during 2009:

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.

Management's Remediation of the Material Weaknesses

Effective in February 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.

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

In connection with the merger, we have significantly expanded our internal control over financial reporting in order to encompass the new internal control structure associated with our Northern New England operations. Accordingly, we have developed 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, 2009 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We do note however that subsequent to the quarter ended June 30, 2009, we implemented the remediation described above to address the material weaknesses in 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. 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.

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, 2009, we have recognized an estimated liability for service quality penalties based on historical assessments. However, additional penalties may be assessed as a result of service quality issues related to the systems cutover, which could have a material adverse effect on our financial position, results of operations and liquidity.

Item 1A. Risk Factors (Restated).

(a) The following risk factors are 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, 2008, as supplemented by "Part II—Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2009, under the heading "Risks Related to Our Business."

If we are unable to consummate a successful restructuring of our notes, we will consider all other restructuring alternatives available to us, which may include a chapter 11 proceeding. A chapter 11 proceeding may result in a protracted process which could disrupt our business, divert the attention of our management from the operation of our business and the implementation of our business plan and may ultimately be unsuccessful.

If we are unable to consummate the restructuring plan we are developing which contemplates an out-of-court restructuring, any alternative restructuring plan we pursue may include a chapter 11 proceeding. Such a proceeding would likely take substantially longer to consummate and would also require confirmation by the bankruptcy court and would be subject to contested issues and objections from certain stakeholders, which would result in further delay. A protracted restructuring would disrupt our business and would divert the attention of our management from the operation of our business and implementation of our business plan.

The uncertainty surrounding a prolonged restructuring would also have other adverse effects on us. For example, it would also adversely affect:

- our ability to raise additional capital;
- our ability to capitalize on business opportunities and react to competitive pressures;
- our ability to attract and retain employees;
- our liquidity;
- our relationships with key suppliers (which may result in suppliers attempting to cancel our contracts or restrict ordinary credit terms, requiring upfront payments or financial assurances of performance or refraining entirely from shipping goods);
- our ability to enter into long term contracts with customers;
- how our business is viewed by customers, regulators, investors, lenders and credit ratings agencies;

- the amount of collateral required in the transaction of our business; and
- our enterprise value.

Moreover, the mere filing of a "bankruptcy case," even one pursuant to a pre-arranged plan, would have an adverse effect on our business and operations.

Furthermore, in order to successfully emerge from a chapter 11 proceeding, we would need to develop, and obtain requisite court and creditor approval of a viable chapter 11 plan of reorganization (the "chapter 11 plan"). If we were unable to obtain creditor acceptance of the chapter 11 plan or court approval of the chapter 11 plan, it is unclear whether we would be able to reorganize our business and what, if any, distributions to holders of claims against us would ultimately receive with respect to their claims.

We have identified material weaknesses in our internal controls over financial reporting which existed as of June 30, 2009. If the steps we have taken to remedy these material weaknesses are not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in additional material misstatements in our financial statements, prevent us from providing timely financial statements or meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

As discussed in "Part I—Item 4.Controls and Procedures," in connection with the restatement, we concluded that the following material weaknesses in our internal controls over financial reporting existed as of June 30, 2009:

- Our information technology controls were not adequate to ensure that all revenue transactions were properly accounted for and transferred from our billing system to our general ledger; and
- Our account reconciliation processes did not properly identify and resolve the resulting discrepancies between our billing system and our general ledger.

As a result of these material weaknesses, our management concluded that our disclosure controls were not effective as of June 30, 2009. Effective in February 2010, our management has taken steps to remediate the issues that led to the restatement. If the steps we have taken to remedy these material weaknesses are not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in additional material misstatements in our financial statements, prevent us from providing timely financial statements or meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

(b) 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, 2008, as supplemented by "Part II—Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2009.

We will be exposed to risks relating to evaluations of internal control systems required by Section 404 of the Sarbanes-Oxley Act.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the SEC, including accelerated reporting requirements and expanded disclosures regarding evaluations of internal control systems. We are also required to furnish a report by our management each year on our internal control over financial reporting. With respect to internal control over financial reporting, standards established by the Public Company Accounting Oversight Board define a material weakness as a deficiency in internal controls over financial reporting that results in a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. If our management identifies one or more material weaknesses in internal control over financial reporting in the future in accordance with the annual assessments and quarterly evaluations required by the Sarbanes-Oxley Act, we will be unable to assert that our internal controls are effective which could result in sanctions or investigation by regulatory authorities. In addition, any such material weakness could result in material misstatements in our financial statements and cause investors to lose confidence in our reported financial information.

We note that we have identified material weaknesses in our internal controls over financial reporting which existed as of June 30, 2009, which material weaknesses are discussed in greater detail in "Part I—Item 4.Controls and Procedures" and "—*We have identified material weaknesses in our internal controls over financial reporting which existed as of June 30, 2009. If the steps we have taken to remedy these material weaknesses are not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in additional material misstatements in our financial statements, prevent us from providing timely financial statements or meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.*"

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, 2008 and supplemented by our Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2009.

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

On July 1, 2009, we awarded David L. Hauser, our chairman and chief executive officer, options to purchase 1,600,000 shares of our common stock (the "stock options") and 523,810 restricted shares of our common stock (the "restricted shares"), pursuant to an employment agreement we entered into with Mr. Hauser on June 11, 2009. The stock options were granted at an exercise price of $0.95 and will vest in three annual installments, beginning on July 1, 2010. The restricted stock will vest on July 1, 2012. The vesting of the stock options and the restricted stock is contingent upon Mr. Hauser's continued employment with us.

We did not receive any proceeds in connection with the issuance of the stock options and the restricted stock to Mr. Hauser. The stock options and the restricted stock were issued pursuant to an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities (Restated).

See note 1 to the condensed consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders.

We held our annual meeting of stockholders on June 3, 2009. As of the record date for the annual meeting, there were 89,496,847 shares of our common stock outstanding. Below is a summary of the proposals voted on at the annual meeting and the outcome of such vote with respect to each proposal.

1. The proposal to elect Patricia Garrison-Corbin, Eugene B. Johnson and Robert A. Kennedy to our board of directors to serve as class I directors whose term will expire in 2012 was approved with Ms. Garrison-Corbin and Messrs. Johnson and Kennedy receiving the following votes:

	Votes For	Votes Against
Patricia Garrison-Corbin	70,496,219	4,489,004
Eugene B. Johnson	68,882,569	6,102,654
Robert A. Kennedy	70,662,051	4,323,172

David L. Hauser, Jane E. Newman and Michael R. Tuttle continued as our directors, serving until the 2010 annual meeting, and Claude C. Lilly, Robert S. Lilien and Thomas F. Gilbane, Jr. continued as our directors, serving until the 2011 annual meeting.

2. The proposal to ratify the appointment of Ernst & Young LLP as our independent registered accounting firm for the fiscal year ending December 31, 2009 was approved with 73,140,240 votes for, 1,478,608 votes against and 366,375 abstentions.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits (Restated).

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 her capacity as the Registrant's Principal Financial Officer.

FAIRPOINT COMMUNICATIONS, INC.

Date: April 30, 2010

By: /s/ LISA R. HOOD

Name: Lisa R. Hood
Title: *Senior Vice President and Corporate Controller, Interim 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	Amendment No. 1 to Master Services Agreement, dated as of July 6, 2007, by and between FairPoint and Capgemini U.S. LLC.(3)
2.17	Amendment No. 2 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)

Exhibit No.	Description
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.(10)
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 6, 2003, by and between FairPoint and The Bank of New York, relating to FairPoint's $225,000,000 11⅞% Senior Notes due 2010.(13)
4.2	Supplemental Indenture, dated as of January 20, 2005, by and between FairPoint and The Bank of New York, amending the Indenture dated as of March 6, 2003 between FairPoint and The Bank of New York.(12)
4.3	Form of Initial Senior Note due 2010.(13)
4.4	Form of Exchange Senior Note due 2010.(13)
4.5	Indenture, dated as of March 31, 2008, by and between Northern New England Spinco Inc. and U.S. Bank National Association.(6)
4.6	First Supplemental Indenture, dated as of March 31, 2008, by and between FairPoint Communications, Inc. and U.S. Bank National Association.(6)

Exhibit No.	Description
4.7	Second Supplemental Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association.(14)
4.8	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)
4.9	Form of 13⅛% Senior Note due 2018 (included in Exhibit 4.6).(6)
4.10	Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association.(14)
4.11	Form of 13⅛% Senior Note due 2018 (included in Exhibit 4.10).(14)
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.(15)
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	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its Subsidiaries.(16)
10.7	Amended and Restated Employment Agreement, dated as of April 1, 2008, by and between FairPoint and Eugene B. Johnson.(17)
10.8	Employment Agreement, dated as of June 11, 2009, by and between FairPoint and David L. Hauser.(18)
10.9	Registration Rights Letter Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.10	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Peter G. Nixon.(19)
10.11	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Shirley J. Linn.(19)
10.12	Change in Control and Severance Agreement, dated as of September 3, 2008, by and between FairPoint and Alfred C. Giammarino.(20)
10.13	FairPoint Amended and Restated 1998 Stock Incentive Plan.(21)
10.14	FairPoint Amended and Restated 2000 Employee Stock Incentive Plan.(22)

Exhibit No.	Description
10.15	FairPoint 2005 Stock Incentive Plan.(11)
10.16	FairPoint Communications, Inc. 2008 Annual Incentive Plan.(23)
10.17	FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(23)
10.18	Nonqualified Deferred Compensation Adoption Agreement.(11)
10.19	Nonqualified Deferred Compensation Plan Document.(11)
10.20	Form of February 2005 Restricted Stock Agreement.(24)
10.21	Form of Director Restricted Stock Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(25)
10.22	Form of Director Restricted Unit Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(25)
10.23	Form of Non-Director Restricted Stock Agreement—FairPoint Communications, Inc. 2005 Stock Incentive Plan.(26)
10.24	Form of Non-Director Restricted Stock Agreement—FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(20)
10.25	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).(17)
10.26	Form of Performance Unit Award Agreement 2008-2010 Award.(23)
10.27	Form of Performance Unit Award Agreement 2009-2011 Award.(27)
10.28	Form of Director Restricted Unit Agreement—FairPoint Communications, Inc. 2008 Long Term Incentive Plan.(17)
10.29	FairPoint Communications, Inc. Restricted Stock Award Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.30	FairPoint Communications, Inc. Non-Qualified Stock Option Award Agreement, dated as of July 1, 2009, by and between FairPoint and David L. Hauser.(18)
10.31	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)
10.32	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)
10.33	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(28)
10.34	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(6)
10.35	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(29)
10.36	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(7)
10.37	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)
10.38	Letter, dated as of May 12, 2009, from the Staff of the New Hampshire Public Utilities Commission to FairPoint.(18)
14.1	FairPoint Code of Business Conduct and Ethics.(30)

Exhibit No.	Description
14.2	FairPoint Code of Ethics for Financial Professionals.(12)
21	Subsidiaries of FairPoint.(31)
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.(32)
99.2	Order of the Vermont Public Service Board, dated February 15, 2008.(33)
99.3	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(5)

* Filed herewith.

† Pursuant to Securities and Exchange Commission 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 Securities Exchange Act of 1934, or otherwise subject to the liability of Section 18 of the Securities Exchange Act of 1934 and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, 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 Annual Report on Form 10-K of FairPoint for the year ended December 31, 2002.

(14) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on August 3, 2009.

(15) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 22, 2009.

(16) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.

(17) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 1, 2008.

(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 Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2008.

(21) Incorporated by reference to the Registration Statement on Form S-4 of FairPoint, declared effective as of August 9, 2000.

(22) Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2003.

(23) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on June 23, 2008.

(24) Incorporated by reference to the Registration Statement on Form S-1 of FairPoint, declared effective as of February 3, 2005.

(25) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on June 20, 2005.

(26) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on September 23, 2005.

(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 Annual Report on Form 10-K of FairPoint for the year ended December 31, 2005.

(31) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2008.

(32) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.

(33) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.

Exhibit 31.1

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David L. Hauser, 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: April 30, 2010

/s/ DAVID L. HAUSER

David L. Hauser
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa R. Hood, 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

(iii) 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: April 30, 2010

/s/ LISA R. HOOD

Lisa R. Hood
Interim Chief Financial Officer

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Hauser, 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/ DAVID L. HAUSER

David L. Hauser
Chief Executive Officer

April 30, 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.

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lisa R. Hood, Interim 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/ LISA R. HOOD

Lisa R. Hood
Interim Chief Financial Officer

April 30, 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.