



Rating Action: FairPoint Communications, Inc.

Moody's downgrades FairPoint's CFR to Caa2; Outlook is negative

New York, June 29, 2009 -- Moody's Investors Service downgraded FairPoint Communications, Inc.'s ("FairPoint" or "the company") corporate family rating ("CFR") to Caa2 from B3 following the company's announcement that it had commenced a tender offer to exchange its 13-1/8% senior unsecured notes, due 2018, for new notes, which will be substantially identical to the old notes, with the only differences being the company's ability to utilize a PIK toggle option on the notes, and extending the maturity by one day until April 2, 2018. Ratings for the company's secured and unsecured debt were also lowered, as outlined below. The rating actions conclude the review for downgrade initiated by Moody's on March 17, 2009. The downgrade of the CFR is based on Moody's expectation of a high default probability and a lower, though still above-average estimated recovery rate across all debt instruments. FairPoint's probability of default rating (PDR) is Caa3, reflecting the still high risk of further default within its capital structure. The rating outlook is negative.

The tender offer is conditional on 95% of the holders accepting the exchange, which expires on July 22, 2009, with the net effect being a reduction of the company's cash interest expense in the second and third quarters of 2009 to help it stay in compliance with the interest coverage covenant for those two quarters. FairPoint also warned in its filings that, absent the exchange, it may not be able to make the scheduled October 1, 2009 interest payment on the notes. These key features and the targeting of the pending covenant defaults cause the transaction to be viewed as analogous to a partial restructuring and a deemed limited default by Moody's.

The Caa3 PDR will prevail during the tender offer process. If the tender closes, the PDR will be repositioned to Caa3/LD to reflect conclusion of the limited default that will have then occurred. The "/LD" suffix will be removed after three business days. If the tender does not close, the "/LD" designation will not be placed on the PDR. However, the ratings and the negative outlook reflect Moody's belief that further restructuring of the balance sheet is inevitable, as the company's current capital structure is unsustainable based on the probable EBITDA and cash flow that the company will generate from its operations in relation to its debt structure over the forward rating horizon.

The following summarizes the rating actions taken by Moody's today:

Downgrades:

..Issuer: FairPoint Communications, Inc.

....Corporate Family Rating, Downgraded to Caa2 from B3

....Senior Secured Bank Credit Facility, Downgraded to Caa1 from B2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ca from Caa3

Outlook: Changed to Negative from Rating Under Review

Moody's believes that the ongoing issues with rectifying systems transition concerns will further delay the company's revenue enhancement initiatives, which will increase the company's adjusted Debt/EBITDA leverage in the near term. Although the company may have the capacity to generate over \$200 million in free cash flow after 2009, near term free cash flow generation continues to be strained by the systems remediation efforts and the lack of near-term visibility of the company's ability to accurately bill and collect its revenues.

The principal methodology used in rating FairPoint was Moody's Global Telecommunications Industry rating methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory (December 2007, document #106465).

Moody's most recent rating action for FairPoint was on May 6, 2009. At that time, Moody's downgraded FairPoint's corporate family rating ("CFR") to B3 from B1 and its probability of default rating ("PDR") to Caa3 from B1, and maintained a review for possible further downgrade reflecting the heightened risk of debt impairment within its capital structure.

Fairpoint, headquartered in Charlotte, NC, is the eight largest wireline telecommunications company in the US, serving about 1.4 million access lines in primarily rural areas and small- and medium-sized cities.

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