Exhibit
FP-7P

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DT 10-025

Request for Approvals in Connection with the
Reorganization Plan of FairPoint Communications, Inc., et al.

TESTIMONY OF
ALFRED C. GIAMMARINO
ON BEHALF OF FAIRPOINT COMMUNICATIONS, INC.

FEBRUARY 24, 2010

Summary: Mr. Giammarino explains that when FairPoint exits bankruptcy it will possess the requisite financial capabilities to operate as a telephone utility within the State of New Hampshire in particular and within Northern New England more generally. Mr. Giammarino provides testimony related to FairPoint's need to file for Chapter 11 Bankruptcy and the benefits related to FairPoint's exit from bankruptcy as a significantly delevered company. In this regard, Mr. Giammarino provides testimony related to five broad categories: (i) events leading to FairPoint's Chapter 11 bankruptcy proceeding; (ii) operations and status of FairPoint's Chapter 11 proceeding; (iii) the proposed reorganization of FairPoint; (iv) FairPoint's updated business plan and financial projections; and (v) the financial basis for approval of the settlement and Plan of Reorganization.

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Mr. Giammarino sponsors the following Exhibits:

Exhibit AG-1	FairPoint's Updated Organization Chart
Exhibit AG-2	Summary of the Memorandum of Understanding between FairPoint and the International Brotherhood of Electrical Workers and the Communications Workers of America
Exhibit AG-3	Summary of the New Hampshire Regulatory Settlement
Exhibit AG-4	Summary of the Vermont Regulatory Settlement
Exhibit AG-5	Summary of the Maine Regulatory Settlement

Confidential Exhibit AG-2A FairPoint's Financial Capacity and Sensitivity Analysis (February 2010)

Q. Please state your name and your business address.

A. My name is Alfred C. Giammarino. My business address is 521 East Morehead Street, Suite 250, Charlotte, North Carolina.

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

A. I am employed by FairPoint Communications, Inc. ("FairPoint") as Executive Vice President and Chief Financial Officer.

Q. Please describe your educational and professional background.

A. I have over thirty-three years of experience in finance and management positions including more than twenty years in the telecommunications industry. Before joining FairPoint in September 2008, I served as Chief Financial Officer of Sensus Metering Systems ("Sensus") from December 2007 to May 2008 and, subsequent to that, as a Senior Financial Consultant for Sensus. From May 2004 until September 2007, I served as Executive Vice President and Chief Financial Officer of Stratos Global Corporation, a publicly traded satellite communications company. From June 2000 to December 2003, I was Senior Vice President and Chief Financial Officer of the international and information services group of Verizon Communications Inc. ("Verizon"). Before my tenure at Verizon, I was Senior Vice President of Finance and Planning at GTE Corporation from 1998 to 2000.

I began my career as an auditor at Arthur Andersen and graduated from St. John's University in New York with a B.S. in Accounting. I am licensed as a Certified Public Accountant in the State of New York. Currently, I am based in FairPoint's corporate headquarters in Charlotte, North Carolina.

Q. What are your duties and responsibilities at FairPoint.

A. As Executive Vice President and Chief Financial Officer of FairPoint, I am responsible for all financial aspects of FairPoint's business, including, financial reporting and internal controls, financial planning and budgeting, taxation, investor relations, treasury and risk management.

Q. In the course of your duties, have you participated in the management of FairPoint during its Chapter 11 bankruptcy proceeding and in the development of FairPoint's plan of reorganization?

A. Yes.

Q. What is the purpose of your testimony?

A. The overall purpose of my testimony is to provide evidence that when FairPoint exits bankruptcy it will possess the requisite financial capabilities to operate as a telephone utility within the State of New Hampshire in particular and within Northern New England more generally. I will discuss, among other things, FairPoint's Plan of Reorganization and the settlement agreements FairPoint has reached with various parties with interests in the outcome of FairPoint's bankruptcy proceedings. I also will provide an introduction to all of FairPoint's witnesses in these proceedings and provide a general overview of the nature of the witnesses' testimony.

Q. Please summarize your testimony.

A. FairPoint filed for Chapter 11 protection to ensure the company's future by significantly strengthening our financial position, largely through a substantial reduction in our overall indebtedness. Pursuant to our Restructuring Plan, when FairPoint emerges from Chapter 11, it will do so with a capital structure that contains significantly less debt, in fact, more than $1.7 billion, or roughly two-thirds, of our existing debt will be converted into equity. As a result, FairPoint's financial position and ongoing liquidity will be substantially strengthened, thus positioning FairPoint as a healthy and viable company in the competitive telecommunications marketplace. In addition, FairPoint entered into regulatory settlements with (i) the New Hampshire Public Utilities Commission's Staff Advocates (the "Staff Advocates"), (ii) the Vermont Department of Public Service ("DPS") and (iii) the Maine Public Utilities Commission's Representative and the Maine Office of Public Advocate (collectively, the "Maine Regulatory Parties"). These settlements should assist FairPoint in its efforts to exit bankruptcy in an expeditious and orderly fashion.

To demonstrate these points, my testimony has been organized into five sections as follows:

I. Events Leading to FairPoint's Chapter 11 Proceeding

II. Business Operations and the Status of FairPoint's Chapter 11 Proceeding

III. The Proposed Reorganization of FairPoint

IV. FairPoint's Business Plan and Financial Projections

V. Financial Basis for Approval of the Settlement and Plan

Q. Before you offer testimony related to the five areas noted above, would you please introduce FairPoint's witnesses in these proceedings?

A. Yes. FairPoint will offer pre-filed direct testimony at this time from:

- Mr. Jeffrey Allen, FairPoint's Executive Vice President of Operations- Northern New England. Mr. Allen will provide testimony with respect to managerial and organizational changes within FairPoint's Northern New England organization. In addition, Mr. Allen will address issues related to FairPoint's Service Quality Metrics and service quality reporting, its efforts to address customer complaints and escalations, some of the company's initiatives related to billing, and the broadband-related provisions in the regulatory settlements.
- Mr. Richard Murtha, FairPoint's Vice President of Wholesale Operations. Mr. Murtha's testimony summarizes the actions undertaken by FairPoint to address the issues and concerns raised by its wholesale customers following FairPoint's January 2009 cutover to new back-office systems from the previous systems which were owned and operated by Verizon New England Inc. ("Verizon"). Mr. Murtha references FairPoint's organizational changes and the company's renewed focus on addressing the concerns of competitive local exchange carrier ("CLEC") customers.

His testimony provides a report on the status of system fixes and enhancements to improve the process for wholesale customers, describes the process improvements for wholesale customers and reports on the improvements and ongoning projects regarding CLEC operations and functionality.

- Ms. Vicky Weatherwax, FairPoint's Vice President of Internal Business Solutions. Ms. Weatherwax explains the work undertaken to improve FairPoint's operational support systems. Ms. Weatherwax also describes the organization of FairPoint's Information Technology and Internal Business Solutions groups, the nature of the Customer Delivery Improvement Program and the progress FairPoint plans to make with system improvements during calendar year 2010.
- Mr. Thomas P. Nolting, FairPoint's Vice President of Billing and Revenue Assurance. Mr. Nolting's testimony reports on the Switch-to-Bill Audit and follow-up work, as well as FairPoint's data synchronization initiative. Mr. Nolting's testimony discusses the results of the Switch-to-Bill Audit and expected follow-up work, the status of work to date on the data synchronization initiative, and the important benefits to FairPoint systems and customers to be derived from the audit and data synchronization initiatives.
- Mr. Bryan Lamphere, FairPoint's Director of Engineering and Operations Systems Support. Mr. Lamphere addresses improvements to the provisioning, order flow-through and late order issues that have affected FairPoint's business since cutover, as well as short and intermediate term solutions that FairPoint and its consultants have identified and have been implementing to improve service in the near term.

I. EVENTS LEADING TO FAIRPOINT'S CHAPTER 11 PROCEEDING

Q. In obtaining approval to acquire the landline telecommunications assets of Verizon New England Inc. in Maine, New Hampshire and Vermont, FairPoint presented financial plans and projections demonstrating sufficient financial soundness to operate the acquired business. Obviously, those projections were not realized. Please describe the factors that led to the failure to achieve projected results and ultimately to FairPoint's Chapter 11 filing.

A. Since acquiring the Northern New England wireline telecommunication operations from Verizon in 2008, the company has faced a number of challenges, including, among other things, (i) integrating the Northern New England operations with pre-merger FairPoint, (ii) keeping pace with competition from bundled offerings by cable companies, as well as the use of alternative technologies, which are eroding FairPoint's traditional base of wireline voice customers, (iii) monitoring, repairing and upgrading the existing telecommunications network in the Northern New England operations, while simultaneously building a new next generation IP based network and (iv) overcoming the difficulty of transitioning certain back-office functions from Verizon's integrated systems to newly created systems of FairPoint, (the "Cutover") which occurred in January 2009. Further, the recent turmoil in the financial markets, coupled with FairPoint's deteriorating financial performance, limited FairPoint's ability to attract potential investors or refinance debt. The significant general economic decline in the United States has reduced both consumer spending and business spending, and contributed to an increased rate of decline in access lines and overdue accounts receivable balances from customers. All of these factors taken together, among others, have had a negative impact on FairPoint's overall financial performance and have caused the company to be unable to attain the performance projections made at the time it acquired the operations from Verizon. The inability to achieve the financial performance projected for the Northern New England operations at the time of the acquisition made it impossible for the company to service the approximately $2.7 billion in debt obligations that it undertook in the acquisition.

Q. Please address financial issues related to the Cutover.

A. Beginning in 2007 and continuing through January 2009, FairPoint developed and deployed new systems and processes to operate the business FairPoint had purchased from Verizon in Maine, New Hampshire and Vermont. Pursuant to the terms of the acquisition agreements, Verizon was to remain responsible for critical functions such as internal information technology, customer care, order management, broadband help desk support, E-911 services, network monitoring, billing and collection, and accounting between the March 31, 2008 closing date and Cutover. During this period of time, the Northern New England operations were operated under a transition services agreement, pursuant to which Verizon was paid approximately $15 million per month in return for the services set forth above. Also, as the Commission well knows, FairPoint had engaged Capgemini U.S. LLC ("Capgemini") to build a back-office infrastructure to allow

FairPoint to migrate off of Verizon's systems. FairPoint extended the original Cutover date of September 2008 several times leading up to the final date of January 2009.

Following the Cutover, FairPoint experienced increased processing time by customer service representatives for new orders, increased processing time for customer invoices, and an inability to execute automated collection treatment efforts. These issues negatively impacted customer satisfaction and resulted in large increases in customer call volumes into FairPoint's customer-service centers. While many of these issues were anticipated and FairPoint implemented manual workarounds to address the issues, the magnitude of the difficulties experienced exceeded FairPoint's expectations. Consequently, in the first nine months of 2009, FairPoint incurred $28.8 million of incremental expenses in order to operate its business, including third-party contractor costs and internal labor costs in the form of overtime pay. The Cutover also required significant staff and senior management attention. To date, FairPoint has resolved many of the Cutover based issues, but FairPoint had been required to devote significant financial resources and employee time to resolving those issues. This reduced FairPoint's ability to implement its business plan, improve customer satisfaction, and compete effectively in the marketplace.

Q. Please summarize FairPoint's most recent financial results.

A. The company had previously reported that consolidated revenues decreased $60.0 million to $268.3 million in the third quarter of 2009 compared to 2008. As a result of the decline in revenue and other factors, FairPoint experienced a net loss of $77.3 million for the third quarter of 2009. For the first nine months of 2009, FairPoint's consolidated revenues totaled $879.5 million and it incurred a net loss of $103.9 million. Given the recently detected accounting error discussed later in my testimony, the reported results for the first three quarters of 2009 will be restated. I will supplement my testimony with this information when the amended Form 10-Q's for the first three quarters of 2009 have been completed and have been filed with the United States Securities and Exchange Commission (the "SEC").

Q. Can you describe the impact that competition has had on FairPoint's financial results?

A. Clearly, the vigorous and growing competition in the communications and technology industries generally, and the competition that FairPoint has faced specifically in Maine, New Hampshire and Vermont, has contributed to the deteriorating financial results that FairPoint has experienced. For example, in most of FairPoint's service areas, it faces competition from wireless telephone technology, especially in the urban markets that the company serves. FairPoint also faces competition from new market entrants that offer close substitutes for the traditional telephone services that FairPoint offers, including cable television operators and competitive local exchange carriers that maintain their own facilities or lease services at wholesale rates. Cable companies, with their bundled offerings, also compete with FairPoint with respect to high-speed data and local and long distance voice services. Further, newer technologies such as VoIP, also pose competitive challenges to FairPoint. Finally, Internet services -- comprised of online access services and online content services -- are highly competitive and are likely to become even more so in the future. As a result of the increasingly competitive marketplace in which FairPoint operates, FairPoint has experienced a decline in its customer base and decreasing revenue. Moreover, many of FairPoint's direct regional competitors, including other local cable and Internet providers, took advantage of both the lengthy approval period for the Verizon merger as well as the delayed Cutover and operating issues experienced as a consequence of Cutover by offering aggressive pricing on bundled packages of services and claiming to offer more reliable service.

Q. Can you elaborate on the impact that the recent turmoil in the financial markets has had on FairPoint?

A. Yes. In October 2008, Lehman Commercial Paper, Inc. ("LCPI"), the administrative agent under a $2.03 billion credit facility ("Credit Facility") the company had entered into, filed a petition for relief under Chapter 11 of the Bankruptcy Code. LCPI accounted for approximately thirty percent of the loan commitments under a $200 million revolving credit agreement that was part of the Credit Facility. LCPI's undrawn loan commitments under the revolving credit agreement, totaling $29.7 million, were terminated resulting in a permanent reduction in the funding available to FairPoint under its Credit Facility. Furthermore, due to the extreme uncertainty in the financial markets and the risk associated with LCPI, FairPoint accelerated its drawdown of the remaining $100 million available under its $200 million delayed draw loans, as well as $100 million under its revolving credit facility. These draw-downs resulted in additional and unanticipated interest costs as these funds were not immediately needed for operating purposes.

Q. What actions did FairPoint take to address its financial problems?

A. In an effort to address its financial problems, FairPoint's management team worked diligently to expand and improve FairPoint's product offerings, diversify and grow revenues, increase operational efficiency and operating cash flows and reduce debt obligations through, among other things, (i) investing $85 million in the build out of a new next generation Internet protocol based network, (ii) suspending common stock dividends and (iii) the completion of an exchange offer for 13-1/8% Senior Notes due 2018 in the amount of $551 million aggregate principal for new 13-1/8% Senior Notes due 2018, which allowed FairPoint to reduce its cash interest expense for the quarters ended June 30, 2009, and September 30, 2009, and maintain compliance with financial covenants contained in the Prepetition Credit Agreement for the measurement period ended June 30, 2009.

Despite these actions, FairPoint's balance sheet remained highly leveraged, with substantial annual capital expenditure requirements and interest costs, and portions of the principal amount of the Credit Facility becoming due on a quarterly basis. This capital structure was not sustainable, particularly after taking into account the impact of (i) the recession in the United States and the associated high levels of unemployment, reduced disposable income and consumer spending, increased business failures and higher than normal uncollected receivables, (ii) the continued significant capital expenditure requirements for FairPoint to remain competitive in the telecommunications market and to satisfy conditions imposed by the regulatory orders approving the Merger and (iii) FairPoint's limited access to capital markets. As a result, FairPoint, with the assistance of its advisors, began to explore capital structure restructuring alternatives, including recapitalizations and a potential Chapter 11 filing. Commencing in July 2009 and culminating in October 2009, FairPoint worked diligently, first with the holders of the Senior Notes and then with certain lenders under the Credit Facility, to obtain a sustainable solution to FairPoint's significant leverage. Through negotiations with a steering committee of lenders under the Credit Facility (the "Lender Steering Committee"), FairPoint reached an agreement in October 2009 with certain lenders (including the Lender Steering Committee), who held more than 50% of the indebtedness under the Credit Facility on a term sheet regarding the framework for a comprehensive balance sheet restructuring that would result in the conversion of more than $1.7 billion of FairPoint's indebtedness into equity in FairPoint Communications. Thereafter, FairPoint commenced the Chapter 11 Cases on October 26, 2009.

Q. On February 23, 2010, FairPoint filed a Form 8-K with the SEC. Please address the conditions that led to that filing.

A. In connection with the preparation of the Company's financial statements for the year ended December 31, 2009, FairPoint discovered an accounting error that impacts the accuracy of the interim consolidated financial statements previously issued (the "2009

Interim Consolidated Financial Statements") in its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2009, June 30, 2009 and September 30, 2009 (collectively, the "2009 Quarterly Reports"). Accordingly, FairPoint's senior management, with the concurrence of the Audit Committee of FairPoint's Board of Directors (the "Audit Committee"), concluded that the Company should file amendments (the "Amendments") to the 2009 Quarterly Reports to restate the 2009 Interim Consolidated Financial Statements, and that the 2009 Interim Consolidated Financial Statements, as well as the Company's previously issued earnings releases for the periods covered by the 2009 Quarterly Reports, should no longer be relied upon because of the accounting error.

This error was the result of (i) a deficiency in the transfer of certain known customer billing adjustments from the Company's billing platform to the general ledger, which is the basis for the Company's financial reporting, and (ii) procedural deficiencies that allowed these errors to go undetected. In addition, during the fourth quarter of 2009, FairPoint continued its ongoing efforts to identify and process customer billing adjustments and, in December 2009, as part of its year-end closing process, FairPoint conducted a review of its customer accounts and concluded that additional customer billing adjustments must be made for the year ended December 31, 2009. A portion of these billing adjustments will need to be allocated to each of the first three fiscal quarters of 2009.

FairPoint estimates that this accounting error and these adjustments will result in an aggregate reduction of FairPoint's previously reported revenues for the nine month period ended September 30, 2009 of approximately 3%. In addition, FairPoint does not expect that this error and these adjustments will have a significant impact on customer accounts.

Q. Please explain the magnitude of the accounting error and describe whether the situation requires a restatement of FairPoint's financial projections as contained within FairPoint's First Amended Plan of Reorganization under Chapter 11 Bankruptcy with the related proposed Amended Disclosure Statement filed with the Bankruptcy Court on February 11, 2010.

A. FairPoint's senior management does not believe that the impact of the accounting error and billing adjustments will require any changes to the company's projected financial information as contained in the Amended Disclosure Statement. In assessing this matter, we have considered (among other things) FairPoint's recent financial results, considering the accounting error and other adjustments. These financial results, as adjusted, generally are trending in line with the financial projections contained within the Amended Disclosure Statement.

It also is important to note that the company has identified the systems and process weaknesses that resulted in the information transfer deficiency and has implemented manual processes to compensate for these weaknesses while it implements a permanent systems solution.

Lastly, I need to point out that the Audit Committee and Ernst & Young (FairPoint's independent audit firm) are continuing their review of this matter and FairPoint will file the Amendments with the SEC once such review is completed. Given that the review is ongoing, the matters and information related to the accounting error remain subject to change. I will supplement my testimony in this regard once the Audit Committee and Ernst & Young complete their respective review of this matter and the Amendments have been filed with the SEC.

Q. Please describe the key terms of the settlement reached by FairPoint with Capgemini?

A. On October 9, 2009, FairPoint entered into a Settlement Agreement and Release (the "Capgemini Settlement Agreement") with Capgemini. Under various contracts between Capgemini and FairPoint, the invoiced amounts and certain deferred amounts totaled approximately $49.8 million. Pursuant to the Capgemini Settlement Agreement, Capgemini agreed to continue to provide services to FairPoint in exchange for FairPoint paying Capgemini ongoing fees plus $30 million of the total $49.8 million, with FairPoint paying $15 million upon execution of the Capgemini Settlement Agreement and an additional $15 million initially due on December 31, 2009. The second $15 million payment has not yet been made to Capgemini, pending Bankruptcy court approval of the Capgemini Settlement Agreement. The Capgemini Settlement Agreement also allows Capgemini to, among other things, assert an allowed unsecured claim against FairPoint in the Chapter 11 Case (to which FairPoint s will not object) for the remaining balance of approximately $19.8 million. FairPoint also agreed to assume the Capgemini Settlement Agreement and certain contracts with Capgemini.

Q. Why did FairPoint believe this was a fair and reasonable settlement?

A. We believe this represented a fair and reasonable settlement for a number of reasons, including (1) the potential risk of damage to the business and to our customers if Capgemini were to immediately discontinue providing service to FairPoint was considered to be substantial; (2) our ability to continue to improve the performance of our new systems platform would have been set back by at least six months and potentially as long as one year while a new service provider was brought in and completed the necessary knowledge transfer; (3) the cost associated with the necessary transfer of knowledge to a new provider would have been substantial; and (4) the cost associated with litigation would have been substantial and the likelihood of success was considered to be uncertain and, finally, (5) the potential damage to the business and our customers from a protracted and public litigation was considered to be high.

II. BUSINESS OPERATIONS AND THE STATUS OF CHAPTER 11 PROCEEDING

Q. Please describe FairPoint's operations during the Chapter 11 case.

A. Based upon discussions with our operating and sales personnel, I believe that the Chapter 11 case has been largely transparent from a customer perspective. FairPoint's customers have continued to receive the same products, services and customer service they received prior to initiation of the Chapter 11 case. Service has not been interrupted; our service levels have continued to improve in many areas, and customer satisfaction has remained a top priority.

Furthermore, FairPoint has continued to invest in the build-out of its next generation network known as "VantagePoint". This new network is expanding our broadband service availability by increasing our market reach into new communities and enhancing the speeds at which broadband is available. It will also broaden our product offering through the roll-out of a new suite of IP-based business services beginning later this year. Finally, we have not experienced an increase in the rate of access line loss and our financial results have not shown any discernable change in trends since filing for Chapter 11 protection.

Q. In connection with the improvement of FairPoint's operations, has FairPoint made changes in its management structure?

A. FairPoint has made several significant organizational changes since the beginning of July 2009 to strengthen and align the company's operations in Northern New England. Starting at the very top of the organization, David L. Hauser was appointed Chairman of the Board and CEO on July 1, 2009. Mr. Hauser came to FairPoint from Duke Energy

Corporation where he was Group Executive and Chief Financial Officer. Mr. Hauser has had an over thirty-year career leading many facets of a large publicly-traded company with both regulated and unregulated operations.

Q. What management changes has Mr. Hauser implemented?

A. Mr. Hauser made significant management changes since starting with FairPoint. Before providing the details of these changes, I offer and attach to my testimony FairPoint's most recent Organization Chart as my <u>Exhibit AG-1</u>. As for the details of Mr. Hauser's management changes, I note that Mr. Peter Nixon's duties as President have been shifted to focus on regulatory matters, government affairs, supply chain processes and procedures, economic development and the entire operations of the telecom group.

Next, Mr. Jeffrey W. Allen was appointed Executive Vice President for Operations in Northern New England; his responsibilities include operations, engineering, customer care, operations support, sales and billing. The reorganization of the operations organization was designed to focus efforts on identifying and addressing short and intermediate-term post-cutover issues to achieve performance levels of service at least equal to pre-cutover levels.

Finally, in order to ensure that FairPoint is dealing with its operational challenges in a systemic manner and consistent with his emphasis on robust project management throughout FairPoint, Mr. Hauser appointed Ms. Vicky Weatherwax as Vice President, Internal Business Solutions. As Ms. Weatherwax describes in her testimony, Ms. Weatherwax's responsibilities include leading the Project Management Organization ("PMO") as it implements one of our key initiatives, the Customer Delivery Improvement Program ("CDIP"). The fifteen priority projects that comprise the CDIP Program represent a sustained long-term effort that we believe will have a significant positive impact across nearly all of our systems and processes on a company-wide basis and across all operational organizations.

Q. Please describe the more recent management changes that FairPoint has made since January 1, 2010.

A. In the past 45 days, FairPoint Communications has filled some key leadership positions and made some organizational realignments which have strengthened FairPoint. These steps will allow FairPoint to provide a higher level of service to our customers in Northern New England.

First, Ray Allieri joined FairPoint as Executive Vice President and Chief Strategy Officer. Mr. Allieri has a long professional and personal history in New England and began his career with New England Telephone. Later, he served as the CEO of CTC Communications after it emerged from restructuring. CTC Communications historically has had (and still does have as part of the successor organization) extensive operations in Northern New England. In his new role as Chief Strategy Officer, Mr. Allieri will be instrumental in helping us develop a meaningful, cohesive business strategy and preparing FairPoint for the future. With his proven record of translating strategy into tactics to help companies grow, Mr. Allieri will position FairPoint to more effectively capitalize on expansion opportunities to meet our broadband commitments in Northern New England as the company moves forward.

Next, James Heddens joined FairPoint as interim Chief Information Officer ("CIO"). Mr. Heddens has nearly 30 years of experience managing Information Technology ("IT") software development projects for major business clients; most recently as Senior Executive for Client Systems Delivery with the IT consulting firm Accenture LLP. While we continue to actively search for a permanent CIO, Mr. Heddens will lead FairPoint's IT and Internal Business Solutions organizations as they work to improve service delivery.

We have also hired state Presidents in Maine (Michael Reed), New Hampshire (Teresa Rosenberger) and Vermont (Michael Smith) to lead our regulatory, governmental relations and economic development efforts in Northern New England.

Q. What have been the key events and relief granted in the Chapter 11 thus far?

A. On October 27, 2009 and October 28, 2009, the Bankruptcy Court granted several "first day" orders concerning various matters related to FairPoint's continued business operations. Included in such "first day" orders were:

- an order directing the joint administration of the Chapter 11 Cases;

- an order authorizing FairPoint to pay prepetition claims, honor obligations and continue programs, in the ordinary course of business, relating to employee wages and benefits;
- an order authorizing FairPoint to pay prepetition shipping and delivery charges to obtain the release of cables, wires, components, materials, parts, certain finished goods, machinery, equipment and other property held or in transit and to satisfy any associated liens, if any;
- an order authorizing FairPoint to pay mechanics and discharge the liens, if any, that such mechanics may have on FairPoint's property;
- an order authorizing FairPoint to honor certain of its prepetition obligations and pay certain of its prepetition claims including, but not limited to, bundled packages, promotional offers, credit adjustments and other marketing programs;
- an order authorizing FairPoint to pay general sales, use and excise taxes in the ordinary course of business that accrued or arose before the Petition Date, and authorizing FairPoint to pay permit, licensing, regulatory and franchise fees that accrued or arose before the Petition Date in the ordinary course of business;
- an order authorizing FairPoint to continue its workers' compensation program and its general liability, auto liability, property, professional liability, fiduciary liability, directors' and officers' liability and other insurance programs; and
- an interim order approving a revolving credit facility in an aggregate principal amount of up to $75 million, of which up to $30 million is also available for letters of credit that may be issued to third parties for the account of FairPoint (the "DIP Financing"). The

interim order authorizes FairPoint to draw up to $20 million under the credit facility. A final hearing on the DIP Financing is scheduled in March 2010.

At subsequent hearings, the Bankruptcy court has issued orders approving the retention of financial, legal and restructuring professionals.

III. THE PROPOSED REORGANIZATION OF FAIRPOINT

Q. Has FairPoint developed a Chapter 11 reorganization plan?

A. Yes. This Plan was filed with the Bankruptcy Court on February 8, 2010 and amended on February 11, 2010. FairPoint's First Amended Plan of Reorganization under Chapter 11 Bankruptcy with the related proposed Amended Disclosure Statement are attached to FairPoint's Request for Approvals in connection with FairPoint's Plan as Appendix 1 and Appendix 2, respectively. Those appendices are incorporated into my testimony by reference. I want to reiterate that the company does not believe that the accounting error (discussed earlier in my testimony) requires any changes to the First Amended Plan or the Amended Disclosure Statement.

Q. Please describe FairPoint's objectives in developing a reorganization plan to emerge from Chapter 11 bankruptcy proceedings.

A. The overall objective of the Plan is to best balance the interests of all stakeholders, ensure that FairPoint can meet its obligations to its customers and fulfill their expectations, and to establish a financial structure that will insure FairPoint's financial viability and position the company for success in the future.

The Plan will result in an appropriate capital structure for the company that will significantly strengthen its financial condition and liquidity by permitting it to shed a significant amount of debt. On the effective date of the Plan, FairPoint's debt will decrease by more than $1.7 billion, or nearly two-thirds. As a result, FairPoint will be better positioned to improve the customer experience by making continued investments in its network, products and services, while requiring significantly less cash be directed toward servicing debt and paying interest. With the balance sheet restructured and its debt service costs reduced, the company will be able to focus its efforts on customers, employees and strategic growth plans, thus enabling it to maintain and improve its position as a leading provider of voice and data communications services.

Q. Please summarize and describe the reorganization plan.

A. Let me begin by stating that the FairPoint Plan has the support of more than 50% of the lenders under our Prepetition Credit Agreement, the leadership of FairPoint's two Northern New England labor unions, the International Brotherhood of Electrical Workers, or IBEW, and the Communications Workers of America, or CWA, as well as from key advocates for the States of New Hampshire, Vermont and Maine.

Under the Plan, and assuming that the class of FairPoint Unsecured Claims accepts the Plan, holders of Prepetition Credit Agreement Claims, which are identified as Class 4 in the Plan and which aggregate approximately $2.1 billion, will be satisfied in full, as follows: (i) by a pro rata share of new term loans in the aggregate principal amount of $1 billion, (ii) by a pro rata share of cash in an amount equal to all cash of FairPoint on the effective date in excess of $40 million after taking into account all cash payments required to be made or reserved under the Plan on the effective date, and (iii) by a pro rata share of forty seven million, two hundred forty one thousand, four hundred thirty six (47,241,436) shares (90%) of the new common stock in the reorganized FairPoint (subject to dilution).

If, however, the class of FairPoint Unsecured Claims does not accept the Plan, then each holder of a Class 4 Prepetition Credit Agreement Claim will receive its pro rata share of fifty eight million, four hundred and eighty four thousand, five hundred eighty seven (58,484,587) shares (98.25%) of the new common stock (subject to dilution).

If they accept the Plan, holders of Class 7 Unsecured Claims, as defined in the Plan, representing approximately $635 million will be satisfied in full under the Plan, as follows: (i) by a pro rata share of four million, two hundred and three thousand, three hundred fifty two (4,203,352) shares of the new common stock in reorganized FairPoint (subject to dilution) and (ii) by a pro rata share of the new warrants to purchase seven million, one hundred sixty four thousand, eight hundred four (7,164,804) shares of the new common stock. However, if the holders of Class 7 Unsecured Claims do not accept the Plan, they will receive no distribution under the Plan.

In either case of the class of FairPoint Unsecured Claims accepting or rejecting the Plan, a portion of the new common stock will be reserved for issuance pursuant to a Long Term Incentive Plan. Other than as set forth within the Amended Disclosure Statement within Section IV.C, details on the Long Term Incentive Plan will be provided at the time of the filing of the Plan Supplement.

Other claims, comprising those of Class 1 Other Priority Claims, Class 2 Secured Tax Claims, Class 3 Other Secured Claims, Class 5 Legacy Subsidiary Unsecured Claims, Class 6 NNE Subsidiary Unsecured Claims, Class 8 Convenience Claims and Class 10 Subsidiary Equity Interests are unimpaired and will receive 100% recovery on their allowed claims, except for the Subsidiary Equity Interests (*i.e.* stock of subsidiaries held by parent companies), which will simply be reinstated.

The remaining claims and interests, which comprise those of the Class 9 Subordinated Securities Claims and Class 11 Equity Interests (FairPoint stock outstanding as of the bankruptcy filing) are fully impaired under the Plan and will receive no distributions at all. The prepetition FairPoint stock will be cancelled under the plan.

The reorganized FairPoint will have up to a nine person board of directors. Initially, up to seven of the new board members will be nominated by the Lender Steering

Committee, with residents of Maine, New Hampshire and Vermont among the candidates. One of the new board members will be FairPoint Communications' chief executive officer and one of the new board members will be nominated by the steering committee of the Adhoc Committee of Senior Noteholders (in consultation with the Creditors' Committee and Adhoc Committee of Senior Noteholders) if the class of FairPoint Unsecured Claims votes to accept the Plan. If the class of FairPoint Unsecured Claims does not vote to accept the Plan, then the Lender Steering Committee will have the right to nominate up to eight new board members. (The members of the new board will be identified in the Plan Supplement, which will be filed with the Bankruptcy Court no later than five (5) business days before the deadline for voting on the Plan.)

Q. Please describe FairPoint's current indebtedness and existing capital structure.

A. As of the Petition Date, FairPoint had approximately $2.7 billion of total funded debt outstanding, including approximately $2.1 billion of Prepetition Credit Agreement claims (consisting of approximately $2.0 billion owed under the Credit Facility and approximately $99 million owed under interest rate swap agreements), and approximately $575 million in senior unsecured notes, including accrued interest. The company estimates that under its existing debt structure, it would have incurred more than $200 million in interest costs during 2009, of which $165 million was incurred during the first nine months of that year. The company is not paying any debt service costs during the pendency of the Chapter 11 Cases.

Description of Senior Secured Credit Facility

On March 31, 2008, immediately prior to the Verizon merger, FairPoint and Spinco entered into a $2.03 billion credit facility (the "Credit Facility") consisting of a revolving credit facility in an aggregate principal amount of $200 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 $1.13 billion (together with the term loan A facility, the "Term Loans") and a delayed draw term loan in an aggregate principal amount of $200 million. Spinco drew $1.16 billion under the Term Loans immediately prior to its spin-off from Verizon, the proceeds of which were paid to Verizon. FairPoint then drew $470 million under the Term Loans and $5.5 million under the delayed draw term loan concurrently with the closing of the merger. Since the merger closed, FairPoint has drawn the remaining $194.5 million under the delayed draw term loan.

As noted above, in October 2008, the administrative agent under the Credit Facility, LCPI, filed a petition for relief under Chapter 11 of the Bankruptcy Code, and its share of the $200 million revolving credit facility was no longer available to FairPoint, which reduced the facility to $170.3 million. On January 21, 2009, FairPoint entered into an amendment to the Credit Facility under which LCPI resigned as administrative agent and was replaced by Bank of America, N.A.

The Credit Facility also permitted FairPoint to enter into interest rate and currency exchange swaps and similar arrangements with the lenders under the Credit Facility and/or their affiliates. As a result, FairPoint entered into various interest rate swap agreements (the "Swap Agreements") in order to limit the variability of its interest payments and to shield itself from the cash flow risk associated with increasing interest rates. As a result of the Swap Agreements, approximately 78% of FairPoint's interest payments were effectively calculated at fixed rates, averaging 7.4%, rather than variable rates as of December 31, 2008. Under the terms of the Swap Agreements, the company would make a payment if the variable rate was below the fixed rate, or it would receive a payment if the variable rate was above the fixed rate. Because of the precipitous decline in short-term interest rates resulting from the current economic downturn, as of the Petition Date, the fair market value of these swaps was a net liability of approximately $99 million, including unpaid amounts due on September 30, 2009. The obligations under these swap agreements have a priority equal to the obligations under the Credit Facility.

As of September 30, 2009, FairPoint had borrowed $150 million under the revolving credit agreement and letters of credit had been issued for $18.2 million. Accordingly, as of September 30, 2009, the remaining amount available under the revolving credit agreement was $2.1 million. The company also had pending commitments for additional letters of credit totaling $0.7 million as of September 30, 2009. The term loan B facility and the delayed draw term loan would have matured in March 2015, and the revolving credit facility and the term loan A facility would have matured in March 2014.

The Credit Facility is guaranteed, jointly and severally, by all existing and subsequently acquired or organized wholly owned first-tier domestic subsidiaries of FairPoint that are holding companies. No guarantee is required of a subsidiary that is an operating company, including all of FairPoint's local exchange carriers ("LECs"). The Northern New England operations (Northern New England Telephone Operations LLC, or "FairPoint – NNE"), Telephone Operating Company of Vermont LLC ("Vermont Telco") and Enhanced Communications of Northern New England Inc.) are regulated operating subsidiaries and, therefore, are not guarantors under the Credit Facility. The Credit Facility is secured by, among other things, a first priority perfected security interest in all of the stock, equity interests, promissory notes, partnership interests and membership interests owned by FairPoint, excluding the membership interests of Vermont Telco.

<u>Description of Senior Notes</u>

In connection with the Verizon merger, on March 31, 2008, Spinco issued notes in the aggregate principal amount of $551 million, which had a maturity date of April 1, 2018 and were not redeemable at the company's option prior to April 1, 2013 (the "Old Notes"). The company assumed all obligations under the Old Notes as part of the merger. Interest on the Old Notes was payable semi-annually in cash on April 1 and October 1 of each year. The Old Notes bore interest at a fixed rate of 13-1/8%, resulting in annual interest costs of approximately $72 million, and principal was due at maturity. Because the Old Notes were issued at a discount on the date of their distribution, the Old

Notes had a carrying value of $539.8 million (principal amount at maturity of $551 million less a discount of $11.2 million).

As described more briefly above, on July 29, 2009, the company successfully consummated an Exchange Offer (the "Exchange Offer") for certain of the Old Notes. This Exchange Offer allowed FairPoint to reduce its cash interest expense for the quarters ended June 30, 2009 and September 30, 2009 and maintain compliance with the financial covenants in the Prepetition Credit Agreement for the measurement period ended June 30, 2009.

Pursuant to the Exchange Offer, $439.6 million in aggregate principal amount of the Old Notes (which amount was equal to approximately 83% of the then-outstanding Old Notes) was exchanged for new notes in the aggregate principal amount of $439.6 million (the "New Notes," and together with the Old Notes, the "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 note holders who tendered their Old Notes in the Exchange Offer as payment for accrued and unpaid interest on the exchanged Old Notes up to, but not including, the settlement date of the Exchange Offer. In tandem with the Exchange Offer, FairPoint solicited consents from holders of the Notes for certain amendments to the Indenture to eliminate or amend substantially all of its restrictive covenants and modify a number of the events of default and certain other provisions previously contained in the Indenture.

In connection with the Exchange Offer and the corresponding consent solicitation, the company also paid a cash consent fee of $1.6 million in the aggregate to holders of Old Notes who validly delivered consents in such consent solicitation and did not revoke their consents prior to a specified early consent deadline. The Exchange Offer, in turn, resulted in cash savings of $28.8 million.

The New Notes have a maturity date of April 2, 2018, and bear interest at a fixed rate of 13-1/8%, payable in cash, except that the New Notes bore interest at a rate of 17% for the period from July 29, 2009 through and including September 30, 2009 (the "Initial Interest Payment Period"). In addition, the company was 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 Notes or a combination of both cash and such capitalization of interest, at the company's option.

Q. What is FairPoint's proposed capital structure upon emergence from Chapter 11?

A. FairPoint's reorganization is premised upon effecting a substantial deleveraging and strengthening of the balance sheet through the conversion of a substantial portion of FairPoint's pre-petition indebtedness into "New Common Stock," as defined in the Plan. Following the effectiveness of the Plan, the total debt of FairPoint will be reduced by approximately 63%, from $2.7 billion as of the date of the bankruptcy filing to $1 billion, thereby providing FairPoint with a very substantial improvement in financial strength and flexibility. Annual interest costs will be reduced by approximately 69% from approximately $208 million to $65 million and total leverage will be reduced from approximately 7.5 times adjusted operating EBITDAR (defined as earnings before interest, taxes, depreciation and amortization and restructuring costs) to approximately 2.7 times.

To accomplish this, as previously described, each holder of an Allowed Class 4 Prepetition Credit Agreement Claim will receive, among other things, a portion of the $1 billion "New Term Loan," as defined in the Plan. The Plan also contemplates the issuance of a post-Effective Date revolving credit facility of up to $75 million for FairPoint which will provide additional liquidity to FairPoint. The terms of the Revolving Credit Facility will be described more fully in the Plan Supplement.

The Amended Certificate of Incorporation of Reorganized FairPoint will authorize the issuance of seventy five million (75,000,000) shares of New Common Stock. Assuming the Plan is accepted by all classes of claimants, and as described more fully in the Plan, the New Common Stock will be distributed as follows: (a) Allowed Class 4 Prepetition Credit Agreement Claims (as defined in the Plan) will receive a pro-rata portion of forty-seven million, two hundred forty one thousand, four hundred thirty six (47,241,436) shares of the New Common Stock and (b) each holder of an Allowed Class 7 FairPoint Unsecured Claim (as defined in the Plan) will, if such class of holder's votes to accept the Plan, receive a pro-rata portion of (i) four million, two hundred three thousand, three hundred fifty two (4,203,352) shares of the New Common Stock, and (ii) New Warrants to purchase seven million, one hundred sixty four thousand, eight hundred four (7,164,804) shares of the New Common Stock. If such class of holders votes to reject the Plan, they will receive no distributions under the Plan.

The new common stock will have a par value of $0.01 per share.

Q. What are the key terms of the warrants that will be issued to the holders of Allowed Class 7 Unsecured Claims if they vote in favor of the Plan?

A. The warrants will be exercisable at a strike price equal to (a) (i) $2.3 billion minus (ii) the outstanding debt of the Reorganized FairPoint at the Effective Date plus (iii) the Cash and Cash Equivalents of Reorganized FairPoint at the Effective Date, divided by (b) fifty two million, five hundred forty one thousand, eight hundred ninety eight (52,541,898) shares of the New Common Stock.

The warrants will expire on the seventh anniversary of the Effective Date.

Q. Does FairPoint plan to pay dividends following the emergence from Chapter 11?

A. No. FairPoint has no plans to pay dividends following its emergence from Chapter 11. Moreover, under the terms of the New Term Loan, FairPoint will be precluded from paying any dividends until our leverage ratio is below 2.0 times at the beginning of a fiscal year and, even then, FairPoint will only be permitted to pay dividends with its share of Excess Cash Flow. Based upon our financial projections, our leverage ratio would not be below 2.0 times until the end of 2012.

Q. What will be the terms of the debt instruments that will be in effect upon the consummation of the plan?

A. The New Term Loan will include the following material terms:

- The New Term Loan shall be secured by the same or substantially the same collateral as the collateral which secures the DIP Financing, except to the extent prohibited by law or regulation.[1]
- 5 year maturity.
- Interest at LIBOR + 4.50%, with a LIBOR floor of 2.00%.
- No upfront fee.

[1] The DIP Financing is secured by the assets of FairPoint Communications, FairPoint Logistics, Inc. and certain of FairPoint Communications, Inc.'s subsidiaries, including Berkshire Cellular, Inc., Berkshire Net, Inc., Berkshire New York Access, Inc., C & E Communications, Ltd., Comerco, Inc., Commtel Communications Inc., C-R Communications, Inc., C-R Long Distance, Inc., El Paso Long Distance Company, EllTel Long Distance Corp., FairPoint Broadband, Inc., FairPoint Carrier Services, Inc., FairPoint Communications Solutions Corp.--New York, FairPoint Communications Solutions Corp.—Virginia, Fremont Broadband, LLC, Fretel Communications, LLC, Germantown Long Distance Company, GIT-Cell, Inc., GITCO Sales, Inc., GTC Communications, Inc., GTC Finance Corporation, MJD Services Corp., MJD Ventures, Inc., Orwell Communications, Inc., Peoples Mutual Long Distance Company, Peoples Mutual Services Company, Quality One Technologies, Inc., Ravenswood Communications, Inc., S T Computer Resources, Inc., S T Enterprises, Ltd., Taconic Technology Corp., Telephone Service Company, UI Communications, Inc., UI Telecom, Inc., Unite Communications Systems, Inc., Utilities, Inc. and Yates City Telephone Company.

Additionally, FairPoint Communications, FairPoint Logistics, Inc., MJD Ventures, Inc., MJD Services Corp., S T Enterprises, Ltd., FairPoint Carrier Services, Inc., FairPoint Broadband, 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 Berkshire Cellular, Inc. ("DIP Pledgors") have each pledged a security interest in 100% of the equity interests and promissory notes owned by each DIP Pledgor and all proceeds arising therefrom, including cash dividends and distributions, subject to certain exceptions and qualifications found in the pledge agreement.

- Mandatory prepayment at par, upon conditions to be determined in the Plan Supplement.
- Optional prepayment at anytime at par.
- Amortization Schedule – Year 1: 1% annually, Year 2: 1% annually, Year 3: 5% annually, Year 4: 15% annually and Year 5: 15% (5% per quarter for the first 3 quarters) with 63% bullet payment in 4th quarter.
- Amortization occurs quarterly commencing upon the first full quarter after the effective date of the Plan.
- If FairPoint's consolidated leverage ratio is above 2.0 times at the end of the fiscal year, FairPoint shall be subject to a sweep of 75% of its "Excess Cash Flow" as defined in the Plan, based upon an annual test and paid in the subsequent quarter with the first test occurring for fiscal year 2010 for the period from the effective date of the Plan through the end of 2010 and payable in fiscal 2011. If FairPoint's consolidated leverage ratio is below 2.0 times at the end of the fiscal year, the sweep shall be reduced to 50% of FairPoint's Excess Cash Flow.
- If FairPoint's consolidated total leverage ratio is below 2.0 times at the end of the fiscal year, FairPoint will be permitted to pay dividends with its share of Excess Cash Flow.
- Financial covenants will only include interest coverage and leverage ratio tests. Such tests will first occur in the first full quarter following the effective date of the Plan.

Q. Will any of FairPoint's regulated subsidiaries have to pledge their assets or guarantee the debt?

A. FairPoint's regulated subsidiaries will not pledge their assets or guarantee this debt, subject to one exception. FairPoint – NNE owns the membership interests of Vermont Telco. The holders of Prepetition Credit Agreement Claims have requested that FairPoint – NNE pledge those membership interests (and no other assets) as security for the debt and FairPoint has agreed to this request, subject to FairPoint securing any necessary regulatory approvals. This course of action is consistent with FairPoint's pledge of the capital stock or membership interests of its direct subsidiaries under the Prepetition Credit Agreement.

Q. Please describe FairPoint's financial objectives for the plan and the metrics considered by FairPoint to determine that the plan meets those objectives.

A. As previously mentioned, our overall financial objective for the Restructuring Plan is to emerge from Chapter 11 with a significantly strengthened capital structure that will provide the company with ample liquidity and financial flexibility to fund all of its operating and capital expenditure requirements in the future. In this regard, we have strived to insure that our ongoing debt service requirements have been reduced to a level that insure the company will have more than adequate cash flow to meet our operating and customer service commitments our broadband build out commitments as well as our minimum capital expenditure commitments.

It is also important to understand that FairPoint has strived to achieve the Restructuring Plan in a pre-negotiated manner with as many of our key constituencies as possible in order to provide greater assurance to the marketplace, our regulators and others that the company has a well defined and viable plan. Furthermore, avoiding a contentious and prolonged process is also important in minimizing disruption on the business and avoiding any potential impact to our customers.

In assessing the Plan, we considered key financial and credit metrics that one would assess in evaluating the financial strength of a company, such as total leverage as measured by total debt divided by EBITDAR; free cash flow coverage ratio, defined as EBITDAR minus capital expenditures divided by interest expense; interest coverage as measured by EBITDAR divided by interest expense and a number of other financial metrics. We also considered the maturity and amortization schedule for the New Term Loan.

In evaluating these metrics, we concluded that the plan provides the company with ample liquidity and financial flexibility and enables the company to achieve financial metrics at emergence that compare favorably with other comparable companies operating in our industry. The Plan also provides for minimal debt service amortization over the first three years following the effective date, thereby allowing the company more than adequate time to execute on its business plan to further improve the cash flow and profitability of the business. Finally, execution of its business plan will enable FairPoint to achieve continuous improvement in its key financial and credit metrics such that FairPoint would achieve levels consistent with an investment grade company in the 2011-2012 timeframe.

Q. Please describe the key terms of FairPoint's settlement with its Northern New England labor unions.

A. We have reached a tentative agreement (the "Labor MOU") with the leadership of both the International Brotherhood of Electrical Workers and the Communications Workers of America. This Labor MOU is attached to my testimony as Exhibit AG-2. The Labor MOU is subject to membership ratification and Bankruptcy Court approval, both of which will be sought promptly. The Labor MOU provides for: (i) a one year extension of the term of the Collective Bargaining Agreements, to August 2, 2014; (ii) cancellation of a 3% wage increase previously scheduled for August 2010, to be replaced by a 3% wage increase in August 2013; (iii) elimination of a minimum payment under the Corporate Profit Sharing program and the adoption of the profit sharing methodology applied for FairPoint's non-union employees which provides for a greater level of profit sharing if the company meets or exceeds certain of its financial and operational objectives and a lower level of profit sharing if FairPoint fails to do so; (iv) creation of a joint labor-management committee, the Joint Committee on Operational Effectiveness, which will work with professional facilitators to identify opportunities to achieve a goal of $25 million per year reduction in FairPoint's operating costs; (v) a mutual release of claims by FairPoint and the Unions; and (vi) the authorization for FairPoint to pay matching contributions under its 401K plan in stock rather than cash.

Q. Does this settlement enable the company to meet the relevant financial objectives contained in the business plan financial projections?

A. Yes. We believe this agreement provides the mechanism to enable us to meet the business plan cost reduction targets attributable to the union workforce in a fair and equitable way relative to our union-represented employees in Northern New England. We believe the union leadership and their membership are fully committed to the future success of FairPoint.

Additionally, the modification to the union profit sharing plan, which is provided for in the settlement, provides union employees a greater opportunity to share in the success of the company. It also establishes a formal process to identify and implement future cost savings.

IV. FAIRPOINT'S BUSINESS PLAN AND FINANCIAL PROJECTIONS

Q. Please describe the key business initiatives that are embedded in the financial projections?

A. The Plan contains three critical business initiatives:

1. Continued improvement in our new back-office systems platform. This will enable FairPoint to continue to improve customer service and increase efficiencies across our business processes.

2. Increased cost efficiencies and other operating cost reductions. These cost efficiencies and reductions will be achieved through, among other things, (i) continued improvement in our systems which will enable us to reduce the amount of manual intervention within our processes and complete activities more rapidly; (ii) the implementation of the settlement reached with our Northern New England union leadership; (iii) the renegotiation of many executory contracts, which is being undertaken as part of the bankruptcy process, and (iv) the continued build-out of the VantagePoint network and gradual migration of customers onto that network.

3. Continued build-out of the next generation network, known as VantagePoint. As previously discussed, this network will enable FairPoint to grow revenue by (i) expanding broadband availability through increasing our market reach into new communities; (ii) by enhancing the speeds at which broadband is available to residential and business customers, and (iii) by broadening our product offering through the roll-out of a new suite of IP-based business services beginning later this year.

Q. Can you summarize the primary assumptions used by FairPoint in preparing financial projections?

A. Overall, the financial projections were developed based on recent historical customer, revenue and expense results and projecting forward by applying FairPoint specific and industry trends to these historical results as well as applying the expected impact of the previously described strategic business initiatives which FairPoint is in the process of implementing. The projected revenue, expense, capital expenditure and profitability results were then benchmarked, where possible, against historical and projected peer group data, based upon available information, to assess the reasonableness of the projections. The financial projections reflect the following key assumptions:

1. The projections assume that the Plan will be confirmed and consummated on June 30, 2010.

2. For local and long distance revenue, the projections assume that FairPoint will continue to lose local and long distance voice customers to wireless substitution, wireline competition from competitive local exchange carriers, cable operators and alternative technologies such as VOIP. The projections assume that average monthly revenue per customer for voice local and long distance services will remain relatively flat or decline slightly over the four year period from 2010 through 2013.

3. For access revenue, both interstate and intrastate switched access revenues are assumed to continue to decline, consistent with industry trends, as switched access minutes of use traveling across the network decline and per minute usage rates also decrease. Special access revenues, comprised of special circuits such as DS3s and OCNs, are projected to increase significantly over the four year projection period. As previously stated, this growth will be driven by FairPoint's investment in the VantagePoint network which will enable a new suite of internet protocol services to be offered to the business market, beginning in the second half of 2010.

4. Broadband service is a key element of FairPoint's growth strategy and is also enabled by the VantagePoint network. As previously mentioned, this network will expand broadband availability throughout Maine, New Hampshire and Vermont and will enable faster speeds to many of our customers. Accordingly, the projections assume considerable growth in data subscribers over the forecast period, with customer penetration reaching the levels attained currently in the pre-merger FairPoint markets by 2013.

5. Cost of goods sold, which primarily includes access charges paid to other telephone companies and long distance carriers for voice traffic and third party ISP service costs for data customers, is expected to increase over the projection

period reflecting the growth in revenue from new products and services that generally have lower gross margins.

6. Operating expenses, other than cost of goods sold, are expected to decline during 2010 and 2011. All integration and Cutover related costs are expected to be eliminated in 2010. In addition, 2010 includes the benefit from certain cost savings initiatives expected to occur throughout the year, with a full year's benefit being realized beginning in 2011. In 2012 and 2013, the projections assume flat to slightly increasing operating expenses consistent with modest inflation, offset by continued cost controls and expected productivity improvement.

Q. Based upon these assumptions, can you describe the overall financial results that FairPoint expects to achieve?

A. FairPoint's financial projections reflect a decline in revenue of about **Begin Confidential** **End Confidential** on a normalized basis in 2010 compared to 2009. This decline reflects the expected continued loss of voice access lines, partially offset by growth in broadband and special access business revenue beginning in the second half of 2010 through the roll-out of the new products and services enabled by the VantagePoint network. In 2011 and 2012, the projections reflect revenue growth of **Begin Confidential** **End Confidential**, respectively, as the growth in broadband and special access business revenue exceeds the loss of traditional voice service revenue. In 2013, the financial projections reflect no revenue growth compared with 2012.

In terms of EBITDAR, the projections reflect an EBITDAR margin of approximately **Begin Confidential** **End Confidential** in 2010 which is generally consistent with the margin achieved in 2009. Beginning in 2011, the EBITDAR margin improves steadily reaching the **Begin Confidential** **End Confidential** range in the out years of the business plan. The improvement in EBITDAR reflects both the growth in revenue as well as the reductions in operating expenses described previously.

Finally, in terms of Capital Expenditures, the projections reflect total capital expenditures of approximately $700 million over the four year period 2010 through 2013. In 2010, capital expenditures are projected to be $200 million, or approximately **Begin Confidential** **End Confidential** of revenue, declining gradually to approximately $150 million, or roughly **Begin Confidential** **End Confidential** of revenue by 2013. The aggregate capital expenditures of $700 million over the next four years will enable FairPoint to meet all of its broadband build-out commitments as well as our minimum capital expenditure commitments in Maine, New Hampshire and Vermont.

Q. How do the projected financial ratios for operations under the plan compare to the new requirements of FairPoint's debt instruments?

A. As previously stated, the New Term Loan Agreement will provide for two financial tests, an interest coverage ratio test and a leverage ratio test. In applying these tests against the financial projections, it is clear that the ratios achieved in the financial projections are significantly better than the ratios that will be required in the New Term Loan Agreement. Said differently, the financial projections provide significant cushion compared with the ratios which will be contained in the New Term Loan Agreement. For example, the EBITDAR levels achieved in the projections are between **Begin Confidential** **End Confidential** higher than the minimum levels necessary to achieve the financial tests during the 2010 to 2013 projection period. This information is summarized in Confidential Exhibit AG-2A to my testimony, known as FairPoint's Financial Capacity and Sensitivity Analysis (February 2010).

Q. How do these financial ratios compare to other companies and to the expectations of financial rating agencies?

A. The new capital structure that is set out in our Plan of Reorganization, will result in financial ratios for FairPoint at the time of emergence from Chapter 11 that compare favorably with those of other companies in our industry peer group. Moreover, the financial projections reflect a continual improvement in these key financial ratios over the four year planning period. For example, FairPoint's total leverage ratio (representing total debt divided by EBITDAR) at the time of emergence from Chapter 11 is projected at **Begin Confidential** **End Confidential** EBITDAR. By 2013, the leverage ratio is projected to be reduced to **Begin Confidential** **End Confidential**

EBITDAR. And, on a net debt basis (representing total debt less cash on hand), the leverage ratio is projected to be **Begin Confidential** **End Confidential** by the end of 2013. Here again, these financial ratios are set out in <u>Confidential Exhibit AG-2A</u> to my testimony.

In terms of the rating agencies, Rothschild, our financial advisor, has compared the financial metrics generated in our projections with the ratings scale generally utilized by S&P for companies operating in businesses similar to FairPoint. This analysis demonstrates that our key financial metrics will be in line with a BB rated company at emergence from Chapter 11 and will improve to an investment grade (BBB) level by the 2011-2012 timeframe.

Q. What sensitivity testing has FairPoint conducted with regard to these projections, and what were the results?

A. We conducted a number of sensitivities, including overall sensitivities on EBITDAR. In the EBITDAR sensitivities, we assumed that EBITDAR was reduced by **Begin Confidential** **End Confidential** per year compared with the business plan projections beginning in 2011, or a total aggregate reduction in EBITDAR of nearly **Begin Confidential** **End Confidential** over the three year period from 2011 through 2013.

Further, we conducted a second sensitivity in which we assumed that EBITDAR was reduced by **Begin Confidential** **End Confidential** per year over the same 2011 through 2013 period compared with the business plan financial projections, or an aggregate reduction in EBITDAR of nearly **Begin Confidential** **End Confidential**. These sensitivities are contained in Confidential Exhibit AG-2A to my testimony.

Despite the lower EBITDAR results reflected in these sensitivities, they demonstrate that FairPoint will still have more than sufficient cash flow to fund all of its operating costs and capital expenditures. In addition, while these sensitivities result in a more gradual pay down of the $1.0 billion New Term Loan and less cash on hand than the business plan financial projections, we nonetheless remain in full compliance with the two financial tests contained in the New Term Loan Agreement and our key financial and credit metrics show continuous improvement over the 2010 through 2013 projection period.

Q. Has FairPoint considered the potential impacts of continued access line losses from increased wireless or VOIP competition?

A. Yes, as previously stated, our projections reflect a continued loss of voice access lines to competitors throughout the four year planning horizon. In fact, our projections reflect double digit loss of residential voice access lines in the Northern New England markets, consistent with recent trends, during 2010 and 2011. Beginning in 2012, our projections reflect a moderation in residential voice access line losses to the high single digit range.

Q. Interest rates are at historically low levels. How will rising interest rates impact FairPoint's projections?

A. In determining interest expense in the financial projections, we utilized the LIBOR yield curve, which is published on a daily basis by Bloomberg, as a measure of expected future interest rates at the time the business plan was developed. In addition, it's important to note that the New Term Loan Agreement will contain a LIBOR floor of 2%. As such, until LIBOR exceeds 2% from its current level of approximately 0.25%, the interest expense reflected in the business plan will not be impacted at all.

To be more specific, interest expense in the Business Plan assumes LIBOR rates of 2.0% throughout 2010; 3% by year-end 2011; 3.5% by year-end 2012 and 4.0% by year-end 2013. Based upon a sensitivity analysis run by our financial advisors, for each one percent increase in LIBOR above the floor level of 2% reflected in the business plan for 2010, annual 2010 interest expense would increase by approximately $10 million.

Based upon this sensitivity, we believe there is ample cushion in the business plan financial projections to absorb a significant increase in interest rates beyond the levels assumed. Moreover, upon emergence, FairPoint will have the ability to enter into new interest rate swap agreements to minimize its exposure to rising interest rates. The interest rate sensitivity analysis is summarized in Confidential Exhibit AG-2A to my testimony.

V. FINANCIAL BASIS FOR APPROVAL OF SETTLEMENT AND PLAN

Q. The regulatory settlements with the New Hampshire Staff Advocates, Vermont DPS and the Maine Regulatory Parties require financial commitments on the part of FairPoint, including for capital expenditures, broadband commitments, quality of service and other factors. How does the financial structure resulting from the plan enable FairPoint to meet these requirements?

A. As previously stated, the significant reduction in debt resulting from the restructuring plan will reduce the company's minimum debt service requirements by approximately $175 million annually. This substantial reduction in annual debt service requirements will provide ample liquidity and financial flexibility to insure that all of our operating and capital expenditure requirements are met in the future.

Q. Will FairPoint have the resources under the plan to complete the improvement of its operating systems to bring the company fully to business as usual operations? Please explain.

A. Yes. We believe FairPoint's projections provide for both the financial and human resources necessary to continue to improve our operating systems, which is expected to drive further improvements in customer service.

Q. Following the completion of the Verizon transaction, FairPoint was not able to achieve the level of financial performance forecast in FairPoint's projections. Why is it reasonable to expect that FairPoint will be able to achieve the performance projected in this business plan?

A. We believe FairPoint is in a much better position today to achieve this business plan because the overall risk profile of the company has improved significantly compared to the time of the Verizon transaction. This improved risk profile is driven by the following factors:

1. The integration of the Northern New England business into FairPoint is essentially complete.

2. The senior management team of the company has been significantly strengthened with the hiring of a number of new highly experienced executives from both inside and outside the telecom industry.

3. The cutover from Verizon's systems to the new FairPoint systems has been completed. The new FairPoint operating systems have been in operation for more than one year and they are stable. Improvement plans have been developed with the objective of continuing to enhance the efficiency and effectiveness of the new systems and a timetable for implementation has been developed and is underway.

4. The build out of the Vantage Point network is well underway and the roll-out of a new suite of IP based business services is scheduled to begin later this year.

Q. What additional resources or other protections will be available to FairPoint in the event that one or more of the assumptions underlying the financial projections is not realized?

A. As previously stated, the projections provide significant cushion both in terms of the financial tests that will be contained in the New Term Loan Agreement as well as from a liquidity perspective.

For example, the projections reflect the repayment of nearly $350 million of the new $1 billion Term Loan by the end of 2013. In addition, the projections reflect the steady build-up of cash to more than $400 million by the end of 2013. This cash could be used for a number of purposes, such as further voluntary repayment of debt and/or investment in new projects that are determined to generate a reasonable economic return. The build-up of this cash balance to more than $400 million through cash flow generated from the operations of the business, after giving effect to the $700 million of capital expenditures contained in the projections, is also reflective of the magnitude of cushion that is contained in the financial projections, should one or more of the assumptions not be realized.

Q. Is the New Hampshire Regulatory Settlement just, reasonable and in the public interest? Please explain.

A. Yes. A summary of the regulatory settlements are attached to my testimony as Exhibit AG-3 through Exhibit AG-5. FairPoint believes the New Hampshire Regulatory Settlement, the summary of which is attached to my testimony as Exhibit AG-3, is fair and reasonable and in the public interest. For residents of the State of New Hampshire, it reaffirms FairPoint's broadband and minimum capital expenditure commitments, while providing FairPoint with additional time and flexibility, where necessary, to insure that the capital is deployed in a rational and economic manner. It also insures that FairPoint will continue to operate under a service quality program that will subject us to sizable financial penalties in the future for failing to achieve important service quality metrics.

From FairPoint's perspective, the settlement enables us to maintain, and redeploy into the business, funds that would have been paid for past service quality issues, if we can demonstrate improvement by meeting those service quality metrics in 2010. The settlement also provides some pricing flexibility for unregulated services so that we can price those services more in line with the cost of providing such service.

Q. Does the Plan provide the financial resources so that operations under the Plan will not have an adverse effect on rates, terms, service and operations of Northern New England Telephone Operations LLC within the State of New Hampshire? Please explain.

A. Yes, for the reasons that I have stated above.

Q. As part of its petition, FairPoint has requested that the Vermont Public Service Board modify or eliminate certain merger approval conditions—including several financial conditions—imposed when the transaction was approved. Please explain the rationale behind FairPoint's request.

A. The modifications to the merger approval order issued by the Public Service Board, as proposed in the Vermont Regulatory Settlement, are summarized in Exhibit AG-4 attached to my testimony. The Vermont Regulatory Settlement includes, among other things, (i) a six month extension to the broadband timetable (from December 31, 2010 to June 30, 2011), if FairPoint meets certain conditions; (ii) a broadband build out plan designed to achieve 95% availability in 50% of the exchanges with the remaining 5% to be built out based upon customer demand; (iii) the deferral and, under certain conditions, a waiver, of the remaining 2008 and all of the 2009 SQRP penalties, (iv) the utilization of broadband build out penalties, if any, towards network enhancement projects in FairPoint's network, and (v) the ability to seek authorization to utilize High Cost Universal Service funds for network improvement projects, including the build-out of the remaining 5% broadband availability.

We believe the terms of this Settlement Agreement are fair and reasonable and in the public interest. For residents of the State of Vermont, it reaffirms FairPoint's broadband commitment, while providing FairPoint with additional time and flexibility, where necessary, to insure that the capital is deployed in a rational and economic manner. It also insures that FairPoint will continue to operate under a service quality program that will subject us to sizable financial penalties in the future for failing to achieve important service quality metrics.

From FairPoint's perspective, the settlement enables us to maintain, and redeploy into the business, funds that would have been paid for past service quality issues, if we can demonstrate improvement by meeting those service quality metrics in 2010. The settlement also provides FairPoint the opportunity to seek funding, through the High Cost Universal Service funds, to defray the high cost associated with the build-out of the last 5% of broadband availability. In the event utilization of such funds is not approved, the Settlement enables FairPoint to meet the broadband build-out commitment in sparsely-populated high cost areas based upon consumer demand thereby reducing the risk of stranded investment.

Q. Why should the Board conclude that this request to modify or eliminate these conditions will promote the general good of Vermont?

A. These changes support the company's efforts to emerge from Chapter 11 as quickly as possible and on a sound financial footing and provide FairPoint with reasonable incentives to continue to improve service quality and deploy broadband.

Q. The Vermont Regulatory Settlement also includes several new conditions. Please explain why these new conditions will promote the general good of Vermont.

A. The new conditions include the opportunity to apply to the Board to use three consecutive years of Universal Service Funds to provide additional funding to continue the broadband build-out up to 100% availability in 50% of the exchanges. The Settlement also provides FairPoint with the flexibility to resell other broadband services, under certain conditions, in order to meet FairPoint's broadband commitments. This flexibility recognizes that technologies will evolve and change over time and it affords FairPoint the opportunity to consider the benefits of those changes as part of its product and service offerings.

Another new condition calls for the establishment of a Regulatory Sub-committee of the Board of Directors to monitor compliance with the Merger Order and the Settlement Agreement. Additionally, while we have recently hired an interim Chief Information Officer (CIO) the Settlement Agreement requires us to have a permanent CIO in place by June 30, 2010 to help ensure that a strategic focus is placed on the continual improvement of the company's operational systems. This in turn will lead to continued improvement in customer service quality and help insure the timely and successful deployment of new products and services to meet the needs of our customers.

Other new conditions align management bonuses with both company's profitability and service quality and permit dividend payments to occur during the next two years only if we remain in compliance with the Settlement Agreement. Finally, the company has agreed to reimburse the State for all associated out-of-pocket costs and expenses incurred in connection with FairPoint's Chapter 11 case and the Settlement Agreement.

Q. Is the Maine Regulatory Settlement just, reasonable and in the public interest? Please explain.

A. Yes. The Maine Regulatory Settlement is summarized in <u>Exhibit AG-5</u> attached to my testimony. While many of the terms of the Maine Regulatory Settlement are the same or substantially similar to the Vermont and New Hampshire Regulatory Settlements, there are several important differences. First, under the Maine Regulatory Settlement, FairPoint and the Maine Public Utilities Commission agreed to submit a joint consent order to the Bankruptcy Court which provides for the implementation of the SQI rebates for the 2008-2009 SQI year starting in March 2010. Providing these rebates to customers in the State of Maine is subject to FairPoint's right to credit such rebates against future service quality rebates that are required to be paid by FairPoint, in the event the Regulatory Settlement is not approved by the Maine Public Utilities Commission. This arrangement provides a reasonable resolution to the SQI rebate issue, while preserving the rights of the parties in the event the Maine Regulatory Settlement is not approved.

Second, the deadline for FairPoint's initial 83% broadband build out requirement in Maine will be extended from April 1, 2010 to December 31, 2010. An additional interim broadband build out requirement of 85% is established with a July 31, 2012 deadline, and the final broadband build out requirement with a March 31, 2013 deadline, will be reduced from 90% to 87%. If FairPoint fails to meet these requirements, however, then FairPoint shall be required to achieve 90% broadband build out by March 31, 2014. The additional time and flexibility accorded by these changes will allow for the deployment of capital in a rational and economic manner, and comprise a significant component of FairPoint's business plan for emergence from Chapter 11. An orderly and expeditious emergence from Chapter 11 is in the best interests of FairPoint and its customers.

Third, the parties to the Maine Regulatory Settlement will recommend that, effective January 1, 2011, the Maine Commission rescind the requirement in the 2008 Merger Order that requires FairPoint to price its broadband services at uniform statewide rates, provided that during the subsequent two-year period FairPoint's prices for broadband services do not exceed 120% of the prices of equivalent services provided in FairPoint's "classic" or "legacy" service regions, which are the regions in Maine in which FairPoint provided telephone service prior to the issuance of the Maine Commission's 2008 merger approval order. The pricing flexibility which would be restored by this provision would allow FairPoint to price the affected services in a more economic manner, and also comprises a significant component of FairPoint's business plan for emergence from Chapter 11, which is in the interests of FairPoint and its customers.

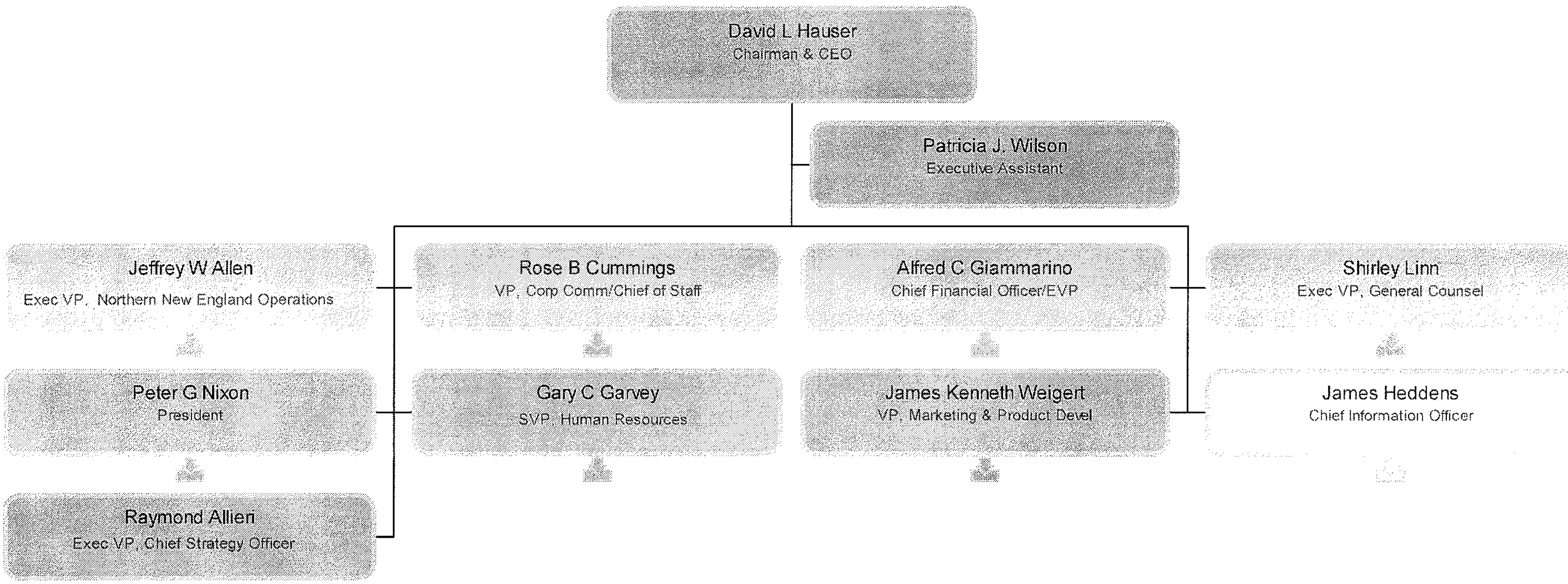
Q. Are there other benefits to the general public arising from the Regulatory Settlement Agreements in each of Maine, New Hampshire and Vermont?

A. Yes. The Regulatory Settlements, if approved in their entirety by the respective regulatory agencies in the Northern New England states, allow FairPoint and the States to avoid protracted litigation. While I am not a lawyer, I understand that without these Regulatory Settlements extensive litigation is possible with respect to issues related to the jurisdiction of the state regulators to regulate FairPoint in certain respects and the effectiveness of the conditions to the merger as contained merger orders issued by the state regulators in 2008. Other issues may exist as well. If approved, the Regulatory Settlements allow the parties to avoid litigating such disputes in the Bankruptcy Court and facilitates FairPoint's efforts to exit bankruptcy in an expeditious manner. If the Regulatory Settlements are not approved in their entirety, absent further conditions, FairPoint may terminate the agreements and may proceed to litigate the issues in the Bankruptcy Court. FairPoint does believe such an outcome would be beneficial to any of the parties to the regulatory proceedings in the Northern New England states or FairPoint's customers.

Q. Does this conclude your testimony?

A. Yes, it does.

Exhibit AG-1



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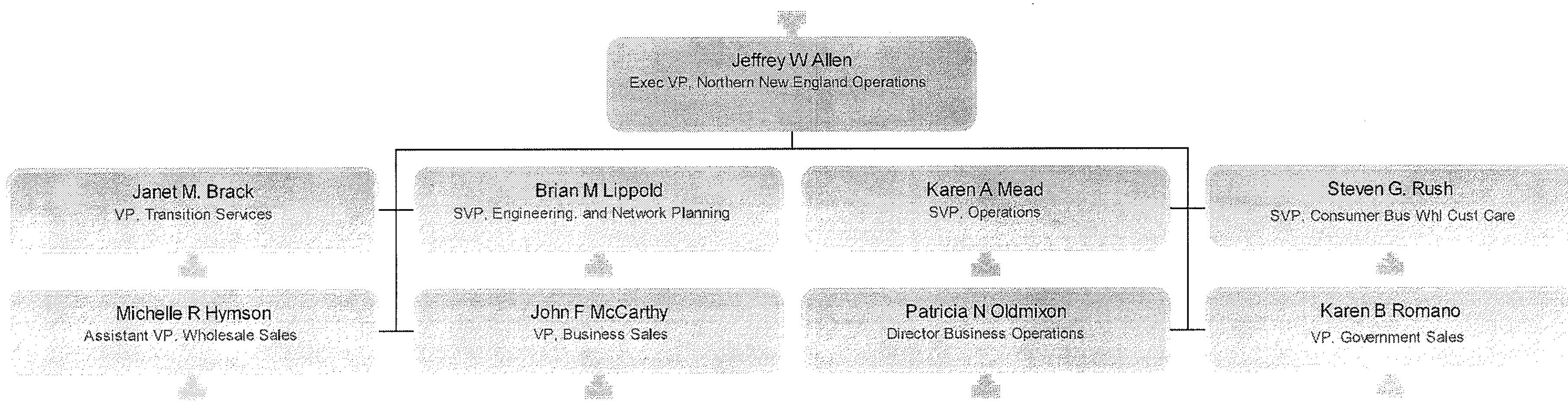
NNE Employees TELECOM Employees Contractor

FairPoint communications℠



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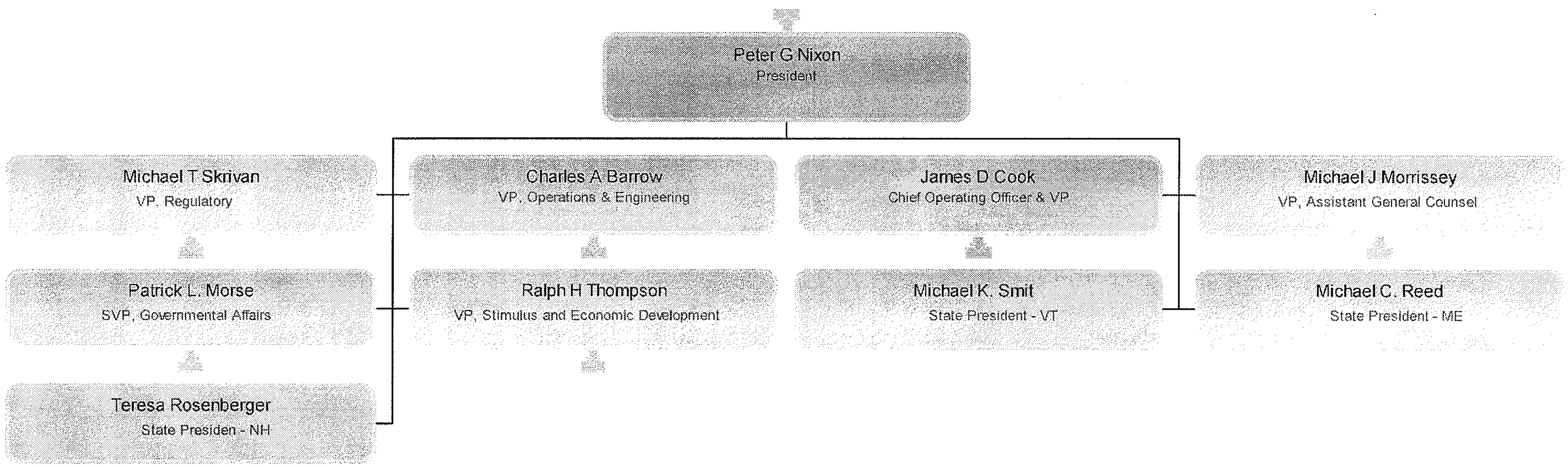

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NNE Employees TELECOM Employees Contractor

Brian M Lippold
SVP, Engineering and Network Planning

- **John J Lunny** — VP, Network Planning
- **Erin Murphy Austin** — VP, Outside Plant Engineering
- **Marie H Samson** — Director Engineering and Planning Support

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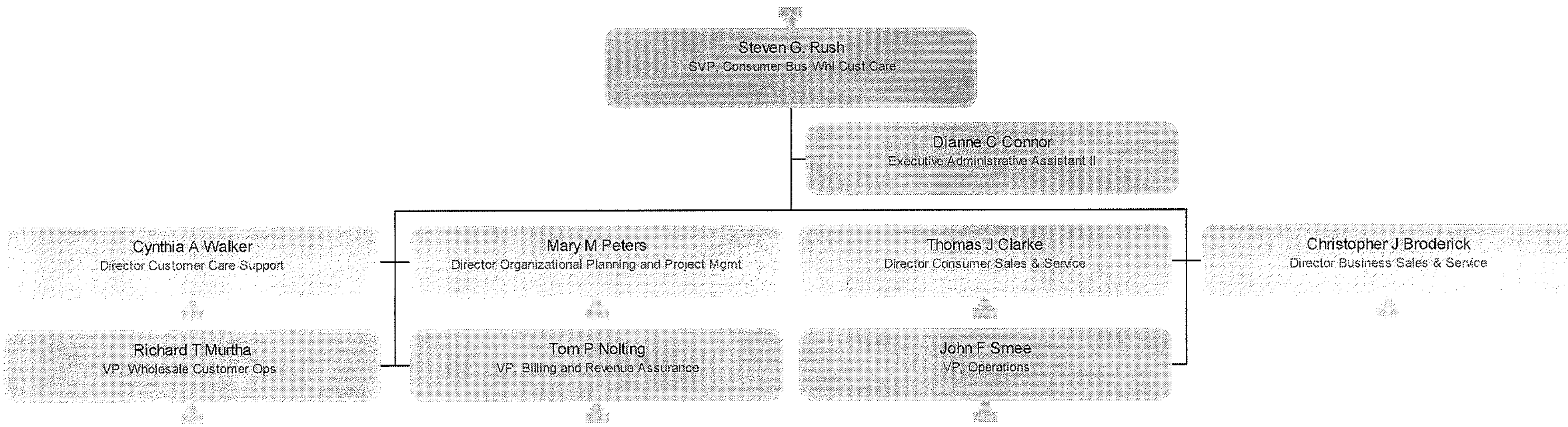

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Exhibit AG-2 Summary of the Memorandum of Understanding between FairPoint and the International Brotherhood of Electrical Workers and the Communications Workers of America

FairPoint Communications initiated discussions with the NNE Unions during the summer of 2009 in order to advise them of the financial issues confronting FairPoint Communications and to seek their support and cooperation in making adjustments to the CBAs in order to assist FairPoint Communications in addressing those financial issues. Those discussions continued following the filing of the Chapter 11 Cases, concluding in a 2010 Memorandum of Understanding (the "Labor MOU") signed by the parties on February 1, 2010. The Labor MOU is subject to membership ratification and Bankruptcy Court approval, both of which will be sought promptly. The Labor MOU provides for (1) a one year extension of the term of the CBAs, to August 2, 2014; (2) cancellation of a 3% wage increase previously scheduled for August 2010, to be replaced by a 3% wage increase in August 2013; (3) elimination of a minimum payment under the corporate profit sharing program and the adoption of the profit sharing methodology applied for FairPoint Communications' non-union employees which provides for a greater level of profit sharing if the Company meets or exceeds its financial objectives and a lower level of profit sharing if FairPoint Communications fails to do so; (4) creation of a joint labor-management committee, the Joint Committee on Operational Effectiveness, which will work with professional facilitators to identify opportunities to achieve a goal of $25 million per year reduction in FairPoint Communications' operating costs; (5) a mutual release of claims by FairPoint Communications and the Unions; and (6) the authorization for FairPoint Communications to pay matching contributions under its 401K plan in stock rather than cash.

Exhibit AG-3 Summary of the New Hampshire Regulatory Settlement

The New Hampshire Regulatory Settlement, which is subject to the approval of the New Hampshire PUC, provides for, among other things, the following:

Service Quality Requirements:

- FairPoint will commit to meet the broadband build out and capital investment requirements and continue operating under the SQI service quality program of the January 23, 2008 Settlement agreement (the "NH 2008 Settlement") among Verizon, FairPoint and the staff of the New Hampshire Public Utilities Commission (the "NHPUC") and Order No. 24,823 in Docket DT 07-011 (the "NH 2008 Order") subject to modifications described in the New Hampshire Regulatory Settlement.

- Service quality penalties for 2009 will be deferred until December 31, 2010. If FairPoint meets specified service levels on average in five performance areas over the twelve calendar months in 2010, the 2009 penalties will be waived. If FairPoint meets the service objectives for some but not all of these five performance areas, the penalties will be reduced by 20% for each performance area specified for which FairPoint meets specified service levels on average over the 12 calendar months in 2010.

Broadband Commitments:

- FairPoint has agreed to adhere to the broadband coverage commitments prescribed in the NH 2008 Order; however, certain broadband build-out commitments with a deadline of April 1, 2010 are extended to December 31, 2010.

- FairPoint confirmed its commitment to spend a total of at least $56.4 million on its New Hampshire broadband build-out.

- FairPoint will have the option to resell terrestrial (non-satellite) based service providers' broadband service offerings in order to fulfill FairPoint's broadband build out and/or service requirements with respect to the last eight percent (8%) of FairPoint's broadband availability requirements as contained within the NH 2008 Settlement, provided that the services meet or exceed all requirements of the NH 2008 Order, and the resold services are purchased through and serviced by FairPoint.

- Pricing restrictions regarding stand-alone DSL service will terminate on April 1, 2011; provided, however, that FairPoint will continue to honor the "for life" pricing that Verizon had offered to certain customers.

- The first $500,000 of any penalty amounts resulting from any failure to meet broadband commitments will be paid to the New Hampshire Telecommunications Planning and Development Fund. Any penalties above $500,000 will be invested within three years of the date of the penalty as additional expenditures for FairPoint's network, subject to NHPUC approval.

Expenditure Commitments:

- FairPoint reconfirmed its commitment to spend $285.4 million in capital expenditures through March 31, 2013, of which $157.6 million has been spent through December 31, 2009 (subject to verification through a reconciliation of FairPoint's New Hampshire capital expenditures to the consolidated capital expenditures in its 2009 consolidated financial statements).

- FairPoint will reduce its $65 million "other expenditure" commitment by $10 million and to reallocate the $10 million to recurring maintenance capital expenditures to be spent on or before March 31, 2013. (This $10 million increases the $285.4 million capital expenditure commitment to $295.4 million.)

- FairPoint may further reduce its $65 million "other expenditure" commitment by any amount exceeding $56.4 million as needed to achieve 95% broadband availability and are actually expended, up to $10.5 million.

- FairPoint may further reduce its $65 million "other expenditure" commitment by $4.5 million of capital expenditures already expended in excess of amounts estimated to develop FairPoint's next generation network.

- FairPoint will have from April 1, 2010 to March 31, 2015 to meet whatever "other expenditure" commitment remains after the preceding reductions, which will be spent on "network enhancing activities."

Financial Commitments:

- Certain of the financial conditions of the NH 2008 Settlement and the NH 2008 Order are replaced by the terms of the New Hampshire Regulatory Settlement and are satisfied or rendered moot by the debt reductions resulting from the Plan.

Management Commitments:

- FairPoint's New Board will consist of a supermajority of newly appointed independent directors. At least one member of the New Board will reside in northern New England.

- The New Board will appoint a "regulatory sub-committee" that will monitor compliance with the terms of the NH 2008 Order, as modified by the New Hampshire Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine.

- FairPoint will maintain a state president who will provide a senior regulatory presence in New Hampshire and is able to reasonably respond to various future FairPoint-based NHPUC dockets or regulatory issues relating to telecommunications.

- FairPoint has agreed to continue its search for a Chief Information Officer with a goal of having a Chief Information Officer in place by June 30, 2010.

- FairPoint has agreed that any management bonuses will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for the FairPoint in total.

Other:

- FairPoint will reimburse the State of New Hampshire for its costs and expenses in the Chapter 11 Cases.

- FairPoint will not agree with Maine or Vermont to materially different terms taken as a whole pertaining to the Plan, or, if applicable, to any related approval for a change in control without first offering them to the Staff Advocates.

- During the first two years following the Effective Date of the Plan, FairPoint is barred from paying dividends if FairPoint is in material breach of the New Hampshire Regulatory Settlement.

- FairPoint intends for the New Term Loan and the New Revolver to contain substantially the same material terms and conditions as contained in the Plan. In addition, Northern New England Telephone Operations LLC will not guarantee or otherwise be liable for, nor will any of its assets be mortgaged or pledged (excluding only the membership interests of Telephone Operating Company of Vermont LLC) to secure the obligations of FairPoint under the New Term Loan and the New Revolver.

- In a separate memorandum of understanding, the New Hampshire Office of the Consumer Advocate has agreed not to oppose the New Hampshire Regulatory Settlement.

FairPoint will seek approval of the New Hampshire Regulatory Settlement in connection with the confirmation of the Plan.

Exhibit AG-4 Summary of the Vermont Regulatory Settlement

The Vermont Regulatory Settlement provides for, among other things, the following:

Service Quality Requirements:

- In general, all of the service quality programs contained in the January 8, 2008 settlement agreement among Verizon, FairPoint and the DPS (the "VT 2008 Settlement") and the February 15, 2008 Order RE: MODIFIED PROPOSAL IN Docket Number 7270 (the "VT 2008 Order") will remain in place subject to the modifications described in the Vermont Regulatory Settlement.

- Service quality penalties for 2008 and 2009 will be deferred until December 31, 2010. If FairPoint meets specified service objectives on average in ten performance areas over the twelve calendar months in 2010, the 2008 and 2009 penalties will be waived. If FairPoint meets the service objectives for some but not all of these ten performance areas, the penalties will be reduced by 10% for each performance area specified for which FairPoint meets specified service levels on average over the 12 calendar months in 2010.

Broadband Commitments:

- FairPoint has agreed to adhere to the broadband milestone penalties prescribed in the 2008 Order; however, the broadband build-out milestone penalties will not be enforced prior to June 30, 2011, provided that FairPoint files a broadband permitting and construction plan with an appropriate regulatory body by May 1, 2010, files all necessary permit applications by October 1, 2010, and undertakes commercially practicable efforts to implement the plan. The broadband permitting and construction plan will at a minimum identify tower sites and set a schedule for permitting and construction.

- FairPoint will undertake to deploy broadband services to 95% of all access lines in those exchanges that have been identified for 100% broadband availability in the VT 2008 Order (the "100% Exchanges") by June 30, 2011. With respect to the remaining 5% of lines in the 100% Exchanges, FairPoint will deploy broadband to any requesting customer using an extended service interval of 90 days from the date of the receipt of the order from the customer, provided such order is made no sooner than June 30, 2011. Failure to meet such requirements will require FairPoint to waive certain service charges.

- FairPoint also will request that the Board authorize FairPoint to use Federal High Cost Universal Service Funds ("USF") for three consecutive years to upgrade plant and infrastructure in the 100% Exchanges, in order to improve FairPoint's service quality and network reliability. If the Board authorizes FairPoint to use the USF, and to the extent permitted by FCC rules, FairPoint will invest the USF in network infrastructure that will support the deployment of broadband services to an additional 5% of access lines on a timeline that varies depending on the date of the Board's authorization.

- FairPoint will have the option to resell terrestrial (non-satellite) based service providers' broadband service offerings in order to fulfill FairPoint's broadband build out and/or service requirements as contained in the VT 2008 Order, provided that the services meet or exceed all requirements of the VT 2008 Order as modified by the Vermont Regulatory Settlement, and the resold services are purchased through and serviced by FairPoint.

- Penalty amounts resulting from any failure to meet broadband deployment requirements will be managed by FairPoint with funds deposited into an escrow fund, which will reimburse FairPoint for costs incurred for additional network projects completed within 18 months of the date of the penalty, subject to the approval of DPS.

Capital Investment Commitments:

- FairPoint will meet the capital investment requirements of the VT 2008 Order.

Financial Commitments:

- Certain of the financial conditions of the VT 2008 Settlement and the VT 2008 Order are replaced by the terms of the Vermont Regulatory Settlement and are satisfied or rendered moot by the debt reductions resulting from the Plan.

Management Commitments:

- FairPoint's New Board will consist of a supermajority of newly appointed independent directors. At least one member of the New Board will reside in northern New England.

- The New Board will appoint a "regulatory sub-committee" that will monitor compliance with the terms of the VT 2008 Order, as modified by the Vermont Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine.

- FairPoint will maintain a state president who will provide a senior regulatory presence in Vermont and be able to reasonably respond to various future FairPoint-based dockets or regulatory issues relating to telecommunications.

- FairPoint has agreed to continue its search for a Chief Information Officer with a goal of having a Chief Information Officer in place by June 30, 2010.

- FairPoint has agreed that any management bonuses will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for the FairPoint in total.

Other:

- FairPoint will reimburse the State of Vermont for its costs and expenses in the Chapter 11 Cases.

- FairPoint will not agree with Maine or New Hampshire to materially different terms taken as a whole pertaining to the Plan or, if applicable, to any related approval for a change in control without first offering them to the DPS and/or Vermont Board.

- During the first two years following the Effective Date of the Plan, FairPoint is barred from paying dividends if FairPoint is in material breach of the settlement described on the Vermont Regulatory Settlement.

- Contingent on FairPoint's compliance with the terms of the Vermont Regulatory Settlement and other applicable laws, DPS will request that the proceeding in Docket 7540, regarding revocation or modification of FairPoint's Certificate of Common Good, be terminated and the docket closed.

The Vermont Regulatory Settlement is conditioned on DPS receiving and finding acceptable a business plan demonstrating FairPoint's ability to meet its obligations under the Vermont Regulatory Settlement and its feasibility to operate as a going concern over the long term in a manner consistent with Vermont utility regulation.

FairPoint will seek approval of the settlement described on the Vermont Regulatory Settlement in connection with the confirmation of the Plan.

Exhibit AG-5 Summary of the Maine Regulatory Settlement

The Maine Regulatory Settlement, which is subject to the approval of the MPUC, provides for, among other things, the following:

General:

- FairPoint will comply with the MPUC's February 1, 2008 Order issued in Docket Nos. 2007-67 and 2005-155, and all stipulations approved thereby (the "2008 Merger Order"), subject to certain exceptions for the reimbursement of claims of third parties, which the Maine Regulatory Parties will recommend remain subject to applicable bankruptcy law, and subject further to certain revisions to the provisions in the 2008 Merger Order regarding, among other things, broadband buildout, capital investment and the SQI program.

Service Quality:

- FairPoint and the MPUC agree to submit a joint consent order to the Bankruptcy Court which provides for the implementation of the SQI rebates for the 2008-2009 SQI year starting in March 2010, subject to FairPoint's right to credit such rebates against future service quality rebates that are required to be paid by FairPoint, in the event the Regulatory Settlement is not approved by the MPUC and the Bankruptcy Court subsequently enters an injunction against payment of rebates for the 2008-2009 SQI year.

Broadband:

- The deadline for FairPoint's initial 83% broadband buildout requirement will be extended from April 1, 2010 to December 31, 2010. An additional interim broadband buildout requirement of 85% is established with a July 31, 2012 deadline, and the final broadband buildout requirement with a March 31, 2013 deadline, will be reduced from 90% to 87%. However, if FairPoint fails to meet these requirements, FairPoint shall be required to achieve 90% broadband buildout by March 31, 2014. If FairPoint meets the 87% requirement by March 31, 2013, FairPoint will contribute $100,000 to the ConnectME Authority on July 1, 2013. FairPoint also agrees that by March 31, 2013, it will achieve broadband buildout of 82% for lines in UNE Zone 3.

- In meeting its broadband buildout requirements beyond 85%, FairPoint may resell the broadband service offerings of other non-satellite providers in order to meet its buildout and/or service requirements, provided that the services meet or exceed all requirements of the 2008 Merger Order, the resold services are purchased through and serviced by FairPoint, and the MPUC Staff approves the provider(s). The MPUC Staff's approval may not be unreasonably withheld and if the MPUC Staff does not deny within 30 calendar days FairPoint's request to resell the services of a particular provider, FairPoint's request will be approved automatically.

- The Maine Regulatory Parties will recommend that, effective January 1, 2011, the MPUC rescind the requirement in the 2008 Merger Order that requires FairPoint to price its broadband services at uniform statewide rates, provided that during the subsequent two-year period FairPoint's prices for broadband services do not exceed 120% of the prices of equivalent services provided in FairPoint's "classic" or "legacy" service regions, which are the regions in Maine in which FairPoint provided telephone service prior to the issuance of the 2008 Merger Order.

Financial:

- The Maine Representative will recommend that the MPUC find that the financial conditions in the 2008 Merger Order are replaced by the terms of the Maine Regulatory Settlement, are satisfied or have been rendered moot by the debt reductions resulting from the Plan. The Maine Regulatory Parties will recommend that the MPUC not impose financial covenants in addition to those imposed in any loan or credit agreements executed by FairPoint in connection with the Plan.

Management:

- FairPoint's New Board will consist of a supermajority of newly appointed independent directors. At least one member of the New Board will reside in northern New England.

- The New Board will appoint a "regulatory sub-committee" that will monitor compliance with the terms of the 2008 Merger Order, as modified by the Maine Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine.

- FairPoint will continue its search for a Chief Information Officer with a goal of having a Chief Information Officer in place by June 30, 2010.

- FairPoint has agreed that any management bonuses will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics, and that the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for FairPoint in total, and that, once established, FairPoint will disclose such service metrics to the Maine Regulatory Parties.

<u>Other</u>:

- FairPoint will reimburse the Maine Regulatory Parties for actual, reasonable costs and expenses in the Chapter 11 Cases.

- FairPoint will not agree with the Staff of the NHPUC, the New Hampshire Office of the Consumer Advocate, or the DPS to materially different terms taken as a whole pertaining to the Plan, or, if applicable, to any related approval for a change in control without also offering them to the Maine Regulatory Parties.

- The Maine Regulatory Parties will file a proposed schedule for the MPUC approval process, which shall provide that approval of the Maine Regulatory Settlement and any change of control will be ripe for MPUC decision within 90 days of the filing by FairPoint of the application for approval.

- FairPoint, the MPUC and Maine Regulatory Parties reserve their legal rights and arguments regarding legal issues related to the jurisdiction of the MPUC and the Bankruptcy Court.

FairPoint expects to seek approval of the Maine Regulatory Settlement in connection with the confirmation of the Plan.