David Brevitz, C.F.A.
3623 SW Woodvalley Terrace
Topeka, Kansas 66614
785-266-8769, dbrevitz@cox.net

General

Mr. Brevitz is an independent telecommunications consultant, a Chartered Financial Analyst and has more than twenty-six years of experience in government affairs and telecommunications regulation/de-regulation. He previously served in management positions with industry regulatory organizations. He is a former Chief of Telecommunications for the Kansas Corporation Commission ("KCC"). He is familiar with the details of the FCC's implementation of the Telecommunications Act of 1996, and has provided expert testimony on numerous issues including telco local division spin-offs, competition, industry and market structure, service bundles, substitutability of VoIP and wireless for local exchange service, resale, unbundled elements, TELRIC/cost studies, network modernization, access charges, rate design, cost allocations, universal service and other matters.

Professional Designation and Community Service

Mr. Brevitz has achieved designation as Chartered Financial Analyst from the Institute of Chartered Financial Analysts ("ICFA") in 1984. The ICFA is the organization which has defined and organized a body of knowledge important for all investment professionals. The general areas of knowledge are ethical and professional standards, accounting, statistics and analysis, economics, fixed income securities, equity securities, and portfolio management.

Mr. Brevitz is Past President of the Topeka Kiwanis Club (1988 – 1999). He has served numerous terms on the Board of Directors of the Club, has been recognized by Kiwanis International as a George F. Hixson Fellow, and has his name inscribed on the Kiwanis International Foundation Tablet of Honor.

Mr. Brevitz is currently serving as Treasurer of Topeka Ice, a non-profit organization organized to build an ice rink for community use in Topeka, Kansas. He also currently serves as Treasurer of the Kansas City Junior Outlaws High School Hockey team (Tier II). In addition, he has served two terms as President of the Topeka Junior Scarecrows Hockey Association and two terms as Treasurer.

Recent Relevant Experience

- **1999-Current, Kansas Corporation Commission Advisory Staff:** Mr. Brevitz is serving as advisor to the Commissioners on telecommunications technical and policy matters, including determinations on state universal service fund issues; spin-off of Sprint/United's Local Telecommunications Division (now Embarq); application of price cap regulation to Southwestern Bell-Kansas and Sprint/United Telephone (now Embarq); designation of wireless

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carriers and other entities as Eligible Telecommunications Carriers; arbitrations between carriers pursuant to the Federal Telecommunications Act; Southwestern Bell–Kansas' Section 271 application; pricing and costing of unbundled network elements for Southwestern Bell and Qwest; modification of the Kansas Universal Service Fund to be cost based consistent with state and federal law; adaptation of the FCC cost proxy model for intrastate use; rate rebalancing and DSL deployment; Digital Subscriber Line (DSL) matters; legislative issues; advanced services; access charge restructure; collocation; and, toll dialing parity and carrier of last resort as examples.

- **2007 to current, FairPoint/Verizon Merger/Acquisition of New England State Operations:** Mr. Brevitz is working on behalf of the Maine Office of Public Advocate to assess the proposed spin off of Verizon operations in Maine, New Hampshire and Vermont and subsequent merger with and into FairPoint Communications, in a reverse Morris trust transaction. The assessment includes evaluating financial projections of the company in support of financial viability of the proposed transaction; financial analyses associated with the proposed transaction performed by the company and investment advisors; and implications of resulting debt leverage and structure of the company as "high debt/high dividend".

- **2007 to current, FairPoint/Verizon Merger/Acquisition of New England State Operations:** Mr. Brevitz is working on behalf of the New Hampshire Office of Consumer Advocate to assess the proposed spin off of Verizon operations in Maine, New Hampshire and Vermont and subsequent merger with and into FairPoint Communications, in a reverse Morris trust transaction. The assessment includes evaluating financial projections of the company in support of financial viability of the proposed transaction; financial analyses associated with the proposed transaction performed by the company and investment advisors; and implications of resulting debt leverage and structure of the company as "high debt/high dividend".

- **April 2007, PURC Advanced Training Course on Regulatory Economics and Process: Interconnection, Pricing and Competition:** Mr. Brevitz developed and presented three courses to members of the National Telecommunications Commission from Thailand. The courses covered accounting separation, case study on a rate proposal, and principles and practices for rate rebalancing.

- **January, 2007, 21st International Training Program on Utility Regulation:** Mr. Brevitz developed and presented training sessions on accounting separation, rate rebalancing (case study), and universal service obligations to the semi-annual training program for regulatory agency staff and commissioners worldwide. The training program is provided by the Public Utilities Research Center at the University of Florida in Gainesville.

- **2006-Current, Telecommunications Training for Regulatory Agency for Telecommunications (RATEL) in Serbia:** Mr. Brevitz is working to assist RATEL in implementation of new polices designed to open telecommunications markets in Serbia to competition. Issues being addressed include cost orientation of prices (rate rebalancing),

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universal service funds, interconnection, administrative procedures, internet telephony, and spectrum management.

- **2006-2007, Embarq UNE Loop Pricing Application:** Mr. Brevitz is working to assist the Bureau of Consumer Protection in the Nevada Attorney General's office in its assessment of Embarq's proposal to increase rates for the unbundled loop. This work includes assessment of Emabarq's proposed UNE loop cost model and its inputs, FCC orders which speak to TELRIC costing and UNE pricing, and use of the mapping program to support Embarq's proposed cost model.

- **"Assessing Pricing Behavior Under Deregulation"**: Presentation at the NASUCA Mid-Year Meeting, June 14, 2006, Memphis Tennessee.

- **2006 Spin-off of Windstream from Alltel**: On behalf of the Kentucky Attorney General (Office of Rate Intervention), Mr. Brevitz formulated discovery, and analyzed and addressed information relevant to the proposed spin-off of the local telecommunications operations from Alltel Corporation and subsequent merger with Valor Communications. Prefiled testimony was provided before the Kentucky PSC addressing the excessive debt burden placed on "SpinCo" by Alltel; conflicting company claims regarding merger synergies; lack of basis for claimed increased buying power; and non-arms-length nature of decisions and transactions in the proposed spin-off.

- **2005 Rate and Revenue Requirement Review of Saco River and Pine Tree Telephone Companies**: On behalf of the Maine Public Advocate's Office, Mr. Brevitz addressed revenue requirement levels for both companies, including detailed review of expense levels and trends, expanded calling plan criteria and data, and detailed review of holding company organization and charges between affiliates.

- **2005 Price Deregulation of Basic Local Exchange Service**: On behalf of AARP, Mr. Brevitz provided comments before the Public Utilities Commission of Ohio regarding final rules to implement procedures for addressing price deregulation applications. The comments addressed the need for effective competition to be demonstrated before approving price deregulation of BLES; market segmentation between stand-alone BLES and service bundles; barriers to entry; current competitive market conditions and whether "many sellers" exist; functionally equivalent and substitute services; and other related matters.

- **2005 Spin off of "LTD Holding Company" from Sprint Nextel**: On behalf of the Nevada Bureau of Consumer Protection, Mr. Brevitz led a team to analyze the proposed spin-off from a technical and public interest perspective under Nevada statutes. Issues addressed included: asset transfers to LTD Holding Co.; levels of debt to be placed on LTD Holding Co.; "normal" levels of debt for Sprint's Local Telecommunications Division; financial and cost of capital implications of the spin off; impact on LTD's ability to compete and other competitive trends; and accounting issues such as division of pension assets and pension liabilities.

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- **"Telecommunications Convergence: On Duopoly?"**: Presentation at the NASUCA Mid-Year Meeting, June 15, 2005, New Orleans, Louisiana.

- **2005 Intrastate Deregulation Proposal of SBC Oklahoma**: On behalf of AARP, Mr. Brevitz filed testimony addressing SBC Oklahoma's proposal to deregulate pricing of almost all intrastate services (E911 and access services were excepted). The testimony responded to SBC Oklahoma assertions regarding significant retail competition on a widespread basis, openness of markets, barriers to entry and exit, reasonable interchangeability of use of cellular and VoIP services for basic residential services, market share analysis, and competitive trends including CLEC responses to the elimination of UNE-P, access line losses. The testimony further analyzed the actions, opportunities, and competitive responses of SBC Oklahoma and its corporate affiliates, observed public safety deficiencies of cellular and VoIP services, and market trends converging on duopoly.

- **2004 to 2005: Alternative Regulation Plan Filing by Verizon Vermont:** Mr. Brevitz assisted the Vermont Department of Public Service in assessing matters included in the Vermont Public Service Board's assessment of proposed changes to the Alternative Regulation Plan applicable to Verizon Vermont. Prefiled testimony addresses matters including assessment of competition and modes of competition, VoIP/wireless substitution, continuation of direct assignment practices under the FCC's separations freeze, jurisdictional cost allocations, rate flexibility, and UNE availability and commercial agreements with CLECs.

- **2005 UNE Loop Cost Proceeding**: On behalf of the Arkansas Public Service Commission General Staff, Mr. Brevitz filed testimony which analyzed SBC Arkansas' proposed increased UNE loop rates, and UNE loop model and shared and common cost model inputs and outputs, including fill factors, defective pairs, IDLC, DSL expenses, and retail related costs.

- **2004 Mass Market Switching Reviews under the FCC Triennial Review Order**: Separately for the Arkansas Public Service Commission staff, and the New Mexico Attorney General's office, Mr. Brevitz provided analysis and two-step evaluation under the FCC's Triennial Review Order ("TRO") of impairment in access to local circuit switching for mass market customers. The evaluations were done on a granular, market-specific basis. The evaluations determined whether unbundled local circuit switching (and by extension, the UNE-Platform) must continue to be provided as an Unbundled Network Element by incumbent local exchange companies.

- **2004 OSIPTEL/Peru**: Worked with OSIPTEL (telecom regulator in Peru) to analyze barriers to competition in Peru. Presented workshop and training materials regarding the Economic Aspects of Competition Regulation for Public Utilities, which addressed concepts of market power, dominance, cross subsidies, essential facilities, ex ante versus ex post regulation, asymmetric regulation.

- **2003 to 2005: Cable & Wireless Rate Adjustment/Barbados Fair Trading Commission**: Mr. Brevitz advised the FTC and its staff regarding the application of C&W Barbados to

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increase domestic revenues and institute local measured service, and providing related analyses. The Company's filing was in part designed to enable Price Cap regulation, and opening the market to competitors. As such, Price Cap and competitive issues were necessarily considered along with revenue requirements and tariff/pricing issues.

- **2003 CenturyTel Rate Case/Arkansas PSC:** Mr. Brevitz led a team providing analysis and testimony on behalf of PSC staff in the CenturyTel of Northwest Arkansas rate case, in which the Company sought to treble local rates. Mr. Brevitz provided an analysis of CenturyTel of Northwest Arkansas' ("CNA") modernization programs and provision of DSL services from the perspective of basic local service ratepayers, and also addressed the local competition claims of the Company.

- **2002 Maryland Office of People's Counsel:** Maryland PSC's Case No. 8918 is to review Verizon's Price Cap regulatory plan, after Verizon had operated five or more years under it. Topics addressed included the proper productivity factor to use in the price Cap formula, and any necessary amendments to the structure of the price cap plan. Mr. Brevitz provided expert testimony on the proper formulation and terms for the price cap formula, competition, and other matters related to the extension of price cap regulation.

- **2001 Maine Office of Public Advocate–Verizon Maine 271 Review:** Review of Verizon's Section 271 filing before the Maine Public Service Commission, and Declaration filed on behalf of the Public Advocate which addresses Checklist Item #13 (Reciprocal Compensation), and Verizon's proposed performance measurement metrics and proposed Performance Assurance Plan.

- **2001 Vermont Department of Public Service–Verizon Vermont 271 Review:** Review of Verizon's Section 271 filing assertions of compliance with the "14 Point" competitive checklist and non-discrimination obligations of the Telecommunications Act of 1996, before the Vermont Public Service Board. Mr. Brevitz filed a Declaration on behalf of the DPS which addresses Checklist Item #13 (Reciprocal Compensation), and Verizon's proposed performance measurement metrics and proposed Performance Assurance Plan.

- **2001 Public Utility Research Center (PURC)/University of Florida:** Presentation of two seminar modules and an interconnection case study as staff training for the Panamanian telecommunications regulatory body, ERSP. Mr. Brevitz developed course content and presentation materials for the seminar, under the auspices of PURC, on the topics of the "US Experience in Telecom Competition" and "Consumer Issues in Telecom Competition". These topics were presented by Mr. Brevitz in the seminar at Panama City, Panama on March 29-30, 2001.

- **2001-2002 Michigan Attorney General's Office–Federal District Court Litigation Support**: Mr. Brevitz supported the Attorney General's office in its defense of lawsuits by Ameritech and Verizon against the PSC and the Governor regarding recently passed state legislation. The state legislation eliminated the intrastate EUCL being charged by both

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companies, expanded local calling areas, and froze the application of the Price Cap Index for a period of time.

- **1999-2000 Delaware Public Service Commission Staff–Evaluation of Bell Atlantic-Delaware's Collocation Tariff Filing:** On behalf of the Staff, Mr. Brevitz reviewed BA-Delaware's Collocation tariff filing, and prefiled testimony on behalf of Delaware PSC staff. Issues addressed include non-discriminatory provisioning of collocation; collocation intervals; utilization of "best practices" for terms, conditions and pricing; and costing.

- **1999-2000 Vermont Department of Public Service–Evaluation of Carrier to Carrier Wholesale Quality of Service:** On behalf of the Vermont DPS, Mr. Brevitz was engaged in the review of quality of service standards related to Verizon's wholesale activities of provisioning Unbundled Network Elements and resold services. The work effort was conducted within a workshop of the parties, and was drawn on the similar activity for BA-NY and a number of other states including Massachusetts and Virginia. Measures, standards and benchmarks were to be determined, along with an appropriate remedy plan in the event those items are not met by the incumbent carrier. This matter was resolved in the context of Verizon's Section 271 case.

- **1999-2000 Vermont Department of Public Service–Investigation of Geographically Deaveraged Unbundled Network Prices:** On behalf of the Vermont DPS, Mr. Brevitz testified before the Vermont Public Service Board regarding the appropriateness and extent of geographic deaveraging of rates for Unbundled Network Elements (UNEs) in Vermont. In formulating these positions, it was necessary to consider FCC Orders, competitive policy implications, and related issues such as distribution of federal high cost support. The FCC had spotlighted the linkages between high cost support and geographic deaveraging determinations. Consequently the testimony also considered federal high cost support distribution implications and local rate impacts stemming from geographic deaveraging determinations to be made by the Board.

- **1999 Vermont Department of Public Service–Evaluation of Bell Atlantic Proposed Alternative Regulation Plan, Wholesale Quality of Service Standards, and Cost of Service:** Mr. Brevitz served as project manager and lead consultant in the DPS review of Bell Atlantic's proposed Price Point Plan and proposed appropriate modifications. Those modifications included moving rate reductions forward to the inception of the plan, and aligning the plan more closely to the status of competition in Vermont by allowing streamlined regulation only for truly new services, not bundles of existing services. Mr. Brevitz also supported the immediate implementation of detailed wholesale quality of service standards along with a remedies structure. Mr. Brevitz addressed the cost of service issues of reciprocal compensation and local number portability, and proposed rate design changes to effect the return of $16 million in excess revenues.

- **1998-99 Delaware Public Service Commission Geographic Deaveraging of Bell Atlantic UNE Loop Rates:** Mr. Brevitz worked for PSC staff to analyze cost and policy issues

associated with geographic deaveraging of UNE loop rates. Methodology and policy to determine geographic zones was reviewed for BA-Del, and compared to all other Bell Atlantic states. BA-Del cost data was reviewed to assess closeness of fit between BA-Del's proposed population of zones with existing exchanges to the loop costs of those exchanges. After review of comments of interested parties, Mr. Brevitz prepared and submitted a report and recommendation to the PSC regarding modification of BA-Del's proposal to implement geographically deaveraged UNE loop rates. The PSC adopted the report and recommendation in its Order in the matter.

- **1998 Vermont Department of Public Service- Evaluation of Proposed Special Contracts for Toll and Centrex Services for Compliance with Imputation Requirements:** Mr. Brevitz worked for the DPS in this matter, which was an evaluation of four individual customer toll contracts, and two individual customer Centrex contracts, under the Vermont Public Service Board's price floor and imputation requirements. This evaluation included analysis of whether Bell Atlantic had appropriately followed the Board's imputation requirements; whether the imputed costs had been appropriately calculated and included all relevant costs; and, whether undue price discrimination would result from approval of Bell Atlantic's proposed prices. Mr. Brevitz analyzed the Company's filed testimony and costing information provided in support of the contract pricing; drafted staff discovery and analyzed responses of other parties in the matter; and, supported pre-filed rebuttal and surrebuttal testimony before the Board under cross examination. Hearings in this matter were held in November and December of 1998 and January 1999.

- **1998 Delaware Public Service Commission- Re-classification of Residential ISDN as "Competitive":** Mr. Brevitz worked for Delaware Public Service Commission staff in this case (Docket 98-005T), which was a filing by Bell Atlantic to move Residential ISDN ("R-ISDN") from the basic service classification to the competitive service classification, pursuant to the Telecommunications Technology Investment Act and related Commission rules to implement the Act. Bell Atlantic filed an application before the PSC stating that R-ISDN met the statutory and rule conditions for moving the service to the competitive class of services, along with market information in support of that statement. Mr. Brevitz analyzed the company's filing and the comments of other parties in the matter from an economic and public policy perspective, analyzed the Company's compliance with applicable provisions of the TTIA and Commission rules, drafted staff discovery and analyzed discovery responses of other parties, and presented testimony under cross examination before the Commission. The hearing in this matter was held July 9, 1998.

- **1997 Delaware Public Service Commission - Costing and Pricing of Residential ISDN Service:** Mr. Brevitz assisted the Delaware PSC staff in this case (Docket 96-009T) by reviewing the prefiled testimony of all parties; reviewing the cost studies supporting Bell Atlantic's proposed R-ISDN pricing; comparing those costs to Bell Atlantic's UNE rates and costs; reviewing Bell Atlantic's contribution analyses and demand forecasts for the R-ISDN service; reviewing and comparing two Bell Atlantic local usage studies (the second of which more than tripled the costs of the earlier study); providing an analytic report on the usage cost

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studies to PSC staff and rate counsel; assisting in the preparation and conduct of cross-examination; and assisting staff rate counsel in preparation of the brief in this matter. The hearing in this matter concluded in January 1998.

- **1997 Georgia Public Service Commission - Unbundled Network Elements Cost Study Review:** Mr. Brevitz was a lead consultant in this engagement. The GPSC opened a cost study docket to determine the cost basis for BellSouth UNE rates, following arbitration hearings involving BellSouth and several competitors. Introduced for the first time by BellSouth, and considered in the hearing was BellSouth's "TELRIC Calculator". Also considered in the hearing, as sponsored by AT&T/MCI was Hatfield Model Versions 3 and 4. Mr. Brevitz prepared and provided to GPSC staff an "Issues Matrix" which listed the issues, party positions on the issues, and a suggested staff position. Also on behalf of GPSC staff, Mr. Brevitz analyzed cost inputs and outputs pertaining to both models. No testimony was provided in this matter as GPSC staff did not testify in the hearing. Hearings on the matter concluded in September 1997.

- **1995, 1996 and 1997 Wyoming Public Service Commission - Competition Rules:** Mr. Brevitz was the Project Manager and a lead consultant for this engagement. Mr. Brevitz is actively involved in writing and implementing comprehensive competition rules in Wyoming which consider the new 1995 Telecommunications Act in Wyoming and the 1996 Federal Telecommunications Act. These rules address interconnection/unbundling, universal service, service quality, price caps/alternative regulation, privacy, resale, intraLATA dialing parity, TSLRIC/cost study methods; access charge rate design; number portability, reciprocal compensation, rights-of-way and other matters.

- **1995 and 1996 Wyoming Public Service Commission - U S WEST Pricing Plan:** Mr. Brevitz was the Project Manager and a lead consultant for this engagement. Mr. Brevitz has evaluated and filed testimony regarding U S WEST's pricing plan, competition issues, universal service and U S WEST cost study issues.

- **1996 Oklahoma Corporation Commission - Seminar on 1996 Federal Telecom Act**: Mr. Brevitz presented a seminar on the 1996 Federal Telecom Act to the Oklahoma Corporation Commission Staff.

- **1995 and 1996 Georgia Public Service Commission - Local Number Portability and Competition Policy:** Mr. Brevitz was the Project Manager and a lead consultant for this engagement. Mr. Brevitz assisted the GPSC in implementing rules related to the new 1995 Telecommunications Act in Georgia and the 1996 Federal Telecom Act. Mr. Brevitz was primarily involved in initiating and coordinating the Number Portability Task Force and guiding the industry workshop on permanent number portability. The PSC has accepted the industry workshop recommendation. As a result, Georgia will be one of the first states to implement full number portability. Assistance was also provided on other competition issues.

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- **1996 California Public Service Commission - Pricing of Unbundled Elements and Resale services:** Mr. Brevitz assisted Sprint in the pricing (second) phase of the California Commission's OANAD proceeding. Testimony was presented regarding proper pricing of unbundled network elements, given previous a PUC decision on UNE costs. The cost (first) phase involved the development of cost study principles, performance of TSLRIC cost studies of unbundled network elements by Pacific Bell and GTEC, and performance of avoided cost studies for retail services for resale.

- **1995 to 1996 Kansas Telecommunications Strategic Planning Committee - Kansas Corporation Commission:** Mr. Brevitz served as the Kansas Corporation Commission representative on this legislative committee, which was organized in mid-1994 to research and recommend any needed changes to the telecommunications statutes and state policies. The TSPC issued its final report to the Governor and the legislature in January 1996.

- **1995 Chairperson of Kansas Corporation Commission Working Groups:** Mr. Brevitz was appointed to the Cost Studies and Universal Service Working Groups for the KCC's general competition investigation, subsequent to the KCC's May 1995 Phase I competition order. He was also active in other Task Forces including Unbundling, Number Portability and Local Resale.

- **Kansas Corporation Commission - Infrastructure/Competition Report**: Produced a special report on Kansas telecommunications infrastructure/competition issues which was provided to the 1995 Kansas legislature.

- **1994 Kansas Corporation Commission - Alternative Regulation Legislation:** In 1994 the Kansas Legislature passed House Bill 3039, which extended SWBT's "TeleKansas" alternative regulation plan for two years. Mr. Brevitz provided substantial assistance in negotiating the detailed provisions for the KCC's implementation of the bill.

- **Kansas Corporation Commission - Southwestern Bell Telephone Infrastructure Analysis:** Investigated SWBT's infrastructure/modernization budget and addressed construction requirements, tariffs, rates, terms and conditions for SWBT's provision of interactive television ("ITV") to all Kansas schools at deep discount prices for the benefit of the Kansas infrastructure and schools.

Work History

Independent Telecommunications Consultant

Following a significant engagement with the Kansas Corporation Commission, extensive professional services have been provided to state public utility commissions, as indicated above under "Recent Relevant Experience".

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A variety of duties and tasks have been performed for the Kansas Corporation Commission, including providing staff support for Statewide Strategic Telecommunications Planning Committee, composed of 17 members (legislators, state agency heads, private enterprise); assisting in KCC implementation of House Bill 3039 ("TeleKansas II", extension of alternative regulatory plan for Southwestern Bell Telephone); and providing analysis and testimony for communications general investigations into competition in the local exchange and other markets. Those general investigations included General Competition, Competitive Access Providers, Network Modernization, Universal Service, Quality of Service, and Access Charges.

Kansas Consolidated Professional Resources - Director of Regulatory Affairs

Duties included monitoring of and participating in state regulatory affairs on behalf of twenty independent local exchange companies in Kansas that compose the partnership of KCPR. Active participation in statewide industry committees in the areas of access charges, optional calling plans/EAS, educational interactive video, dual party relay systems and private line/special access merger.

Kansas Corporation Commission - Chief of Telecommunications

Duties included supervising the formulation of staff testimony and policy recommendations on matters such as long distance competition, access charges, telephone company rate cases, and deregulation of CPE and Inside Wiring; analyzing Federal Communications Commission and Divestiture court decisions; supervising and performing tariff analysis; and testifying before the Commission as necessary. SWBT's $120 million "Divestiture rate case" was completed in this time period, as were several other large rate cases. Active member of the National Association of Regulatory Utility Commissioners (NARUC) Staff Committee on Communications.

Arizona Corporation Commission - Chief Rate Analyst - Telecommunications

Duties included supervision of staff and formulation of policy recommendations on telecommunications cases, along with production of analyses and testimony as required.

Kansas Corporation Commission - Economist - Research and Energy Analysis Division

Duties included research, analysis and production of casework and testimony regarding gas/electric and telecommunications matters.

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Education

Michigan State University - Graduate School of Business
East Lansing, Michigan
Master's Degree in Business Administration-Finance.

Michigan State University/James Madison College
East Lansing, Michigan
Bachelor of Arts Degree in Justice, Morality and Constitutional Democracy.

PUBLIC
DB-P-2

Form S-4/A

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: July 02, 2007 (period:)

Pre-effective amendment to an S-4 filing

The information in this proxy statement/prospectus is not complete and may be changed without notice. This proxy statement/prospectus is not an offer to sell these securities, nor a solicitation of an offer to buy these securities, in any jurisdiction where the offering is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 29, 2007

To the Stockholders of FairPoint Communications, Inc.:

As previously announced, the board of directors of FairPoint Communications, Inc., or FairPoint, has unanimously approved a strategic merger that will combine FairPoint and the local exchange business of Verizon Communications Inc., or Verizon, in Maine, New Hampshire and Vermont. Pursuant to the Agreement and Plan of Merger which FairPoint entered into on January 15, 2007, as amended, with Verizon and Northern New England Spinco Inc., or Spinco, Spinco will merge with and into FairPoint and FairPoint will survive as a standalone company which will hold and conduct the combined business operations of FairPoint and Spinco. Following completion of the merger, the separate existence of Spinco will cease. The merger will take place immediately after Verizon contributes assets and liabilities of its local exchange business in Maine, New Hampshire and Vermont to Spinco and distributes the common stock of Spinco to a third-party distribution agent for the benefit of Verizon stockholders. Following the merger, the combined company will continue to operate under the FairPoint name and its common stock will continue to be quoted on the New York Stock Exchange and traded under the ticker symbol "FRP."

We recommend this merger to you as we believe it represents the optimal strategic solution to increase stockholder value. FairPoint expects to benefit from operating synergies, investment in efficient support systems, increased free cash flow, increased dividend stability and much greater economies of scale. Our current stockholders will own approximately 40% of a much larger and financially stronger company. FairPoint's officers, who have a long history of commitment to FairPoint, will continue to manage the combined company after the merger.

FairPoint will issue an aggregate number of shares of its common stock to Verizon stockholders pursuant to the merger agreement such that upon completion of the merger and prior to the elimination of fractional shares, Verizon stockholders will collectively own approximately 60%, and FairPoint stockholders will collectively own approximately 40%, of the shares of common stock of the combined company on a fully diluted basis. To achieve this result, the aggregate number of shares of FairPoint common stock that will be issued to Verizon stockholders in the merger will be equal to 1.5266 multiplied by the aggregate number of shares of FairPoint common stock outstanding on a fully diluted basis (excluding treasury stock, certain specified options, restricted stock units, restricted units and certain restricted shares outstanding as of the date of the merger agreement) as of the effective time of the merger. **Therefore, the total number of shares to be issued to Verizon stockholders and the exact value of the per share merger consideration will not be known until the effective time of the merger.** In any case, the amount of shares of FairPoint common stock to be issued will yield the approximately 60/40 relative post-merger ownership percentage described above. Based on the closing price of FairPoint common stock on • , 2007 of $ • , as reported by the New York Stock Exchange, and the number of shares of Verizon common stock outstanding on that date, the approximate value Verizon stockholders will receive in the merger will equal $ • in the aggregate and $ • per share of Verizon common stock they own on the record date for the spin-off. However, any change in the market value of FairPoint common stock prior to the effective time of the merger or the number of shares of Verizon common stock outstanding prior to the record date for the spin-off (subject to certain adjustments) will also cause the estimated per share value Verizon stockholders will receive in the merger to change. Also, those Verizon stockholders who would otherwise receive a fractional share of FairPoint common stock in the merger may receive a different per share value with respect to fractional shares when those fractional shares are liquidated.

For a more complete discussion of the calculation of the number of shares of FairPoint common stock to be issued pursuant to the merger agreement, see the section entitled "The Transactions—Calculation of Merger Consideration" on page 51 of the accompanying proxy statement/prospectus. Existing shares of FairPoint common stock will remain outstanding. Verizon will not receive any shares of FairPointcommon stock in the merger. Immediately prior to the spin-off and the merger, Verizon and its subsidiaries will receive from Spinco approximately $1.7 billion in the form of cash and certain debt securities of Spinco. Verizon and its subsidiaries will be permitted to exchange those debt securities for debt obligations of Verizon or its subsidiaries or otherwise transfer them to stockholders or creditors of Verizon or its subsidiaries. We expect that the combined company will have approximately $2.3 billion in total debt immediately following completion of the merger.

We cordially invite you to attend the annual meeting of FairPoint stockholders to be held on • , 2007 at the Westin Hotel, 601 S. College Street, Charlotte, NC 28202, at 10:00 a.m., local time. At the annual meeting, we will ask you to consider and vote on a proposal to adopt the merger agreement and approve the issuance of FairPoint common stock to Verizon stockholders pursuant to the merger agreement. You will also be asked to elect a director and ratify FairPoint's independent registered public accounting firm. **The Board of Directors of FairPoint has unanimously approved the merger agreement and unanimously recommends that FairPoint stockholders vote FOR the proposal to adopt the merger agreement and approve the issuance of FairPoint common stock pursuant to the merger agreement, which is necessary to effect the merger, as well as FOR the Board's nominee for director and FOR the ratification of FairPoint's independent registered public accounting firm.**

Your vote is very important. We cannot complete the merger unless the proposal relating to the adoption of the merger agreement and the issuance of FairPoint common stock pursuant to the merger agreement is adopted by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of FairPoint common stock entitled to vote at the annual meeting. Only stockholders who owned shares of FairPoint common stock at the close of business on July 5, 2007 will be entitled to vote at the annual meeting. **Whether or not you plan to be present at the annual meeting, please complete, sign, date and return your proxy card in the enclosed envelope, or authorize the individuals named on your proxy card to vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card.** If you hold your shares in a "street name," you should instruct your broker how to vote in accordance with your voting instruction form. If you do not submit your proxy, instruct your broker how to vote your shares, or vote in person at the annual meeting, it will have the same effect as a vote against adoption of the merger agreement.

The accompanying proxy statement/prospectus explains the merger, the merger agreement and the transactions contemplated thereby and provides specific information concerning the annual meeting. **Please review this document carefully. You should carefully consider the matters discussed under the heading "Risk Factors" beginning on page 25 of the accompanying proxy statement/prospectus before voting. On or about • , 2007, FairPoint will begin mailing to its stockholders the accompanying proxy statement/prospectus and accompanying proxy card.**

On behalf of our board of directors, I thank you for your support and appreciate your consideration of this matter.

Sincerely,

Eugene B. Johnson
Chairman of the Board of Directors and
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved the merger described in this proxy statement/prospectus or the FairPoint common stock to be issued pursuant to the merger agreement, or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The date of this proxy statement/prospectus is • , 2007.

The Companies

FairPoint

FairPoint is a leading provider of communications services in rural and small urban communities, offering an array of services, including local and long distance voice, data, Internet and broadband product offerings. FairPoint is one of the largest telephone companies in the United States focused on serving rural and small urban communities, and the 14th largest local telephone company in the United States, in each case based on number of access lines as of March 31, 2007. FairPoint operates in 18 states with 310,180 access line equivalents (including voice access lines and high speed data which include DSL, wireless broadband and cable modem) in service as of March 31, 2007. FairPoint believes that in many of its markets, it is the only service provider that offers customers an integrated package of local and long distance voice, high speed data, and Internet access as well as a variety of enhanced services such as voicemail and caller identification. FairPoint generated revenues of $270 million and $70 million and net income of $31 million and $0 million for the year ended December 31, 2006 and the three months ended March 31, 2007, respectively.

FairPoint was incorporated in February 1991 for the purpose of acquiring and operating incumbent telephone companies in rural and small urban markets. FairPoint has acquired 35 telephone companies, 31 of which it continues to own and operate. Many of FairPoint's telephone companies have served their respective communities for over 75 years. The majority of the communities FairPoint serves have fewer than 2,500 access lines. Most of FairPoint's telephone companies qualify as rural local exchange carriers under the Telecommunications Act.

FairPoint's common stock is listed on the New York Stock Exchange under the symbol "FRP." FairPoint's principal offices are located at 521 East Morehead Street, Suite 250, Charlotte, NC 28202.

Spinco

The Verizon Group will contribute to Spinco (i) specified assets and liabilities associated with the local exchange business of Verizon New England in Maine, New Hampshire and Vermont and (ii) the customers of the Verizon Group's related long distance and Internet service provider businesses in those states.

The Northern New England business had 1,694,693 and 1,676,658 access line equivalents (including voice access lines, DSL and fiber-to-the-premises) in service as of December 31, 2006 and March 31, 2007, respectively. The Northern New England business generated revenues of $1,193 million and $298 million and net income of $32 million and $14 million for the year ended December 31, 2006 and the three months ended March 31, 2007, respectively. Through its predecessors, Spinco has been serving customers in some or all of these three states for over 100 years.

Spinco currently serves a territory consisting of three Local Access and Transport Areas, referred to as LATAs, in Maine, New Hampshire, and Vermont. Each LATA in Spinco's territory consists of a single state. Spinco currently serves a territory addressing approximately 87% of the households and approximately 73% of the geography in Maine, New Hampshire and Vermont. Spinco's business includes regulated and unregulated communications business in all three states, consisting principally of:

- local wireline customers and related operations and assets used to deliver:
- local exchange service;
- intraLATA toll service;
- network access service; and
- enhanced voice and data services;
- consumer and small business switched long distance customers (excluding any customers of the former MCI, Inc.);
- dial-up, DSL and fiber-to-the-premises internet service provider customers; and
- the customer premises equipment sales, installation and maintenance business.

RISK FACTORS

You should carefully consider the following risks, together with the other information contained in this proxy statement/prospectus and the annexes hereto. The risks described below are not the only risks facing FairPoint and the combined company. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also materially and adversely affect the combined company's business operations or the price of the combined company's common stock following completion of the merger.

Risks Relating to the Spin-Off and the Merger

The calculation of the merger consideration will not be adjusted in the event the value of the business or assets of Spinco declines before the merger is completed. As a result, at the time FairPoint stockholders vote on the merger, they will not know what the value of FairPoint common stock will be following completion of the merger.

The calculation of the number of shares of FairPoint common stock to be issued to Verizon stockholders pursuant to the merger agreement will not be adjusted in the event the value of the Spinco business declines, including as a result of the continuing loss of access lines. If the value of this business declines after FairPoint stockholders approve the merger proposal, the market price of the common stock of the combined company following completion of the merger may be less than FairPoint stockholders anticipated when they voted to approve the merger proposal. While FairPoint will not be equired to consummate the merger upon the occurrence of any event or circumstance that has, or would reasonably be expected to have, a material adverse effect on Spinco (as defined in the merger agreement), neither Verizon nor FairPoint will be permitted to terminate the merger agreement or resolicit the vote of FairPoint stockholders because of any changes in the value of the Spinco business that do not rise to the level of a material adverse effect on Spinco (as defined in the merger agreement) or the market price of FairPoint's common stock. In addition, FairPoint will be required to consummate the merger whether or not the committed financing described under "Financing of the Combined Company" is available as of the closing of the merger. If FairPoint needs to obtain alternative financing, there can be no assurance that it will be available on comparable terms or at all.

The integration of FairPoint's and Spinco's businesses may not be successful.

The acquisition of the Spinco business is the largest and most significant acquisition FairPoint has undertaken. FairPoint's management will be requiredto devote a significant amount of time and attention to the process of integrating the operations of FairPoint's business and Spinco's business, which will decrease the time they will have to service existing customers, attract new customers and develop new services or strategies. Due to, among other things, the size and complexity of the Northern New England business and the activities required to separate Spinco's operations from Verizon's, FairPoint may be unable to integrate the Spinco business into its operations in an efficient, timely and effective manner. FairPoint's inability to complete this integration successfully could have a material adverse effect on the combined company's business, financial condition and results of operations.

All of the risks associated with the integration process could be exacerbated by the fact that FairPoint may not have a sufficient number of employees to integrate FairPoint's and Spinco's businesses or to operate the combined company's business. Furthermore, Spinco offers services that FairPoint has no experience in providing, the most significant of which are competitive local exchange carrier wholesale services. FairPoint's failure or inability to hire or retain employees with the requisite skills and knowledge to run the combined business, may have a material adverse effect on FairPoint's business. The inability of FairPoint's management to manage the integration process effectively, or any significant interruption of business activities as a result of the integration process, could have a material adverse effect on the combined company's business, financial condition and results of operations.

In addition, if the combined company continues to require services from Verizon under the transition services agreement after the one-year anniversary of the closing of the merger, the fees payable by the combined company to Verizon pursuant to the transition services agreement will increase significantly, which could have a material adverse effect on the combined company's business, financial condition and results of operations. The aggregate fees expected to be payable by the combined company under the transition services agreement for the six-month period following the merger will be approximately $132.9 million. However, if the combined company requires twelve months of transition services following the merger, the aggregate fees expected to be payable will be approximately $226.9 million.

The integration of FairPoint's and Spinco's businesses may present significant systems integration risks, including risks associated with the ability to integrate Spinco's customer sales, service and support operations into FairPoint's customer care, service delivery and network monitoring and maintenance platforms.

In order to operate as the combined company, FairPoint will be required to identify, acquire or develop, test, implement, maintain and manage systems and processes which provide the functionality currently performed for the Northern New England business by over 600 systems of Verizon. Of these Verizon systems, approximately one third relate to customer sales, service and support. Another third of the Verizon systems support network monitoring and related field operations. The remaining Verizon systems enable finance, payroll, logistics and other administrative activities. Over 80% of the information systems used in support of the Northern New England business are Verizon proprietary systems.

FairPoint has entered into a master services agreement with an independent consulting firm to assist in the identification and integration of systems to be deployed following the merger. The collective experience and knowledge of FairPoint, the consulting firm (during the term of the master services agreement) and Verizon (during the pre-closing period and the period of the transition services agreement) will be essential to the success of the integration. The parties' inability or failure to implement successfully their plans and procedures or the insufficiency of those plans and procedures could result in failure of or delays in the merger integration and could adversely impact the combined company's business, results of operations and financial condition. This could require the combined company to acquire and deploy additional systems, extend the transition services agreement and pay increasing monthly fees under the transition services agreement.

The failure of any of the combined company's systems could result in its inability to adequately bill and provide service to its customers or meet its financial and regulatory reporting obligations. FairPoint is in the process of converting all of its companies to a single outsourced billing platform. FairPoint expects this conversion will be completed by the middle of 2007. FairPoint is investigating whether and to what extent certain modules of the outsourced billing and operational support services platforms will be used by the combined company. At the completion of this project, FairPoint expects to have a single integrated billing platform, which it expects to be able to use after the merger for billing and support of all of its customers. The failure of any of the combined company's billing and operational support services systems could have a material adverse effect on the combined company's business, financial condition and results of operations. FairPoint is also implementing new systems to provide for and meet financial and regulatory reporting obligations. A failure of these systems may result in the combined company not being able to meet its financial and regulatory reporting obligations.

The combined company may not realize the anticipated synergies, cost savings and growth opportunities from the merger.

The success of the merger will depend, in part, on the ability of Spinco and FairPoint to realize the anticipated synergies, cost savings and growth opportunities from integrating FairPoint's and Spinco's

businesses. The combined company's success in realizing these synergies, cost savings and growth opportunities, and the timing of this realization, depends on the successful integration of Spinco's and FairPoint's businesses and operations. Even if the combined company is able to integrate the FairPoint and Spinco business operations successfully, this integration may not result in the realization of the full benefits of synergies, cost savings and growth opportunities that FairPoint currently expects from this integration within the anticipated time frame or at all. For example, FairPoint may be unable to eliminate duplicative costs, or the benefits from the merger may be offset by costs incurred or delays in integrating the companies.

After the close of the transaction, sales of FairPoint common stock may negatively affect its market price.

The market price of FairPoint common stock could decline as a result of sales of a large number of shares of FairPoint common stock in the market after the completion of the merger or the perception that these sales could occur. These sales, or the possibility that these sales may occur, may also make it more difficult for the combined company to obtain additional capital by selling equity securities in the future at a time and at a price that it deems appropriate.

Immediately after the merger, prior to the elimination of fractional shares, Verizon stockholders will collectively hold approximately 60% of FairPoint's common stock on a fully diluted basis (excluding treasury stock, certain specified options, restricted stock units, restricted units and certain restricted shares outstanding as of the date of the merger agreement). Currently, Verizon's common stock is included in index funds and exchange-traded funds tied to the Dow Jones Industrial Average and the Standard & Poor's 500 Index. Because FairPoint is not expected to be included in these indices at the time of the merger and may not meet the investing guidelines of certain institutional investors that may be required to maintain portfolios reflecting these indices, these index funds, exchange-traded funds and institutional investors may be required to sell FairPoint common stock that they receive in the merger. These sales may negatively affect the combined company's common stock price.

If the assets transferred to Spinco by Verizon are insufficient to operate the combined company's business, it could adversely affect the combined company's business, financial condition and results of operations.

Pursuant to the distribution agreement, the Verizon Group will contribute to Spinco (i) specified assets and liabilities associated with the local exchange business of Verizon New England in Maine, New Hampshire and Vermont, and (ii) the customers of the Verizon Group's related long distance and Internet service provider businesses in those states. See "The Distribution Agreement—Preliminary Transactions." The contributed assets may not be sufficient to operate the combined company's business. Accordingly, the combined company may have to use assets or resources from FairPoint's existing business or acquire additional assets in order to operate the Spinco business, which could adversely affect the combined company's business, financial condition and results of operations.

Pursuant to the distribution agreement, the combined company has certain rights to cause Verizon to transfer to it any assets required to be transferred to Spinco under that agreement which were not transferred as required. If Verizon were unable or unwilling to transfer those assets to the combined company, or Verizon and the combined company were to disagree about whether those assets were required to be transferred to Spinco under the distribution agreement, the combined company might not be able to obtain those assets or similar assets from others.

The combined company's business, financial condition and results of operations may be adversely affected following the merger if it is not able to replace certain contracts which will not be assigned to Spinco.

Certain contracts, including supply contracts and interconnection agreements used in the Northern New England business, will not be assigned to Spinco by Verizon. Accordingly, the combined company will have to obtain new agreements for the goods and services covered by these supplier and interconnection agreements in order to operate the Spinco business following the merger. There can be no assurance that FairPoint will be able to replace the supplier and interconnection agreements on terms favorable to it or at all. FairPoint's failure to enter into new agreements prior to the closing of the merger may have a material adverse impact on the combined company's business, financial condition and results of operations following the merger.

In addition, certain wholesale, large business, Internet service provider and other customer contracts which are required to be assigned to Spinco by Verizon require the consent of the customer party to the contract to effect this assignment. Verizon and the combined company may be unable to obtain these consents on terms favorable to the combined company or at all, which could have a material adverse impact on the combined company's business, financial condition and results of operations following the merger.

FairPoint's or the combined company's spending in excess of the budgeted amounts on infrastructure and network systems integration and planning related to the merger could adversely affect FairPoint's or the combined company's business, financial condition and results of operations.

The combined company expects to spend approximately $200 million on infrastructure and network systems integration and planning in connection with the merger, approximately $95 million to $110 million of which will be incurred by FairPoint prior to the closing of the merger, and up to $40 million of which will be reimbursed by Verizon. Under certain circumstances, in the event the merger is not completed, FairPoint will be required to repay Verizon amounts it reimbursed to FairPoint in excess of $20 million. FairPoint's or the combined company's spending in excess of the budgeted amounts on transition and other costs could adversely affect FairPoint's (or, following the merger, the combined company's) business, financial condition and results of operations.

Regulatory agencies may delay approval of the spin-off and the merger, or approve them in a manner that may diminish the anticipated benefits of the merger.

Completion of the spin-off and the merger is conditioned upon the receipt of certain government consents, approvals, orders and authorizations. See "The Merger Agreement—Conditions to the Completion of the Merger." While FairPoint and Verizon intend to pursue vigorously all required governmental approvals and do not know of any reason why they would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before the spin-off and merger could delay the completion of the spin-off and merger, possibly for a significant period of time after FairPoint stockholders have approved the merger proposal at the annual meeting. Any delay in the completion of the spin-off and the merger could diminish anticipated benefits of the spin-off and the merger or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transaction. Any uncertainty over the ability of the companies to complete the spin-off and the merger could make it more difficult for FairPoint to retain key employees or to pursue particular business strategies. In addition, until the spin-off and the merger are completed, the attention of FairPoint management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on obtaining regulatory approvals.

Further, these governmental agencies may attempt to condition their approval of the spin-off and the merger on the imposition of conditions that could have an adverse effect on the combined company's business, financial condition and results of operations. In addition, the Federal

Communications Commission may approve the transfer and assignment of various licenses and authorizations but deny FairPoint's separate request that it be permitted to operate its existing local exchange business under "rate of return" regulation, rather than convert that business to the "price cap" regulation regime that currently applies to the local wireline operations of the Northern New England business. Price cap regulation would trigger additional obligations for FairPoint.

The merger agreement contains provisions that may discourage other companies from trying to acquire FairPoint.

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to FairPoint prior to the closing of the merger that might result in greater value to FairPoint stockholders than the merger. The merger agreement generally prohibits FairPoint from soliciting any acquisition proposal. In addition, if the merger agreement is terminated by FairPoint or Verizon in circumstances that obligate FairPoint to pay a termination fee and to reimburse transaction expenses to Verizon, FairPoint's financial condition may be adversely affected as a result of the payment of the termination fee and transaction expenses, which might deter third parties from proposing alternative business combination proposals.

Failure to complete the merger could adversely impact the market price of FairPoint's common stock as well as FairPoint's business, financial condition and results of operations.

If the merger is not completed for any reason, the price of FairPoint's common stock may decline to the extent that the market price of FairPoint's common stock reflects positive market assumptions that the spin-off and the merger will be completed and the related benefits will be realized. FairPoint may also be subject to additional risks if the merger is not completed, including:

- the requirement in the merger agreement that, under certain circumstances, FairPoint pay Verizon a termination fee of $23 million and reimburse Verizon for certain out-of-pocket costs (not to exceed $7.5 million) as well as the requirement in the transition services agreement that FairPoint reimburse Verizon for certain amounts incurred by Verizon pursuant to that agreement (which may exceed the amounts payable to Verizon by FairPointunder the merger agreement);

- FairPoint's expenditure of approximately $95 million to $110 million on infrastructure and network systems integration and planning (of which up to $20 million will be reimbursed by Verizon regardless of whether the merger is completed) prior to the consummation of the merger; a significant portion of this amount will be spent on assets and services which are not useful in FairPoint's existing business because FairPoint already has adequate infrastructure and systems in place for its existing business;

- substantial costs related to the merger, such as legal, accounting, filing, financial advisory and financial printing fees, which must be paid regardless of whether the merger is completed; and

- potential disruption to the business of FairPoint and distraction of its workforce and management team.

If the spin-off does not constitute a tax-free spin-off under section 355 of the Internal Revenue Code, or the merger does not constitute a tax-free reorganization under section 368(a) of the Internal Revenue Code, including as a result of actions taken in connection with the spin-off or the merger or as a result of subsequent acquisitions of stock of Verizon or stock of FairPoint, then Verizon, FairPoint or Verizon stockholders may be responsible for payment of substantial United States federal income taxes.

The spin-off and merger are conditioned upon Verizon's receipt of a private letter ruling from the Internal Revenue Service to the effect that the spin-off, including (i) the contribution of specified assets and liabilities associated with the local exchange business of Verizon New England in Maine, New Hampshire and Vermont, and the customers of the Verizon Group's related long distance and Internet

service provider businesses in those states, to Spinco, (ii) the receipt by the Verizon Group of the Spinco securities and the special cash payment and (iii) the exchange by the Verizon Group of the Spinco securities for Verizon Group debt, will qualify as tax-free to Verizon, Spinco and the Verizon stockholders for United States federal income tax purposes under Section 355 and related provisions of the Internal Revenue Code, referred to as the Code. Although a private letter ruling from the Internal Revenue Service generally is binding on the Internal Revenue Service, if the factual representations or assumptions made in the letter ruling request are untrue or incomplete in any material respect, then Verizon and FairPoint will not be able to rely on the ruling.

The spin-off and merger are also conditioned upon the receipt by Verizon of an opinion of Debevoise & Plimpton LLP, counsel to Verizon, to the effect that the spin-off will be tax-free to Verizon, Spinco and the stockholders of Verizon under Section 355 and other related provisions of the Code. The opinion will rely on the Internal Revenue Service letter ruling as to matters covered by the ruling. Lastly, the spin-off and the merger are conditioned on Verizon's receipt of an opinion of Debevoise & Plimpton LLP and FairPoint's receipt of an opinion of Paul, Hastings, Janofsky & Walker LLP, counsel to FairPoint, each to the effect that the merger will be treated as a tax-free reorganization within the meaning of Section 368(a) of the Code. All of these opinions will be based on, among other things, current law and certain representations and assumptions as to factual matters made by Verizon, Spinco and FairPoint. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached by counsel in their respective opinions. The opinions will not be binding on the Internal Revenue Service or the courts, and the Internal Revenue Service or the courts may not agree with the opinions.

The spin-off would become taxable to Verizon pursuant to Section 355(e) of the Code if 50% or more of the shares of either Verizon common stock or Spinco common stock (including common stock of FairPoint, as successor to Spinco) were acquired, directly or indirectly, as part of a plan or series of related transactions that included the spin-off. Because Verizon stockholders will own more than 50% of the combined company's common stock following the merger, the merger, standing alone, will not cause the spin-off to be taxable to Verizon under Section 355(e). However, if the Internal Revenue Service were to determine that other acquisitions of Verizon common stock or FairPoint common stock, either before or after the spin-off and the merger, were part of a plan or series of related transactions that included the spin-off, this determination could result in the recognition of gain by Verizon under Section 355(e). In that case, the gain recognized by Verizon likely would be substantial. In connection with the request for the Internal Revenue Service private letter rulings and the opinion of Verizon's counsel, Verizon will represent that the spin-off is not part of any such plan or series of related transactions.

In certain circumstances, under the tax sharing agreement, the combined company would be required to indemnify Verizon against tax-related losses to Verizon that arise as a result of a disqualifying action taken by FairPoint or its subsidiaries after the distribution (including for two years after the spin-off (i) entering into any agreement, understanding or arrangement or engaging in any substantial negotiations with respect to any transaction involving the acquisition or issuance of FairPoint stock, (ii) repurchasing any shares of FairPoint stock, except to the extent consistent with guidance issued by the Internal Revenue Service, (iii) ceasing or permitting certain subsidiaries to cease the active conduct of the Spinco business and (iv) voluntarily dissolving, liquidating, merging or consolidating with any other person unless FairPoint is the survivor of the merger or consolidation, except in accordance with the restrictions in the tax sharing agreement) or a breach of certain representations and covenants. See "Risk Factors—Risks Relating to the Spin-Off and the Merger—The combined company may be affected by significant restrictions following the merger with respect to certain actions that could jeopardize the tax-free status of the spin-off and the merger" and "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement." If Verizon were to recognize a gain on the spin-off for reasons not related to a disqualifying action or breach by FairPoint, Verizon would not be entitled to be indemnified under the tax sharing agreement.

See "Material United States Federal Income Tax Consequences of the Spin-Off and the Merger."

The combined company may be affected by significant restrictions following the merger with respect to certain actions that could jeopardize the tax-free status of the spin-off or the merger.

The tax sharing agreement restricts FairPoint from taking certain actions that could cause the spin-off to be taxable to Verizon under Section 355(e) or otherwise jeopardize the tax-free status of the spin-off or the merger, which the tax sharing agreement refers to as disqualifying actions, including:

- generally, for two years after the spin-off, taking, or permitting any of its subsidiaries to take, an action that might be a disqualifying action;

- for two years after the spin-off, entering into any agreement, understanding or arrangement or engaging in any substantial negotiations with respect to any transaction involving the acquisition or issuance of FairPoint capital stock, or options to acquire or other rights in respect of FairPoint capital stock unless, generally, the shares are issued to qualifying FairPoint employees or retirement plans, each in accordance with "safe harbors" under regulations issued by the Internal Revenue Service;

- for two years after the spin-off, repurchasing FairPoint capital stock, except to the extent consistent with guidance issued by the Internal Revenue Service;

- for two years after the spin-off, permitting certain wholly owned subsidiaries that were wholly owned subsidiaries of Spinco at the time of the spin-off to cease the active conduct of the Spinco business to the extent it was conducted immediately prior to the spin-off; and

- for two years after the spin-off, voluntarily dissolving, liquidating, merging or consolidating with any other person, unless FairPoint is the survivor of the merger or consolidation and the transaction otherwise complies with the restrictions in the tax sharing agreement.

Nevertheless, the combined company will be permitted to take any of the actions described above in the event that it obtains Verizon's consent, or an opinion of counsel or a supplemental Internal Revenue Service ruling tothe effect that the disqualifying action will not affect the tax-free status of the spin-off and the merger. To the extent that the tax-free status of the transactions is lost because of a disqualifying action taken by the combined company or any of its subsidiaries after the distribution date, whether or not the required consent, opinion or ruling was obtained, the combined company generally would be required to indemnify, defend and hold harmless Verizon and its subsidiaries (or any successor to any of them) from and against any resulting tax-related losses incurred by Verizon.

Because of these restrictions, the combined company may be limited in the amount of capital stock that it can issue to make acquisitions or raise additional capital in the two years subsequent to the spin-off and merger. Also, FairPoint's indemnity obligation to Verizon might discourage, delay or prevent a change of control during this two-year period that stockholders of the combined company may consider favorable. See "The Merger Agreement," "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement," and "Material United States Federal Income Tax Consequences of the Spin-Off and the Merger."

Investors holding shares of FairPoint's common stock immediately prior to the merger will, in the aggregate, have a significantly reduced ownership and voting interest after the merger and will exercise less influence over management.

After the merger's completion, FairPoint stockholders will, in the aggregate, own a significantly smaller percentage of the combined company than they will own of FairPoint immediately prior to the merger. Following completion of the merger and prior or to the elimination of fractional shares, FairPoint stockholders immediately prior to the merger collectively will own approximately 40% of the combined company on a fully-diluted basis (excluding treasury stock, certain specified options, restricted stock units, restricted units and certain restricted shares outstanding as of the date of the

merger agreement). Consequently, FairPoint stockholders, collectively, will be able to exercise less influence over the management and policies of the combined company than they could exercise over the management and policies of FairPoint immediately prior to the merger. In particular, Verizon will have the right to initially designate up to six of the nine members of the board of directors of the combined company (provided that Verizon will designate only five directors if David L. Hauser is elected at the annual meeting and continues to serve as a director at the effective time of the merger).

Risks Related to the Combined Company's Business Following the Merger

FairPoint and Spinco provide services to customers over access lines, and if the combined company loses access lines, its business, financial condition and results of operations may be adversely affected.

FairPoint's business and Spinco's business generate revenue primarily by delivering voice and data services over access lines. FairPoint and Spinco have both experienced net voice access line losses in the past few years. FairPoint experienced a 14.6% decline in number of access lines (adjusted for acquisitions and divestitures) for the period from January 1, 2002 through March 31, 2007 and a 3.8% decline for the period from April 1, 2006 through March 31, 2007. The Northern New England business experienced a 23.1% decline in number of access lines for the period from January 1, 2002 through March 31, 2007 and a 6.8% decline for the period from April 1, 2006 through March 31, 2007. These losses resulted mainly from competition and use of alternate technologies and, to a lesser degree, challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. FairPoint's 2006 revenues from switched access lines comprised approximately 82% of its total 2006 revenues, down from 90% in 2002. FairPoint's revenues from switched access lines have declined by 1.4% from fiscal 2002 to fiscal 2006, while the number of access lines has declined by 14.6% excluding acquisitions. The Northern New England business's 2006 revenues from switched access lines comprised nearly 80% of total 2006 revenues, down from 84% in 2002. Since 2002, the Northern New England business's revenues from switched access lines have declined by 10.9%, while the number of switched access lines has declined by 18.7%. Over this period, the Northern New England business has been able to increase pricing for switched access line service and has also sold more ancillary services (including high speed data), partially offsetting the decline in revenues from the lower number of switched access lines.

Following the merger, the combined company may experience net access line losses. The combined company's inability to retain access lines could adversely affect its business, financial condition and results of operations.

The combined company will be subject to competition that may adversely impact its business, financial condition and results of operations.

As an incumbent carrier, FairPoint historically has experienced little competition in its rural telephone company markets; however, many of the competitive threats now confronting large regulated telephone companies, such as competition from cable television providers, will be more prevalent in the small urban markets which the combined company will serve following the merger. Regulation and technological innovation change quickly in the communications industry, and changes in these factors historically have had, and may in the future have, a significant impact on competitive dynamics. In most of its rural markets, FairPoint faces competition from wireless technology, which may increase as wireless technology improves. FairPoint also faces, and the combined company may face, increasing competition from cable television operators. The combined company may face additional competition from new market entrants, such as providers of wireless broadband, voice over Internet protocol, referred to as VoIP, satellite communications and electric utilities. The Internet services market is also highly competitive, and FairPoint expects that this competition will intensify. Many of FairPoint's competitors (who will also be competitors of the combined company) have brand recognition, offer

online content services and have financial, personnel, marketing and other resources that are significantly greater than those of FairPoint and may be greater than those of the combined company. Verizon has informed FairPoint of its current intention to compete with the combined company by continuing to provide the following services in the northern New England areas in which the combined company will operate:

- the offering of long distance services and prepaid card services and the resale of local exchange service;
- the offering of products and services to business and government customers other than as the incumbent local exchange carrier, including but not limited to carrier services, data customer premises equipment and software, structured cabling, call center solutions and the products and services formerly offered by MCI, Inc.; and
- the offering of wireless voice, wireless data and other wireless services.

The combined company will offer local exchange and long distance services in Maine, New Hampshire and Vermont and will compete with Verizon to provide these services. To the extent that the combined company offers services to businesses and government customers in these states, it will also compete directly with Verizon. Although Verizon could compete with the combined company in the offering of long distance services to residences and small businesses, Verizon does not actively market the sale of these services to residences and small businesses in Maine, New Hampshire and Vermont, other than through the Northern New England business. If the combined company enters into an agreement with Verizon or another wireless services provider to be a mobile virtual network operator, referred to as MVNO, it will compete with Verizon to provide wireless services in those areas where the Northern New England business and Cellco currently operate. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—MVNO Agreement."

In addition, consolidation and strategic alliances within the communications industry or the development of new technologies could affect the combined company's competitive position. FairPoint cannot predict the number of competitors that will emerge, particularly in light of possible regulatory or legislative actions that could facilitate or impede market entry, but increased competition from existing and new entities could have a material adverse effect on the combined company's business, financial condition and results of operations.

Competition may lead to loss of revenues and profitability as a result of numerous factors, including:

- loss of customers;
- reduced network usage by existing customers who may use alternative providers for long distance and data services;
- reductions in the service prices that may be necessary to meet competition; and
- increases in marketing expenditures and discount and promotional campaigns.

In addition, the combined company's provision of long distance service will be subject to a highly competitive market served by large nationwide carriers that enjoy brand name recognition.

The combined company may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services.

Rapid and significant changes in technology and frequent new service introductions occur frequently in the communications industry and industry standards evolve continually. FairPoint cannot predict the effect of these changes on the combined company's competitive position, profitability or

industry. Technological developments may reduce the competitiveness of the combined company's networks and require unbudgeted upgrades or the procurement of additional products that could be expensive and time consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of its services. If the combined company fails to adapt successfully to technological changes or obsolescence or fails to obtain acccss to important new technologies, it could lose customers and be limited in its ability to attract new customers and sell new services to the existing customers of FairPoint and the Northern New England business. The combined company's ability to respond to new technological developments may be diminished or delayed while its management devotes significant effort and resources to integrating FairPoint's business and Spinco's business.

The geographic concentration of the combined company's operations in Maine, New Hampshire and Vermont following the merger will make its business susceptible to local economic and regulatory conditions, and an economic downturn, recession or unfavorable regulatory action in any of those states may adversely affect the combined company's business, financial condition and results of operations.

FairPoint currently operates 31 different rural local exchange carriers in 18 states. No single state accounted for more than 22% of FairPoint's access line equivalents as of March 31, 2007, which limited FairPoint's exposure to competition, local economic downturns and state regulatory changes. Following the merger, Fairpoint expects that 88% of the combined company's access line equivalents will be located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the combined company's financial results will depend significantly upon economic conditions in these markets. A deterioration or recession in any of these markets could result in a decrease in demand for the combined company's services and resulting loss of access lines which could have a material adverse effect on the combined company's business, financial condition and results of operations.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take action that was adverse to the combined company's operations in those states, the combined company could suffer greater harm from that action by state regulators than it would from action in other states because of the concentration of its operations in those states following the merger.

To operate and expand its business, service its indebtedness and complete future acquisitions, the combined company will require a significant amount of cash. The combined company's ability to generate cash will depend on many factors beyond its control. The combined company may not generate sufficient funds from operations to pay dividends with respect to shares of its common stock, to repay or refinance its indebtedness at maturity or otherwise, or to consummate future acquisitions.

A significant amount of the combined company's cash flow from operations will be dedicated to capital expenditures and debt service. In addition, FairPoint currently expects that the combined company will distribute a significant portion of its cash flow to its stockholders in the form of quarterly dividends. As a result, the combined company may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or may be required to devote additional cash to unanticipated capital expenditures or to fund its operations.

The combined company's ability to make payments on its indebtedness will depend on its ability to generate cash flow from operations in the future. This ability, to a certain extent, will be subject to general economic, financial, competitive, legislative, regulatory and other factors that will be beyond the combined company's control. The combined company's business may not generate sufficient cash flow from operations, or the combined company may not be able to borrow sufficient funds, to service its indebtedness, to make payments of principal at maturity or to fund its other liquidity needs.

The combined company may also be forced to raise additional capital or sell assets and, if it is forced to pursue any of these options after the merger under distressed conditions, its business and the value of its common stock could be adversely affected. In addition, these alternatives may not be available to the combined company when needed or on satisfactory terms due to prevailing market conditions, a decline in the combined company's business, legislative and regulatory factors or restrictions contained in the agreements governing its indebtedness.

The combined company's stockholders may not receive the level of dividends provided for in the dividend policy FairPoint's board of directors has adopted or any dividends at all.

FairPoint's board of directors has adopted a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by FairPoint's business in excess of operating needs, interest and principal payments on its indebtedness, dividends on its future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any, as regular quarterly dividends to its stockholders. FairPoint's board of directors may, in its discretion, amend or repeal this dividend policy, before or after the merger. FairPoint's dividend policy is based upon FairPoint's directors' current assessment of its business and the environment in which it operates, and that assessment could change based on regulatory, competitive or technological developments which could, for example, increase the need for capital expenditures, or based on new growth opportunities. In addition, future dividends with respect to shares of the combined company's common stock, if any, will depend on, among other things, the combined company's cash flows, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that its board of directors may deem relevant. The combined company's board of directors may decrease the level of dividends provided for in the dividend policy or entirely discontinue the payment of dividends. FairPoint's current credit facility contains significant restrictions on its ability to make dividend payments, and the terms of the combined company's future indebtedness are expected to contain similar restrictions. The combined company may not generate sufficient cash from continuing operations in the future, or have sufficient surplus or net profits under Delaware law, to pay dividends on its common stock in accordance with the dividend policy. The reduction or elimination of dividends may negatively affect the market price of the combined company's common stock.

If the combined company has insufficient cash flow to cover the expected dividend payments under its dividend policy due to costs associated with the merger or other factors, it will be required to reduce or eliminate dividends or, to the extent permitted under the agreements governing its indebtedness, fund a portion of its dividends with additional borrowings.

If the combined company does not have sufficient cash to fund dividend payments, it would either reduce or eliminate dividends or, to the extent it was permitted to do so under the agreements governing its indebtedness, fund a portion of its dividends with borrowings or from other sources. If the combined company were to use borrowings to fund dividends, it would have less cash available for future dividends and other purposes, which could negatively impact its business, financial condition and results of operations.

Prior to the closing of the merger, FairPoint expects to spend approximately $95 million to $110 million on infrastructure and network systems integration and planning in connection with the transactions, of which Verizon will reimburse up to $40 million. These expenditures will reduce the amount of cash available to pay dividends.

The combined company's substantial indebtedness could restrict its ability to pay dividends on its common stock and have an adverse impact on its financing options and liquidity position.

After the merger, the combined company will have a significant amount of indebtedness. This substantial indebtedness could have important adverse consequences to the holders of the combined company's common stock, including:

- limiting the combined company's ability to pay dividends on its common stock or make payments in connection with its other obligations, including under its credit facility;

- limiting the combined company's ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;

- causing the combined company to be unable to refinance its indebtedness on terms acceptable to it or at all;

- limiting the combined company's flexibility in planning for, or reacting to, changes in its business and the communications industry generally;

- requiring a significant portion of the combined company's cash flow from operations to be dedicated to the payment of interest and, to a lesser extent, principal on its indebtedness, thereby reducing funds available for future operations, dividends on its common stock, capital expenditures or acquisitions;

- making the combined company more vulnerable to economic and industry downturns and conditions, including increases in interest rates; and

- placing the combined company at a competitive disadvantage to its competitors that have less indebtedness.

Subject to the covenants expected to be included in the agreements governing the combined company's indebtedness, the combined company may be able to incur additional indebtedness. Any additional indebtedness that the combined company incurs would exacerbate the risks described above.

Borrowings under the combined company's new credit facility will bear interest at variable interest rates. Accordingly, if any of the base reference interest rates for the borrowings under the new credit facility increase, the combined company's interest expense will increase, which could negatively affect the combined company's ability to pay dividends on its common stock or repay or refinance its indebtedness. FairPoint will seek to enter into interest rate swap agreements which will effectively convert a significant portion of the combined company's variable rate interest exposure to fixed rates. If these swap agreements are in force, a significant portion of the combined company's indebtedness will effectively bear interest at fixed rates rather than variable rates. After these interest rate swap agreements expire, the combined company's annual debt service obligations with respect to borrowings under the new credit facility will vary unless the combined company enters into new interest rate swap agreements or purchases an interest rate cap or other form of interest rate hedge. However, the combined company may not be able to enter into new interest rate swap agreements or purchase an interest rate cap or other form of interest rate hedge on acceptable terms, which could negatively affect the combined company's ability to pay dividends on its common stock or repay or refinance its indebtedness.

FairPoint Communications, Inc. is a holding company and relies on dividends, interest and other payments, advances and transfers of funds from its operating subsidiaries and investments to meet its debt service and other obligations.

FairPoint Communications, Inc. is a holding company and both before and after the merger will conduct all of its operations through its operating subsidiaries. FairPoint Communications, Inc. currently has no significant assets other than equity interests in its subsidiaries. As a result, FairPoint Communications, Inc. currently relies, and will continue to rely after the merger, on dividends and other payments or distributions from its operating subsidiaries to pay dividends with respect to its common stock and to meet its debt service obligations. The ability of FairPoint Communications, Inc.'s subsidiaries to pay dividends or make other payments or distributions to FairPoint Communications, Inc. will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization;
- the rules and regulations of state regulatory authorities;
- agreements of those subsidiaries, including agreements governing indebtedness;
- the terms of agreements governing indebtedness of those subsidiaries; and
- regulatory orders.

FairPoint Communications, Inc.'s operating subsidiaries have no obligation, contingent or otherwise, to make funds available to FairPoint Communications, Inc., whether in the form of loans, dividends or other distributions.

It is expected that the combined company's new credit facility and other agreements governing its indebtedness will contain covenants that will limit its business flexibility by imposing operating and financial restrictions on its operations and the payment of dividends.

It is expected that covenants in the combined company's new credit facility and other agreements governing its indebtedness will impose significant operating and financial restrictions on the combined company. These restrictions will prohibit or limit, among other things:

- the incurrence of additional indebtedness and the issuance by the combined company's subsidiaries of preferred stock;
- the payment of dividends on, and purchases or redemptions of, capital stock;
- making any of a number of other restricted payments, including investments;
- the creation of liens;
- the ability of each of the combined company's subsidiaries to guarantee indebtedness;
- specified sales of assets;
- the creation of encumbrances or restrictions on the ability of the combined company's subsidiaries to distribute and advance funds or transfer assets to the combined company or any other subsidiary;
- specified transactions with affiliates;
- sale and leaseback transactions;
- the combined company's ability to enter lines of business outside the communications business; and
- certain consolidations and mergers and sales or transfers of assets by or involving the combined company.

The new credit facility is also expected to contain covenants which require the combined company to maintain specified financial ratios and satisfy financial condition tests, including a maximum total leverage ratio and a minimum interest coverage ratio.

The combined company's ability to comply with the covenants, ratios or tests expected to be contained in the agreements governing the combined company's indebtedness may be affected by events beyond the combined company's control, including prevailing economic, financial and industry conditions. A breach of any of these covenants, ratios or tests could result in a default under the agreements governing the combined company's indebtedness. FairPoint expects that the occurrence of an event of default under the new credit facility or the other agreements governing the combined company's indebtedness would prohibit the combined company from making dividend payments on its common stock. In addition, upon the occurrence of an event of default under the new credit facility or the other agreements governing the combined company's indebtedness, the lenders or holders, as the case may be, could elect to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If the combined company were to be unable to repay those amounts, the lenders under the new credit facility could proceed against the security granted to them to secure that indebtedness or the lenders or holders could commence collection or bankruptcy proceedings against the combined company. If the lenders or holders accelerate the payment of any outstanding indebtedness, the combined company's assets may not be sufficient to repay all indebtedness of the combined company that then becomes due and owing.

Limitations on the combined company's ability to use net operating loss carryforwards, and other factors requiring the combined company to pay cash to satisfy its tax liabilities in future periods, may affect its ability to pay dividends to its stockholders.

FairPoint's initial public offering in February 2005 resulted in an "ownership change" within the meaning of the U.S. federal income tax laws addressing net operating loss carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the merger with Spinco will result in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on FairPoint's ability to use its net operating loss carryforwards and other tax attributes from periods prior to the initial public offering and the merger. Although FairPoint does not expect that these limitations will materially affect FairPoint's U.S. federal and state income tax liability in the near term, it is possible in the future if the combined company were to generate taxable income in excess of the limitation on usage of net operating loss carryforwards that these limitations could limit the combined company's ability to utilize the carryforwards and, therefore, result in an increase in its U.S. federal and state income tax payments. In addition, in the future the combined company will be required to pay cash to satisfy its tax liabilities when all of its net operating loss carryforwards have been used or have expired. Limitations on the combined company's usage of net operating loss carryforwards, and other factors requiring the combined company to pay cash taxes in the future, would reduce the funds available for the payment of dividends and may require the combined company to reduce or eliminate the dividends on its common stock.

The combined company's business, financial condition and results of operations could be adversely affected if the combined company fails to maintain satisfactory labor relations.

Following the merger, approximately 67% of the combined company's employees will be members of unions employed under seven collective bargaining agreements. The two principal collective bargaining agreements to which Verizon is currently a party expire in August 2008. Upon the expiration of any of these collective bargaining agreements, the combined company may not be able to negotiate new agreements on favorable terms to the combined company or at all. Furthermore, the process of renegotiating the collective bargaining agreements could result in labor disputes or other difficulties and delays. These potential labor disruptions could have a material adverse effect on the combined company's results of operations and financial condition. In the event of any work stoppage or other disruption, the combined company will be required to engage third-party contractors. Labor disruptions, strikes or significant negotiated wage increases could reduce the combined company's sales or increase its costs and accordingly, could have a material adverse effect on its business, financial condition and results of operations.

Currently, both of the labor unions representing Spinco employees have objected to the merger in certain regulatory proceedings. The International Brotherhood of Electrical Workers has filed four grievances alleging that the transaction violates their collective bargaining agreements with respect to job security, benefit plans, transfer of work and hiring restrictions. The grievances seek remedies which include an order to cease and desist from the alleged prohibited actions, an order to follow the contract terms, and an order to take remedial actions. Verizon has denied any violation of the collective bargaining agreements and has asserted defenses to these grievances. The job security and transfer of work grievances have been submitted to arbitration under the labor arbitration rules of the American Arbitration Association pursuant to the parties' collective bargaining agreements. Hearings on those grievances are scheduled to begin in mid-July and conclude by the end of August. It is anticipated that hearings on the benefit plans and hiring restrictions grievances will be scheduled shortly.

The combined company faces risks associated with acquired businesses and potential acquisitions.

Prior to entering into the merger agreement, FairPoint grew rapidly by acquiring other businesses. Subject to restrictions in the tax sharing agreement limiting the combined company's ability to take

certain actions during the two years following the spin-off that could jeopardize the tax-free status of the spin-off or merger, FairPoint expects that a portion of its future growth will result from additional acquisitions, some of which may be material. Growth through acquisitions entails numerous risks, including:

- strain on financial, management and operational resources, including the distraction of the management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;

- difficulties in integrating the network, operations, personnel, products, technologies and financial, computer, payroll and other systems of acquired businesses;

- difficulties in enhancing customer support resources to service its existing customers and the customers of acquired businesses adequately;

- the potential loss of key employees or customers of the acquired businesses; and

- unanticipated liabilities or contingencies of acquired businesses.

The combined company may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase the combined company's leverage and could have an adverse effect on its ability to pay dividends. The combined company may not be able to raise sufficient additional capital on terms that it considers acceptable, or at all.

The combined company may not be able to complete successfully the integration of Spinco or other businesses that FairPoint has recently acquired or successfully integrate any businesses that the combined company might acquire in the future. If the combined company fails to do so, or if the combined company does so but at greater cost than it anticipated, its business, financial condition and results of operations may be adversely affected.

A network disruption could cause delays or interruptions of service, which could cause the combined company to lose customers.

To be successful, the combined company will need to continue to provide its customers reliable service over its expanded network. Some of the risks to the combined company's network and infrastructure include:

- physical damage to access lines;

- wide spread power surges or outages;

- software defects in critical systems; and

- disruptions beyond the combined company's control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the combined company to lose customers and incur expenses.

The combined company's relationships with other communications companies will be material to its operations and their financial difficulties may adversely affect its future business, financial condition and results of operations.

The combined company will originate and terminate calls for long distance carriers and other interexchange carriers over its network. For that service, the combined company will receive payments for access charges. These payments represent a significant portion of FairPoint's current revenues and are expected to be material to the business of the combined company. If these carriers go bankrupt or experience substantial financial difficulties, the combined company's inability to then collect access charges from them could have a negative effect on the combined company's business, financial condition and results of operations.

The combined company will depend on third parties for its provision of long distance and bandwidth services.

The combined company's provision of long distance and bandwidth services will be dependenton underlying agreements with oher carriers that will provide the combined company with transport and termination services. These agreements will be based, in part, on the combined company's estimate of future supply and demand and may contain minimum volume commitments. If the combined company overestimates demand, it may be forced to pay for services it does not need. If the combined company underestimates demand, it may need to acquire additional capacity on a short-term basis at unfavorable prices, assuming additional capacity is available. If additional capacity is not available, the combined company will not be able to meet this demand. In addition, if the combined company cannot meet any minimum volume commitments, it may be subject to underutilization charges, termination charges, or rate increases which may adversely affect its business, financial condition and results of operations.

The combined company may not be able to maintain the necessary rights-of-way for its networks.

The combined company will be dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments and transit authorities to install and maintain conduit and related communications equipment for any expansion of its networks. The combined company may need to renew current rights-of-way for its network and it may not be successful in renewing these agreements on acceptable terms or at all. Some of the combined company's agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and the combined company may not have access to existing rights-of-way after they have expired or terminated. If any of these agreements are terminated or not renewed, the combined company could be required to remove its then-existing facilities from under the streets or abandon a portion of its network. Similarly, the combined company may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if it is unable to do so, the combined company's ability to expand its networks could be impaired.

The combined company's success will depend on its ability to attract and retain qualified management and other personnel.

FairPoint's success depends, and the success of the combined company will depend, upon the talents and efforts of FairPoint's senior management team. While FairPoint is not aware that any senior executive of FairPoint or the Spinco business has indicated an intention to leave the combined company as a result of the merger, none of these senior executives, withthe exception of Eugene B. Johnson, FairPoint's Chairman and Chief Executive Officer, are employed pursuant to an employment agreement. Mr. Johnson is expected to continue as the Chairman and Chief Executive Officer of the combined company. Mr. Johnson's employment contract expires on December 31, 2008. The loss of any member of the combined company's senior management team, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on the combined company's business, financial condition and results of operations.

The combined company may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters.

The combined company's operations and properties will be subject to federal, state and local laws and regulations relating to protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage and disposal of hazardous substances, materials and wastes. Under certain environmental laws, the combined company could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties, or for contamination arising from the disposal by the combined company or its predecessors of hazardous wastes at formerly owned

properties or at third-party waste disposal sites. In addition, the combined company could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to violations of environmental laws. Changes in existing laws or regulations or future acquisitions of businesses could require the combined company to incur substantial costs in the future relating to these matters.

The combined company will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

As a public reporting company, the combined company will be required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements.

If management of the combined company identifies one or more material weaknesses in internal control over financial reporting in the future in accordance with the annual assessment required by the Sarbanes-Oxley Act, the combined company will be unable to assert that its internal control is effective.

In addition, the combined company will be evaluating its internal control systems with respect to the Spinco business to allow management to report on, and the combined company's independent auditors to attest to, the internal controls of the Spinco business as required by Section 404 of the Sarbanes-Oxley Act. The combined company will be performing the systems and process evaluation and testing (and any necessary remediation) required to comply with the management certification and independent registered public accounting firm attestation requirements of Section 404 of the Sarbanes-Oxley Act. While it is expected that the combined company will be able to fully implement the requirements relating to internal controls and all other aspects of Section 404 with respect to the Spinco business for the year ending December 31, 2009 (assuming that the merger is completed in 2008), the combined company may not be able to meet the deadline with respect to the completion of its evaluation, testing and remediation actions.

If the combined company is not able to implement the requirements of Section 404 with respect to the Spinco business in a timely manner or with adequate compliance (including due to the failure of the combined company to successfully complete the conversion of its various billing systems into a single integrated billing platform) or if the combined company is otherwise unable to assert that its internal control over financial reporting is effective for any fiscal year, the combined company might be subject to sanctions or investigation by regulatory authorities.

Risks Relating to the Combined Company's Regulatory Environment

The combined company will be subject to significant regulations that could change in a manner adverse to the combined company.

The combined company will operate in a heavily regulated industry. Laws and regulations applicable to the combined company and its competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators. In addition, the following factors could have a significant impact on the combined company:

Risk of loss or reduction of network access charge revenues. A portion of the combined company's revenues will come from network access charges, which will be paid to the combined company by intrastate and interstate long distance carriers for originating and terminating calls in the regions served. This also includes universal service support payments for local switching support, long term support and interstate common line support. In recent years, several of these long distance carriers have declared bankruptcy. Future declarations of bankruptcy by a carrier that utilizes the combined company's access services could negatively affect the combined company's business, financial condition and results of operations. The amount of access charge revenues that FairPoint and the Northern New England business currently receive is based on rates set by federal and state regulatory bodies, and those rates could change after the merger. Further, from time to time federal and state regulatory

bodies conduct rate cases, "earnings" reviews, or adjustments to price cap formulas which may result in rate changes. The Federal Communications Commission has reformed and continues to reform the federal access charge system. States often mirror these federal rules in establishing intrastate access charges. In 2000 and 2001, the Federal Communications Commission reformed the system to reduce interstate access charges for price cap and rate of return carriers and to shift a portion of cost recovery, which historically has been based on minutes-of-use, to flat-rate, monthly per line charges on end-user customers rather than long distance carriers. As a result, the aggregate amount of access charges paid by long distance carriers to access providers, such as FairPoint's local exchange carriers, has decreased and may continue to decrease. Future changes in access charge rates may not be implemented on a revenue neutral basis. Furthermore, to the extent the rural local exchange carriers to be operated by the combined company become subject to competition, access charges could be paid to competing communications providers rather than to the combined company. Additionally, the access charges the combined company receives may be reduced as a result of competition from wireless, VoIP or other new technology utilization. Finally, the Federal Communications Commission is currently weighing several proposals to comprehensively reform the intercarrier compensation regime in order to create a uniform system of intercarrier payments. If any of the currently proposed reforms were adopted by the Federal Communications Commission it would likely involve significant changes in the access charge system and, if not offset by a revenue replacement mechanism, could potentially result in a significant decrease in or elimination of access charges. Decreases or losses of access charges may or may not result in offsetting increases in local, subscriber line or universal service support revenues.

Risk of loss or reduction of Universal Service Fund support. FairPoint and the Northern New England business currently receive, and the combined company is expected to continue to receive, Universal Service Fund revenues (and equivalent state universal service support) to support the operations in high-cost areas. Current Federal Communications Commission rules provide different methodologies for the determination of federal universal service payments to rural and non-rural telephone company areas. In general, the rules provide high-cost support to rural telephone company study areas where the company's actual costs exceed a preset nationwide benchmark level. High-cost support for non-rural telephone company areas, on the other hand, is determined by a nationwide proxy cost model. The Federal-State Joint Board on Universal Service is considering proposals to update the proxy model upon which non-rural high-cost funding is determined. These changes could reduce the Universal Service Fund revenues received by the combined company. Corresponding changes in state universal service support could likewise have a negative effect on the revenues received by the combined company.

The high-cost loop support FairPoint and the Northern New England business received and that the combined company will receive from the Universal Service Fund is based upon average cost per loop compared to the national average cost per loop benchmark. This revenue stream will fluctuate based upon the combined company's rural company average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increases and the combined company's rural company operating costs (and average cost per loop) remain constant or decrease, the payments the combined company will receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and FairPoint's operating costs (and average cost per loop) remain constant or increase, the payments FairPoint receives from the Universal Service Fund would increase. The national average cost per loop in relation to FairPoint's historic average cost per loop has increased and FairPoint believes that the national average cost per loop will likely continue to increase in relation to the combined company's average cost per loop. As a result, the payments FairPoint receives from the rural Universal Service Fund have declined and the payments that the combined company will receive will likely continue to decline. In addition to the Universal Service Fund high-cost loop support, FairPoint also receives other Universal Service Fund support payments for its rural company service areas, which include local switching support, long term support, and interstate common line support that used to be included in FairPoint's interstate access charge revenues. If the

combined company's rural local exchange carriers were unable to receive support from the Universal Service Fund, or if that support was reduced, many of FairPoint's rural local exchange carriers will be unable to operate as profitably as they have historically. Moreover, if the combined company raises prices for services to offset these losses of Universal Service Fund payments, the increased pricing of its services may disadvantage it competitively in the marketplace, resulting in additional potential revenue loss.

The Northern New England business also receives federal universal service support, although at a lesser percentage of total revenue than the FairPoint rural operating companies. For the year ended December31, 2006, the Northern New England business's non-rural properties received 2% of revenues from high-cost model support and interstate access support. The Federal Communications Commission's current rules for support to high-cost areas served by non-rural local telephone companies were previously remanded by the U.S. Court of Appeals for the Tenth Circuit, which had found that the Federal Communications Commission had not adequately justified these rules. The Federal Communications Commission has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. Any change in the rules could have a material adverse effect on the financial condition and results of operations of the Northern New England business and the revenues to be received by the combined company.

The Telecommunications Act provides that eligible communications carriers, including competitors to rural local exchange carriers, such as wireless operators, may obtain the same per line support as the rural local exchange carriers receive if a state commission determines that granting support to competitors would be in the public interest or for other reasons. Wireless communications providers in certain of FairPoint's existing markets have obtained matching support payments from the Universal Service Fund, although this matching has not led to a loss of revenues for FairPoint's rural local exchange carriers under existing regulations. Any shift in universal service regulation, however, could have an adverse effect on the combined company's business, financial condition and results of operations.

The Federal Communications Commission's development of explicit universal service support for rural carriers so far has been revenue neutral to FairPoint's operations. Changes in methodology may not continue to reflect the costs incurred by the rural local exchange carriers that will be operated in the future by the combined company, and any revised methodology may not provide for the same amount of Universal Service Fund support that FairPoint's rural local exchange carriers have received in the past. In addition, several parties have raised objections to the size of the Universal Service Fund and the types of services eligible for support. A number of issues regarding the source and amount of contributions to, and eligibility for payments from, the Universal Service Fund are pending and may be addressed by the Federal Communications Commission or Congress. The outcome of any regulatory proceedings or legislative changes could affect the amount of Universal Service Fund support that the combined company receives, and could have an adverse effect on the combined company's business, financial condition and results of operations.

On February 28, 2005, the Federal Communications Commission issued a press release announcing additional requirements for the designation of competitive Eligible Telecommunications Carriers for receipt of high-cost support. In its corresponding order, released on March 17, 2005, the Federal Communications Commission adopted additional mandatory requirements for Eligible Telecommunications Carriers designation in cases where it has jurisdiction, and encouraged states that have jurisdiction to designate Eligible Telecommunications Carriers to adopt similar requirements. On May 1, 2007, the Federal-State Joint Board recommended that the Federal Communications Commission cap the support paid to competitive eligible telecommunications carriers at 2006 levels, limiting future growth in the fund. While this recommendation would not affect the support of incumbent local exchange carriers such as FairPoint, the Joint Board also is seeking further comments on changes to the basis of support and the method of awarding support to all eligible telecommunications carriers, including incumbent local exchange carriers. The Federal Communications

Commission is still considering revisions to the methodology by which contributions to the Universal Service Fund are determined. These revisions will be part of an overall rulemaking regarding Universal Service Support which will be dealt with in future proceedings.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. The rural local exchange carriers currently operated by FairPoint are exempt from the Telecommunications Act's more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent's network at favorable rates. To the extent state regulators decide that it is in the public interest to extend some or all of these requirements to the combined company's rural local exchange carriers, the combined company would be required to provide unbundled network elements to competitors in its rural telephone company areas. As a result, more competitors could enter FairPoint's traditional telephone markets than are currently expected which could have a material adverse effect on the combined company's business, financial condition and results of operations.

Risks posed by costs of regulatory compliance. Regulations create significant compliance costs for FairPoint and are expected to continue to do so with respect to the combined company. Subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. FairPoint's interstate access services are currently provided in accordance with tariffs filed with the Federal Communications Commission. Challenges in the future to the combined company's tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause the combined company to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that the combined company is able to charge its customers.

The combined company's business also may be affected by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect the combined company's business. For example, existing provisions of the Communications Assistance for Law Enforcement Act and Federal Communications Commission regulations implementing the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. FairPoint cannot predict whether or to what extent the Federal Communications Commission might modify its Communications Assistance for Law Enforcement Act rules or any other rules or what compliance with those new rules might cost Similarly, FairPoint cannot predict whether or to what extent federal or state legislators or regulators might impose new security, environmental or other obligations on its business.

For a more thorough discussion of the regulatory issues that may affect the combined company's business, see "Description of the Business of the Combined Company—Regulatory Environment."

Risk of losses from rate reduction. FairPoint's local exchange companies that operate pursuant to rate of return regulation are subject to state regulatory authority over their intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on the combined company's business, financial condition and results of operations.

Regulatory changes in the communications industry could adversely affect the combined company's business by facilitating greater competition, reducing potential revenues or raising its costs.

The Telecommunications Act provides for significant changes and increased competition in the communications industry, including competition for local communications and long distance services. This statute and the Federal Communications Commission's implementing regulations could be submitted for judicial review or affected by future rulings of the Federal Communications Commission, thus making it difficult to predict whether the legislation will have amaterial adverse effect on the

combined company's business, financial condition and results of operations and its competitors. Several regulatory and judicial proceedings have concluded, are underway or may soon be commenced, that address issues affecting FairPoint's current operations and those of its competitors. FairPoint cannot predict the outcome of these developments, nor can it assure that these changes will not have a material adverse effect on the combined company or its industry.

For a more thorough discussion of the regulatory issues that may affect the combined company's business, see "Description of the Business of the Combined Company—Regulatory Environment."

Risks Relating to Investing in or Holding the Combined Company's Common Stock

The price of the combined company's common stock may fluctuate substantially. Fluctuations in the combined company's common stock price after the merger could negatively affect holders of the common stock of the combined company, including Verizon stockholders receiving shares of FairPoint common stock in connection with the merger.

The market price of the combined company's common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in its operating results, the volume of sales of its common stock, developments in the communications industry, the failure of securities analysts to cover the common stock or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in particular. Communications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of the combined company's common stock. In addition, in the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock prices. This type of litigation could result in substantial costs and divert management's attention and resources.

FairPoint's certificate of incorporation and by-laws, which will be the certificate of incorporation and by-laws of the combined company following the merger, and several other factors could limit another party's ability to acquire the combined company and deprive its investors of the opportunity to obtain a takeover premium for their securities.

A number of provisions in FairPoint's current certificate of incorporation and by-laws make it difficult for another company to acquire FairPoint and for FairPoint stockholders to receive any related takeover premium for their securities. Because FairPoint is not amending its certificate of incorporation and by-laws in connection with the merger, these provisions will continue to apply to the combined company following the merger. For example, FairPoint's certificate of incorporation provides that certain provisions of its certificate of incorporation can only be amended by an affirmative vote of two-thirds or more in voting power of all the outstanding shares of capital stock, that stockholders generally may not act by written consent, and only stockholders representing at least 50% in voting power may request that the board of directors call a special meeting. FairPoint's certificate of incorporation provides for a classified board of directors and authorizes the issuance of preferred stock without stockholder approval and upon such terms as the board of directors may determine. The rights of the holders of shares of the combined company's common stock will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that may be issued in the future. See "Description of Capital Stock of FairPoint and The Combined Company—Anti-Takeover Effects of Various Provisions of Delaware Law and FairPoint's Certificate of Incorporation and By-laws."

In addition, the tax sharing agreement may limit another party's ability to acquire the combined company. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement."

The combined company may, under certain circumstances, suspend the rights of stock ownership, the exercise of which would result in any inconsistency with, or violation of, any applicable communications law.

FairPoint's certificate of incorporation, which will be the certificate of incorporation of the combined company following the merger, provides that so long as it holds any authorization, license, permit, order, filing or consent from the Federal Communications Commission or any state regulatory commission having jurisdiction over FairPoint, FairPoint will have the right to request certain information from its stockholders. If any stockholder from whom such information is requested fails to respond to such a request, or if the combined company concludes that the ownership of, or the existence or exercise of any rights of stock ownership with respect to, shares of the combined company's capital stock by that stockholder, could result in any inconsistency with, or violation of, any applicable communications law, the combined company may suspend those rights of stock ownership the existence or exercise of which would result in any inconsistency with, or violation of, any applicable communications law, and the combined company may exercise any appropriate remedy, at law or in equity, in any court of competent jurisdiction, against any stockholder, with a view towards obtaining such information or preventing or curing any situation which would cause an inconsistency with, or violation of, any provision of any applicable communications law.

During the summer of 2005, FairPoint asked Lehman Brothers to convey to Verizon FairPoint's interest in acquiring rural access lines. That led to an initial meeting on September 30, 2005 between management of FairPoint and Verizon, which proposed exploring a business combination involving its wireline, long distance and Internet service provider businesses in Maine, New Hampshire and Vermont. Based on Verizon's initial reaction, FairPoint's management, at FairPoint's December 14, 2005 board of directors meeting, requested and received approval to pursue further discussions with Verizon. In December 2005, FairPoint signed a non-disclosure agreement with Verizon.

Following further discussions between FairPoint and Verizon, on February 13, 2006, Verizon provided FairPoint and others with an initial proposal letter, term sheet and information package for a proposed transaction involving the Northern New England business. Verizon proposed a tax-free spin-off or split-off followed by a merger, in connection with which Spinco would incur debt in an amount up to Verizon's basis in the assets contributed to Spinco with additional debt to be incurred by Spinco in an amount to be agreed. Verizon also proposed that the combined company would assume the pension and post-retirement benefits, referred to as OPEB, obligations to the existing and retired employees of the Northern New England business, and that the pension liabilities of the combined company would be funded with respect to these existing and retired employees through the transfer of existing Verizon plan assets. The initial proposal letter and term sheet required that Verizon stockholders would own more than 50% of the combined company.

On February 20, 2006, Eugene B. Johnson, Chairman and Chief Executive Officer of FairPoint, had a conference call with John Diercksen, Executive Vice President of Corporate Development at Verizon, in which both parties expressed interest in pursuing further discussions.

At a March 15, 2006 meeting of FairPoint's board of directors, FairPoint's management made a presentation regarding FairPoint's overall corporate development strategy and gave a detailed review of various strategic alternatives, including a proposed transaction with Verizon. The presentation included the following materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management: (i) an analysis of the Northern New England business, (ii) certain projections for the combined company, (iii) a share price sensitivity analysis and (iv) a comparable company analysis. Following the presentation, the board reconfirmed its direction to management to continue to pursue discussions with Verizon.

On March 16, 2006, FairPoint submitted to Verizon a proposal to acquire the Northern New England business. FairPoint indicated that it was interested in pursuing a spin-off and subsequent merger as proposed by Verizon. FairPoint proposed an initial leverage ratio for Spinco of 3.25 to 3.5 times earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, which would result in a leverage ratio of 3.6 to 3.7 times EBITDA for the combined company and was anticipated to permit a continuation of FairPoint's existing dividend policy. FairPoint also proposed a valuation of Spinco at 6.5 to 7.25 times Spinco's 2006 EBITDA. FairPoint indicated in its response that it needed additional information in order to evaluate Verizon's proposal regarding the pension and OPEB liabilities. In addition, FairPoint proposed a sale of its 7.5% interest in the Orange County-Poughkeepsie Limited Partnership to Cellco. FairPoint planned to use the net proceeds of the sale to finance transition costs to be incurred in anticipation of or in connection with the merger.

On March 20, 2006, FairPoint engaged Lehman Brothers as a financial advisor in connection with a proposed transaction with Verizon. Subsequently, on May 19, 2006, FairPoint also engaged Morgan Stanley as a financial advisor in connection with a proposed transaction with Verizon. In connection with their role as financial advisors to FairPoint, Lehman Brothers and Morgan Stanley, among other things, reviewed certain publicly available financial and other information and reviewed certain internal analyses and financial and other information furnished to them by FairPoint. Lehman Brothers and Morgan Stanley did not assume responsibility for the independent verification of, and did not independently verify, any information, whether publicly available or furnished to them, concerning FairPoint, Verizon, Spinco or comparable transactions, including, without limitation, any financial

information, forecasts or projections furnished to them. Neither Lehman Brothers nor Morgan Stanley rendered a fairness opinion with respect to the transaction, and neither expressed any opinion as to the merits of the underlying decision by FairPoint to engage in the transaction. If the merger is completed, Lehman Brothers will receive $10 million and, in FairPoint's sole discretion, is eligible to receive an additional $5 million, as compensation for its financial advisory services. If the merger is completed, FairPoint will determine whether to pay Lehman Brothers all or a portion of the additional $5 million based on FairPoint's evaluation of Lehman Brothers' contributions during the negotiation phase of the transaction as well as the assistance Lehman Brothers renders during the period between signing and closing. If the merger is completed, Morgan Stanley will receive $5 million as compensation for its financial advisory services.

On April 20, 2006, FairPoint submitted a revised proposal based on its review of additional information provided by Verizon to FairPoint. FairPoint proposed, among other things, a capital structure for Spinco which included $1.7 billion of debt. FairPoint also proposed that the pension and OPEB obligations with respect to active employees of the Northern New England business covered by collective bargaining agreements could be transferred to the combined company on a fully-funded basis, subject to further due diligence, and that the pension and OPEB obligations for management employees of the Northern New England business would be retained by Verizon. FairPoint also proposed that Verizon stockholders would own not less than 70% of the combined company. FairPoint indicated that an acceptable transition services agreement would be required

On May 25, 2006, Verizon sent to FairPoint a proposed term sheet which, among other terms, provided that Spinco would be capitalized with $1.7 billion of debt consisting of newly incurred bank debt and newly issued Spinco securities. The term sheet indicated that the combined company would create pension plans which mirror the Verizon pension plans that cover the active employees and retirees of the Northern New England business to cover those active employees and retirees following the merger. Verizon proposed that the combined company would assume the pension liabilities for current employees and retirees of the Northern New England business and receive a transfer of assets from the Verizon pension plans. Furthermore, the term sheet included a requirement that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business. Verizon indicated that no OPEB assets would be transferred to the combined company to satisfy OPEB liabilities. Verizon proposed that Verizon stockholders would own 75% of the combined company.

On June 1, 2006, Verizon sent to FairPoint a revised term sheet, which included a proposed requirement that FairPoint assume certain significant retiree pension and other obligations.

FairPoint responded in a letter the following day that it was willing to proceed with negotiations based on that term sheet. FairPoint proposed that Verizon stockholders would own a minimum of 70% of the combined company, assuming that the combined company would assume OPEB liabilities for current employees and retirees of the Northern New England business.

On June 21, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included: (i) a pro forma capitalization and free cash flow analysis assuming a certain price for the Spinco business; (ii) a comparison of the ownership split that would result from various scenarios of price and dividend payout ratios; and (iii) an analysis of the pro forma valuation of FairPoint in various scenarios of trading multiples, payout ratios and dividend yield. At this meeting, FairPoint's board of directors discussed how to respond to the Verizon term sheet. On June 26, 2006, Verizon made a management presentation to FairPoint in Boston, Massachusetts covering financial and operating aspects of the Northern New England business.

From June 27 to June 29, 2006, FairPoint's working team and its financial advisors and attorneys conducted due diligence in Verizon's data room in Dallas, Texas.

On July 5, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included an analysis of the effect of the ownership split on the dividend payout ratio and an updated free cash flow analysis.

On July 12, 2006, FairPoint gave a management presentation to Verizon and its financial advisor, Merrill Lynch, Pierce Fenner & Smith Incorporated, referred to as Merrill Lynch, covering financial and operational aspects of FairPoint's business in Charlotte, North Carolina.

On July 26, 2006, FairPoint's management made a presentation to FairPoint's board of directors that included materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management. These materials included a five point rationale for the transaction, including:

- Scale and scope;
- Improved revenue mix;
- Value creation opportunity;
- Improved financial condition; and
- Regional concentration.

In addition, the materials included summary data on the Spinco business and ranges of values for the Spinco business using various valuation methodologies such as discounted cash flow analysis, precedent transactions and trading comparable. The financial advisors and FairPoint's management also analyzed the effect of various ownership splits on the dividend capacity of the combined company and calculated various common industry metrics in relation to the transaction based on various prices for the merger, including price per access line, price to EBITDA ratio (with and without the benefit of synergies) and price to free cash flow ratio. The price scenarios also reflected the resulting ownership split. Finally, the materials prepared by the financial advisors in conjunction with FairPoint's management included an updated analysis of free cash flow accretion and stock price accretion and reported on the investor reaction to the Valor-Alltel (Windstream) transaction announcement and the original plan for synergies in the Hawaiian Telcom acquisition of Verizon lines.

On July 31, 2006, the management of FairPoint had a conference call with representatives of Lehman Brothers and Morgan Stanley to follow up on issues raised by the board of directors regarding due diligence and transaction structure.

On September 1, 2006, FairPoint's key managers met to discuss all aspects of the proposed transaction and its implications on FairPoint's existing operations.

On September 11, 2006 and September 14, 2006, Eugene Johnson and John Diercksen met again in Charlotte, North Carolina to discuss the progress of due diligence and negotiate further on open issues.

On September 14, 2006, Verizon proposed that FairPoint assume at closing the OPEB liabilities for current and retired employees of the Northern New England business and that no OPEB assets would be transferred to FairPoint to satisfy the OPEB liabilities. Verizon also proposed that Verizon would receive a minimum of $2.8 billion in value for Verizon and its stockholders, comprised of $1.7 billion of debt assumed by FairPoint and the greater of $1.1 billion of FairPoint equity or a 67.5% ownership interest in the combined company. Verizon also agreed in principle to a 15-month term for a transition services agreement.

At a meeting on September 19, 2006, John Crowley, Executive Vice President and Chief Financial Officer of FairPoint, reviewed for FairPoint's board of directors other possible acquisitions. FairPoint's directors also received a presentation prepared by FairPoint's management that updated the due diligence on the Spinco business and explained the effects on various estimates of key metrics, including EBITDA, free cash flow and leverage. This presentation included materials prepared by

Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management, including a translation of the latest due diligence analysis into updated valuation multiples and the effect on the dividend the combined company would pay and an analysis of the higher trading price of FairPoint stock on the ownership split. In addition, the materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management updated the analysis of free cash flow, updated the five point rationale for the transaction referred to above and identified seven risks related to the transaction: competition, workforce, regulatory approval risk, execution risk, financial market acceptance, pension/OPEB exposure and opportunity cost. The materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management also calculated the transaction value based on FairPoint's discussion with Verizon on September 11, 2006, the Verizon proposal using the then most recent FairPoint stock price and the Verizon proposal using the then 60 day average of the FairPoint stock price. These transaction values were compared to the valuation ranges of comparable companies using various valuation methodologies, such as discounted cash flow, precedent transactions and trading comparables. In addition, the materials prepared by Lehman Brothers and Morgan Stanley in conjunction with FairPoint's management and included in management's presentation to FairPoint's board of directors:

- calculated the ownership split based on the specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures;

- calculated the free cash flow effect of various ownership split percentages in the range between the FairPoint and Verizon proposals;

- analyzed the free cash flow per share for FairPoint on a standalone basis, with a series of smaller hypothetical acquisitions and compared this with the acquisition of the Spinco business;

- analyzed the effect on the ownership split of alternatives to using the market value of FairPoint stock to determine the ownership split;

- analyzed the cash flow effect of alternative assumptions of pension and OPEB valuation and service cost;

- analyzed the value of the Spinco business using discounted cash flow and various assumptions for cost of capital and terminal multiples; and

- updated the analysis of free cash accretion at various transaction prices and assumptions on synergies.

At the board meeting on the following day, after extensive discussion, a decision was reached not to proceed with a transaction with Verizon under the terms then being proposed by Verizon. The board of directors particularly objected to Verizon's proposal that FairPoint assume significant retiree obligations. After the meeting, Eugene Johnson informed Verizon and its financial advisor, Merrill Lynch, that FairPoint's board of directors had concluded that FairPoint was not prepared to pursue the transaction based on the terms then being proposed by Verizon.

On September 29, 2006 and October 17, 2006 at John Diercksen's invitation, Eugene Johnson met with him in New York City to discuss in further detail various material terms of the transaction and the parties' positions on certain issues.

On October 18, 2006, Eugene Johnson had a conference call with FairPoint's board of directors to discuss updated proposals and to review Lehman Brothers' views on revised terms, including the elimination of the requirement that FairPoint assume retiree obligations relating to pension benefits and other post-employment benefits.

On October 30, 2006, FairPoint provided a revised counter-proposal to Verizon and, after further discussion, on November 16, 2006, FairPoint's management team met with representatives of Morgan Stanley to discuss certain issues. Further negotiations between Verizon and FairPoint ensued.

On November 19, 2006, representatives of Verizon and FairPoint met again. At that meeting, they agreed to continue negotiations on the basis that the split in ownership of the combined company would be calculated based on the 45-day average price of FairPoint common stock, which would result in a 61.6% - 38.4% split based on an assumed $18.02 price per share for FairPoint common stock; and that Spinco debt would not exceed $1.7 billion, including related financing fees, and that it would be based on market terms with covenants that permitted FairPoint to continue to pay dividends at a level consistent with its existing dividend policy. In addition, the parties agreed to continue negotiations on the basis that the combined company would accept pension assets and assume pension and OPEB liabilities for only those employees of the Northern New England business who were expected to continue as employees of the combined company after the transaction closed. However, they disagreed whether the combined company would assume obligations for employees who retired between the signing and the closing of the merger agreement. The parties agreed that if Spinco suffered a material adverse change or that if the trailing 12 months' unadjusted EBITDA of the local exchange carrier business of Spinco fell below a mutually agreed level, FairPoint could choose to terminate the merger agreement. The parties also agreed that Verizon's services under the transition services agreement would be based on Verizon's cost but could not agree on how to calculate the amount or timing of the monthly and other fees to be paid under the agreement.

On November 28, 2006, Lehman Brothers provided FairPoint's management with materials that summarized the status of discussions with Verizon. The materials, which were prepared in conjunction with FairPoint's management, included updated price and other proposed transaction elements, such as reimbursement of transition expenses by Verizon and MVNO and reported the pro forma capitalization and cash flow statement effect of leaving with Verizon the pension and OPEB obligations for already retired employees. In addition, the materials valued the proposed new transaction elements, including the sale and loss of future distributions from FairPoint's investment in the Orange County-Poughkeepsie Limited Partnership. Lehman Brothers and FairPoint's management also updated the analysis of free cash flow accretion, the comparable analysis relative to other transactions and other public companies, and possible stock price accretion. Finally, Lehman Brothers and FairPoint's management provided a graphic representation of key assumptions on access line growth, DSL penetration, regulated and non-regulated revenue, EBITDA and EBITDA less capital expenditures. These materials were included in management's telephonic update to FairPoint's board of directors on November 29, 2006.

On November 29, 2006, Lehman Brothers, working in conjunction with FairPoint's management, provided to FairPoint's management an illustrative estimate of pro forma shareholders' equity, including a write-up to fair market value under Delaware law. In addition, the materials prepared by Lehman Brothers in conjunction with FairPoint's management updated the calculation of the ownership split based on specific relative contribution of the two parties based on access lines, revenue, EBITDA and EBITDA less capital expenditures. Finally, the materials prepared by Lehman Brothers, working in conjunction with FairPoint's management, provided a forecast of certain financial measures for the combined company. These materials prepared by Lehman Brothers, working in conjunction with FairPoint's management, were included in management's telephonic update to FairPoint's board of directors during which the board and management discussed the status of the proposed transaction.

In early December 2006, FairPoint's management had discussions with Lehman Brothers and Morgan Stanley regarding potential financing structures for the proposed merger, principally for financial analysis, valuation and modeling purposes. In connection with these discussions, Lehman Brothers and Morgan Stanley each submitted unsolicited proposals to FairPoint's management to provide committed financing for the proposed merger.

On December 4, 2006, Verizon presented a term sheet which summarized the parties' proposals on key issues. FairPoint proposed that it not accept pension and OPEB expenses for the employees of the Northern New England business who retired prior to the closing date. Verizon proposed that the

combined company would assume responsibility for all employees of the Northern New England business who continued with the combined company determined as of the signing date of the merger agreement. FairPoint proposed selling its interest in the Orange-Poughkeepsie Limited Partnership for $55 million to $65 million while Cellco proposed a sale price of $55 million. The parties agreed to continue discussions on the previously discussed valuation of Spinco, subject to Verizon's proposal that its stockholders own at least 60% of FairPoint common stock after the spin-off and the merger. The parties continued to negotiate over the amount and timing of the monthly and other fees to be paid under the transition services agreement.

On December 8, 2006, initial drafts of a merger agreement, distribution agreement and other transaction documents were submitted to FairPoint and its legal counsel, Paul, Hasting, Janofsky & Walker LLP, referred to as Paul Hastings, by Debevoise & Plimpton LLP, legal counsel to Verizon.

On December 11, 2006, FairPoint's and Verizon's senior management and advisors met again in New York City to discuss the key terms of the proposed transaction. At its meeting on December 13, 2006, FairPoint's board of directors received a report on the progress of negotiations and discussed the proposed transaction, including a projected transaction schedule.

On December 19, 2006, John Diercksen met in New York City with Eugene Johnson and Ivan Seidenberg, Chairman and Chief Executive Officer of Verizon, to introduce the chief executive officers to each other.

During the last two weeks of December 2006, the parties and their representatives met from time to time to negotiate the transaction documents. Under the structure agreed to by the parties, Verizon would receive cash, certain Spinco debt securities and Spinco's common stock in exchange for substantially all of the assets of the Northern New England business.

On January 2, 2007, FairPoint's board of directors met telephonically with FairPoint's management team, legal counsel and financial advisors to discuss the status of the proposed transaction. At the meeting, Paul Hastings reviewed with the FairPoint board of directors its legal duties and responsibilities in connection with the proposed transaction. Representatives of Deutsche Bank, whose engagement as financial advisor to FairPoint was confirmed on January 4, 2007, participated in the meeting and addressed the scope of the work completed by them in connection with the evaluation of the proposed transaction and indicated that further due diligence by them in certain areas was required. FairPoint's management team reviewed with FairPoint's board of directors the documentation that would be required in connection with the proposed transaction, summarized the progress made in negotiating the terms of the transaction agreements and indicated that a few material terms relating to the merger agreement were still subject to negotiation. A discussion took place concerning the risks and benefits of the proposed transaction, including a requirement that FairPoint make significant transition expenditures during the period between the signing of the merger agreement and the closing of the merger, which would allow for a substantially more rapid transition, and that, if the merger failed to close, amounts so expended would have little value. FairPoint's management team discussed the status of obtaining bank financing commitments with FairPoint's board of directors. In addition, a thorough discussion took place concerning certain aspects of the possible transaction, including the impact on FairPoint's cash position and the effect on its ability to continue to pay dividends if the proposed transaction were not to close, the need to amend FairPoint's existing credit facility, the impact on FairPoint's cash position of the proposed sale of its Orange County--Poughkeepsie limited partnership interest, the "no-shop" and "fiduciary out" provisions contained in the draft merger agreement and the circumstances under which FairPoint would be required to pay a "break-up" fee and reimburse certain expenses to Verizon, synergies expected to be derived fom the business combination and financial aspects of the proposed transaction.

On January 4, 2007, FairPoint began the formal process of seeking financing commitments in order to mitigate the market risk associated with financing the merger. A package of information including

the transition services agreement and the other agreements relating to the merger, are fair to, and in the best interests of, FairPoint and its stockholders.

In reaching its recommendation, FairPoint's board of directors considered the future prospects of FairPoint on a standalone basis relative to those that would result from the merger. The board of directors analyzed the current and historical financial condition and results of operations of FairPoint and other rural wireline telecommunications carriers, and specifically the facts that FairPoint, consistent with the rest of the wireline telecommunications industry, had experienced a decline in its number of access lines and flat to declining organic growth, and that these trends did not appear likely to reverse in the future, absent the addition of new access lines and revenues resulting from acquisitions. The board of directors also considered the heavy reliance of FairPoint on regulated revenue streams, predominantly interstate and intrastate access revenues, as well as payments from the Universal Service Fund, and acknowledged that such revenue streams were likely to continue declining in the future. The board of directors also considered the increased competitive activity experienced by FairPoint from cable television providers, wireless carriers and other competitive local exchange carriers and the fact that competition may increase in the future with the advent of new technologies and applications, such as VoIP. In analyzing the benefits of the proposed merger, the board of directors considered FairPoint's prospects and strategic objectives, which are to: (1) increase revenues, (2) improve the dividend payout ratio, (3) gain efficiencies from its business model through increased size and scale and (4) grow by acquisition.

In weighing the potential negative aspects of the transaction, FairPoint's board considered, among other things, the amount of debt which would be incurred by FairPoint in connection with the transaction and the impact of the transaction on FairPoint's cash position. In its discussions, FairPoint's board determined that the increased leverage of the combined company could be sustained given the increased EBITDA and that the effect on the cash of the combined company would be minimal given the availability of borrowings under the revolving portion of the new credit facility and increased access to the capital markets. With respect to the sale of FairPoint's interest in the Orange County-Poughkeepsie Limited Partnership, the board considered the loss of cash flow generated by the limited partnership interest but determined that the interest in the Orange County-Poughkeepsie Limited Partnership was not a core asset and that the purchase price for the interest was fair. In addition, FairPoint's board considered the consequences of the transaction not being consummated, including FairPoint's expenditure of $95 million to $110 million on infrastructure and network systems integration and planning prior to the merger (up to $40 million of which will be reimbursed by Verizon) and the requirement that FairPoint pay a termination fee of $23.3 million and reimburse Verizon for certain of its out-of-pocket expenses (up to $7.5 million).

In addition, FairPoint's board of directors considered the strategic options available to FairPoint, including other potential transactional opportunities, and the risks and uncertainties associated with those alternatives. However, the board of directors did not believe there were available transactions that would produce similar or better results for FairPoint stockholders in the same timeframe as the proposed merger. The board of directors also discussed whether an auction of FairPoint would produce a better outcome for FairPoint stockholders, and it was the consensus of the board of directors that an auction was not likely to produce an offer placing a higher valuation on FairPoint than the parties were placing in the merger.

FairPoint's board of directors also considered Deutsche Bank's financial presentation, including its opinion delivered to FairPoint's board of directors, to the effect that, as of the date of that opinion, based upon and subject to the assumptions made, matters considered and limits of the review undertaken by Deutsche Bank, the aggregate merger consideration to be delivered by FairPoint in respect of all of the shares of Spinco common stock pursuant to the merger agreement was fair, from a financial point of view, to FairPoint and the holders of FairPoint common stock. This financial presentation and opinion are more fully described below under the caption "The Transactions—Opinion of Deutsche Bank Securities Inc., Financial Advisor to FairPoint."

PUBLIC
DB-P-2

Material Projected Financial Information Provided to Deutsche Bank, Financial Advisor to FairPoint

Although FairPoint periodically may issue limited guidance to investors concerning its expected financial performance, FairPoint does not as a matter of course make public projections as to future performance or earnings. However, in connection with its due diligence review in its role as financial advisor to FairPoint, and in order to arrive at its opinion, Deutsche Bank requested, and FairPoint's management furnished Deutsche Bank with, certain non-public financial projections with respect to the combined company. See "—Opinion of Deutsche Bank Securities Inc., Financial Advisor to FairPoint" beginning on page 66. These financial projections were prepared in January 2007, based solely on information available at that time, by FairPoint's management. While the financial projections were prepared in good faith, no assurance can be given regarding future events. In addition, the financial projections do not reflect FairPoint's current view on the business of the combined company. **Therefore, these financial projections should not be considered a reliable predictor of future operating results.** FairPoint did not prepare the projections with a view toward public disclosure or with a view toward complying with, and they do not comply with, the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information or published guidelines of the Securities and Exchange Commission regarding forward looking statements.

The projected financial information of the combined company included in this proxy statement/prospectus was prepared by, and is the responsibility of, FairPoint's management. None of Verizon, FairPoint's or Verizon's independent auditors, or any other independent accountants, or Deutsche Bank, as FairPoint's financial advisor, or Verizon's financial advisors have compiled, examined, or performed any procedures with respect to the projected financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the projected financial information.

Furthermore, the financial projections for the combined company:

- necessarily consist of numerous assumptions with respect to, among other things, industry performance and general business, economic, market and financial conditions, all of which are difficult or impossible to predict and many of which are beyond FairPoint's control and may not prove to have been, or may no longer be, accurate;
- do not necessarily reflect revised prospects for the combined company's business, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the financial projections were prepared;
- are not necessarily indicative of current values or future performance, which may be materially more favorable or less favorable than as set forth below; and
- involve risks and uncertainties and should not be regarded as a representation or guarantee that they will be achieved.

The projections are forward-looking statements. For information on factors which may cause FairPoint's or the combined company's future financial results to materially vary, see "Risk Factors" beginning on page 25 and "Special Note Concerning Forward-Looking Statements" beginning on page 48.

For information about how FairPoint and Spinco generate revenues and their operating expenses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview," "—FairPoint" and "—Northern New England Business."

THE FINANCIAL PROJECTIONS WERE, AT THE TIME MADE, BASED ON THEN CURRENT INFORMATION AND ASSUMPTIONS WHICH ARE SUBJECT TO CHANGE AS CONDITIONS DEVELOP. FAIRPOINT HAS NOT PUBLICLY UPDATED AND DOES NOT INTEND TO PUBLICLY UPDATE OR OTHERWISE REVISE THESE PROJECTIONS TO REFLECT

CIRCUMSTANCES EXISTING SINCE THEIR PREPARATION OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS EVEN IN THE EVENT THAT ANY OR ALL OF THE UNDERLYING ASSUMPTIONS ARE SHOWN TO BE IN ERROR. FURTHERMORE, FAIRPOINT HAS NOT UPDATED AND DOES NOT INTEND TO UPDATE OR REVISE THESE PROJECTIONS TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS.

FairPoint's Summary Projections for the Combined Company

The combined company projections reflect projections for the combined company assuming the merger had been completed on January 1, 2008.

Assumptions

Standalone FairPoint

Revenues — On a standalone basis without giving effect to the merger, FairPoint assumed continued revenue losses in its current properties. The primary driver of revenue loss was assumed to be continued losses in network access revenues and Universal Service Fund revenues. Network access revenues were driven, in part, by minutes of use which have historically been declining across FairPoint's properties and the telecommunications industry generally. Universal Service Fund revenues have also been declining, a trend FairPoint assumed would continue. Offsetting these declines was growth in data and Internet revenues from increased Internet customer penetration, driven mostly by FairPoint's high speed data products such as DSL, as well as growth in long distance revenues from increased penetration of long distance customers. Although FairPoint assumed continued access line losses in its existing properties, FairPoint expected that increased bundling would drive higher penetration in non-regulated local products such as voicemail, call waiting and caller ID and that local revenues would remain relatively fat or decline slightly through the projection period. The cumulative effect of these assumptions is that total revenues were expected to decline between 0.4% and 1.2% every year of the projection period.

Expenses — On a standalone basis without giving effect to the merger, FairPoint assumed that operating expenses would remain flat or increase slightly through the projection period. The primary driver of this trend was higher cost of goods sold from the addition of broadband and long distance customers and general overhead trends experienced by FairPoint historically. The cumulative effect of these assumptions was that total expenses were expected to increase between 0.0% and 1.8% every year of the projection period.

Capital Expenditures — On a standalone basis without giving effect to the merger, FairPoint assumed that capital expenditures would remain flat for the duration of the projection period. The majority of systems and network improvements have taken place at FairPoint's existing properties and FairPoint's projections reflect the cost to continue extending broadband to its customer base and to cover routine maintenance spending.

Orange County-Poughkeepsie — FairPoint's projections assumed that the sale of its 7.5% interest in the Orange County-Poughkeepsie Limited Partnership would occur in 2007. This transaction closed in April 2007. FairPoint had historically received annual distributions of approximately $9 to $10 million from its investment in the Orange County-Poughkeepsie Limited Partnership, which were recorded in FairPoint's calculation of EBITDA. As a result of the sale, FairPoint assumed that it would not receive any further distributions from the Orange County-Poughkeepsie Limited Partnership.

Combined Company Projections

Revenues — The combined company revenue projections were the result of the combination of FairPoint's assumptions for FairPoint on a standalone basis (described above) and its expectations for

the Spinco business described below under the caption "FairPoint's Summary Projections for the Spinco Business."

Expenses — The combined company expense projections were the result of the combination of FairPoint's assumptions for FairPoint on a standalone basis (described above) and its expectations for the Spinco business described below under the caption "FairPoint's Summary Projections for the Spinco Business." In addition, the combined company projections included FairPoint's assumptions for depreciation and amortization expense, interest expense, income tax expense and fees payable in 2008 under the transition services agreement. The FairPoint standalone expenses are not indicative of the actual operating expenses that FairPoint would incur if the proposed merger with Spinco was not pending because FairPoint would run its business differently in that case.

Depreciation and Amortization — FairPoint assumed that depreciation and amortization expense would gradually decline through the projection period, primarily driven by decreasing capital expenditures following a near doubling in 2008, and projected declines in switched access lines. Capital expenditures per access line were projected to remain relatively constant.

Interest Expense — Interest expense was comprised ofinterest charges on the combined company's bank debt and the Spinco securities. Based on FairPoint's financing commitments, FairPoint assumed the interest on the combined company's bank debt would equal LIBOR plus 175 basis points. FairPoint's estimate of LIBOR for the projection period was based on the then prevailing yield curve. FairPoint assumed that the interest rate on the Spinco securities would be 7.75%. FairPoint also assumed that excess cash flow would be used to repay outstanding debt (other than the Spinco securities), which would have the effect of gradually lowering interest expense.

Income Tax Expense — FairPoint assumed that income taxes would be calculated using a federal rate of 34% and state taxes were calculated on a separate basis. FairPoint assumed that the combined company would be able to take advantage of FairPoint's existing net operating loss carryforwards, which would have the effect of lowering taxes to be paid in cash through 2014.

FairPoint's Summary Projections for the Combined Company
(dollars in millions)

	2008(1)	2009	2010	2011	2012	2013	2014	2015
FairPoint Revenues	$ 275	$ 274	$ 272	$ 269	$ 266	$ 263	$ 260	$ 257
% Y-o-Y Growth		*(0.4%)*	*(0.7%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.2%)*
Spinco Revenues	1,152	1,144	1,149	1,145	1,138	1,136	1,137	1,137
% Y-o-Y Growth		*(0.7%)*	*0.4%*	*(0.3%)*	*(0.6%)*	*(0.2%)*	*0.1%*	*0.0%*
Pro Forma Combined Revenues	**$ 1,427**	**$ 1,418**	**$ 1,421**	**$ 1,414**	**$ 1,404**	**$ 1,399**	**$ 1,397**	**$ 1,394**
% Y-o-Y Growth		*(0.6%)*	*0.2%*	*(0.5%)*	*(0.7%)*	*(0.4%)*	*(0.1%)*	*(0.2%)*
FairPoint Operating Expenses	162	164	167	167	167	168	168	168
% Y-o-Y Growth		*1.2%*	*1.8%*	*0.0%*	*0.0%*	*0.6%*	*0.0%*	*0.0%*
Spinco Operating Expenses	799	710	716	723	728	735	743	749
% Y-o-Y Growth		*(11.1%)*	*0.8%*	*1.0%*	*0.7%*	*1.0%*	*1.1%*	*0.8%*
Pro Forma Combined EBITDA	**$ 466**	**$ 544**	**$ 538**	**$ 524**	**$ 509**	**$ 496**	**$ 486**	**$ 477**
FairPoint Capital Expenditures	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Spinco Capital Expenditures	315	138	134	130	128	127	127	127
% Y-o-Y Growth		*(56.2%)*	*(2.9%)*	*(3.0%)*	*(1.5%)*	*(0.8%)*	*0.0%*	*0.0%*
Pro Forma Combined Capital Expenditures	**$ 344**	**$ 167**	**$ 163**	**$ 159**	**$ 157**	**$ 156**	**$ 156**	**$ 156**
% Y-o-Y Growth		*(51.5%)*	*(2.4%)*	*(2.5%)*	*(1.3%)*	*(0.6%)*	*0.0%*	*0.0%*

(1)
2008 financials include one-time operating expenses of $24 million and capital expenditures of $172 million related to the merger.

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FairPoint's Summary Projections for the Combined Company
Income Statement
(dollars in millions)

	2008[1]	2009	2010	2011	2012	2013	2014	2015
FairPoint Revenues:								
Local	$ 69	$ 69	$ 69	$ 69	$ 68	$ 68	$ 68	$ 68
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*(1.4%)*	*0.0%*	*0.0%*	*0.0%*
Access	118	111	104	100	95	91	88	85
% Y-o-Y Growth		*(5.9%)*	*(6.3%)*	*(3.8%)*	*(5.0%)*	*(4.2%)*	*(3.3%)*	*(3.4%)*
Long Distance	27	28	29	29	29	29	29	29
% Y-o-Y Growth		*3.7%*	*3.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Data / Internet	40	45	49	50	50	50	50	50
% Y-o-Y Growth		*12.5%*	*8.9%*	*2.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other	21	21	21	21	24	25	25	25
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*14.3%*	*4.2%*	*0.0%*	*0.0%*
Subtotal FairPoint	**$ 275**	**$ 274**	**$ 272**	**$ 269**	**$ 266**	**$ 263**	**$ 260**	**$ 257**
% Y-o-Y Growth		*(0.4%)*	*(0.7%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.2%)*
Spinco Revenues								
Local	610	579	556	537	521	508	497	485
% Y-o-Y Growth		*(5.1%)*	*(4.0%)*	*(3.4%)*	*(3.0%)*	*(2.5%)*	*(2.2%)*	*(2.4%)*
Access	458	473	490	503	516	531	548	566
% Y-o-Y Growth		*3.3%*	*3.6%*	*2.7%*	*2.6%*	*2.9%*	*3.2%*	*3.3%*
Other	18	17	15	14	13	12	11	10
% Y-o-Y Growth		*(5.6%)*	*(11.8%)*	*(6.7%)*	*(7.1%)*	*(7.7%)*	*(8.3%)*	*(9.1%)*
Long Distance	89	90	91	92	91	90	90	89
% Y-o-Y Growth		*1.1%*	*1.1%*	*1.1%*	*(1.1%)*	*(1.1%)*	*0.0%*	*(1.1%)*
Data / Internet	99	121	142	147	146	146	144	143
% Y-o-Y Growth		*22.2%*	*17.4%*	*3.5%*	*(0.7%)*	*0.0%*	*(1.4%)*	*(0.7%)*
MVNO	0	1	6	11	15	19	22	25
% Y-o-Y Growth		*N/A*	*500.0%*	*83.3%*	*36.4%*	*26.7%*	*15.8%*	*13.6%*
Eliminations	(122)	(137)	(151)	(159)	(164)	(170)	(175)	(181)
% Y-o-Y Growth		*12.3%*	*10.2%*	*5.3%*	*3.1%*	*3.7%*	*2.9%*	*3.4%*
Subtotal Spinco	**$ 1,152**	**$ 1,144**	**$ 1,149**	**$ 1,145**	**$ 1,138**	**$ 1,136**	**$ 1,137**	**$ 1,137**
% Y-o-Y Growth		*(0.7%)*	*0.4%*	*(0.3%)*	*(0.6%)*	*(0.2%)*	*0.1%*	*0.0%*
Pro Forma Revenues	**$ 1,427**	**$ 1,418**	**$ 1,421**	**$ 1,414**	**$ 1,404**	**$ 1,399**	**$ 1,397**	**$ 1,394**
% Y-o-Y Growth		*(0.6%)*	*0.2%*	*(0.5%)*	*(0.7%)*	*(0.4%)*	*(0.1%)*	*(0.2%)*

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FairPoint Operating Expenses	162	164	167	167	167	168	168	168
% Y-o-Y Growth		*1.2%*	*1.8%*	*0.0%*	*0.0%*	*0.6%*	*0.0%*	*0.0%*
Spinco Operating Expenses	799	710	716	723	728	735	743	749
% Y-o-Y Growth		*(11.1%)*	*0.8%*	*1.0%*	*0.7%*	*1.0%*	*1.1%*	*0.8%*
Pro Forma EBITDA	$ 466	$ 544	$ 538	$ 524	$ 509	$ 496	$ 486	$ 477
Depreciation and Amortization	330	322	314	302	292	276	247	218
Stock-based Compensation and Other	2	0	0	0	0	0	0	0
Operating Income	$ 134	$ 222	$ 224	$ 222	$ 217	$ 220	$ 239	$ 259
Interest / Dividend Income	0	0	0	0	0	0	0	0
Interest Expense	(182)	(181)	(177)	(172)	(166)	(161)	(157)	(155)
Total Other Income / (Expense)	($ 182)	($ 181)	($ 177)	($ 172)	($ 166)	($ 161)	($ 157)	($ 155)
Pre-Tax Income / (Loss)	($ 48)	$ 41	$ 47	$ 50	$ 51	$ 59	$ 82	$ 104
Income Tax Benefit / (Expense)	16	(15)	(17)	(18)	(18)	(21)	(29)	(36)
Net Income / (Loss)	($ 32)	$ 26	$ 30	$ 32	$ 33	$ 38	$ 53	$ 68

(1)
2008 financials include one-time operating expenses of $24 million.

FairPoint's Summary Projections for the Combined Company
Balance Sheet
(dollars in millions)

	As of December 31,								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current Assets:									
Cash	$ 7	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Other Current Assets	339	330	324	320	314	308	307	307	306
Total Current Assets	$ 346	$ 333	$ 327	$ 323	$ 317	$ 311	$ 310	$ 310	$ 309
FairPoint Net PP&E	$ 242	$ 228	$ 214	$ 200	$ 189	$ 180	$ 173	$ 168	$ 163
Spinco Net PP&E	$ 1,732	$ 1,770	$ 1,639	$ 1,512	$ 1,389	$ 1,273	$ 1,165	$ 1,083	$ 1,031
Goodwill	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924
Customer List	71	66	61	56	52	47	42	38	33
Other Assets	157	175	162	147	132	118	101	86	85
Total Assets	**$ 3,472**	**$ 3,496**	**$ 3,327**	**$ 3,162**	**$ 3,003**	**$ 2,853**	**$ 2,715**	**$ 2,609**	**$ 2,545**
Total Current Liabilities	$ 221	$ 217	$ 216	$ 216	$ 216	$ 215	$ 215	$ 215	$ 214
Long-Term Liabilities:									
Spinco Credit Facility	$ 1,680	$ 1,680	$ 1,680	$ 1,680	$ 1,608	$ 1,534	$ 1,467	$ 1,413	$ 1,387
Delayed Draw Term Loan	0	172	91	9	0	0	0	0	0
Total Secured Debt	$ 1,680	$ 1,852	$ 1,771	$ 1,689	$ 1,608	$ 1,534	$ 1,467	$ 1,413	$ 1,387
Remaining FairPoint Securities:									
2010 Senior Notes, 11.875%	$ 2	$ 2	$ 2	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Taconic Fixed/Berkshire Rural Telephone Finance Cooperative	1	1	1	1	1	1	1	1	1
Utilities Inc.—Rural Telephone Finance Cooperative	1	1	1	1	1	0	0	0	0
Demand Note Payable	0	0	0	0	0	0	0	0	0
Spinco Securities	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660
Long-Term Debt	$ 2,344	$ 2,516	$ 2,435	$ 2,351	$ 2,270	$ 2,195	$ 2,128	$ 2,074	$ 2,048
Other Long Term Liabilities	$ 246	$ 273	$ 301	$ 331	$ 362	$ 397	$ 429	$ 465	$ 501
Total Long Term Liabilities	$ 2,590	$ 2,789	$ 2,736	$ 2,682	$ 2,632	$ 2,592	$ 2,557	$ 2,539	$ 2,549
Minority Interest	0	0	0	0	0	0	0	0	0
Total Shareholders' Equity/(Deficit)	$ 661	$ 490	$ 375	$ 264	$ 155	$ 46	$ (57)	$ (145)	$ (218)
Total Liabilities & Shareholders' Equity	**$ 3,472**	**$ 3,496**	**$ 3,327**	**$ 3,162**	**$ 3,003**	**$ 2,853**	**$ 2,715**	**$ 2,609**	**$ 2,545**

FairPoint's Summary Projections for the Combined Company
Cash Flow
(dollars in millions)

	2008	2009	2010	2011	2012	2013	2014	2015
Cash Flows from Operations								
Net Income/(Loss)	$ (32)	$ 26	$ 30	$ 32	$ 33	$ 38	$ 53	$ 68
Amortization of Financing Fees	5	5	5	5	5	0	0	0
Amortization of Customer List	5	5	5	5	5	5	5	5
Depreciation and Amortization	320	312	304	292	282	271	242	213
Deferred Income Taxes	(18)	13	15	15	14	17	16	1
Pension/OPEB Cash Adjustment	27	29	30	31	33	34	36	37
Stock-based compensation	2	0	0	0	0	0	0	0
Changes in Working Capital	1	0	0	2	1	0	0	0
Net Cash Provided by Operating Activities	**$ 310**	**$ 390**	**$ 389**	**$ 382**	**$ 373**	**$ 365**	**$ 352**	**$ 324**
Cash Flows from Investing								
Acquisition of PP&E (Capital Expenditures)	(344)	(167)	(163)	(159)	(157)	(156)	(156)	(156)
Net Cash Used in Investing Activities	**$ (344)**	**$ (167)**	**$ (163)**	**$ (159)**	**$ (157)**	**$ (156)**	**$ (156)**	**$ (156)**
Cash Flows from Financing								
Mandatory Repayment of Long-Term Debt	0	0	(2)	0	0	0	0	0
Dividends Paid to Common Stockholders	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)
Net Cash Used in Financing Activities	**$ (142)**	**$ (142)**	**$ (144)**	**$ (142)**	**$ (142)**	**$ (142)**	**$ (142)**	**$ (142)**
Net Increase/Decrease in Cash Balance	**$ (176)**	**$ 81**	**$ 82**	**$ 81**	**$ 74**	**$ 67**	**$ 54**	**$ 26**
Cash Balance, Beginning	**$7**	**$3**	**$3**	**$3**	**$3**	**$3**	**$3**	**$3**
Revolver/Delayed Draw Term Loan	172	(81)	(82)	(9)	0	0	0	0
Optional Debt Repayment	0	0	0	(72)	(74)	(67)	(54)	(26)
Cash Balance, Ending	**$3**	**$3**	**$3**	**$3**	**$3**	**$3**	**$3**	**$3**

FairPoint's Summary Projections for the Spinco Business

The standalone Spinco projections reflect FairPoint's projections for the Spinco business on a standalone basis.

Assumptions

Customer Assumptions

Switched Access Lines — On a standalone basis without giving effect to the merger, FairPoint assumed continued, but slowing, access line losses in the Spinco business as the result of overall industry trends such as cable competition and use by customers of alternative technologies. FairPoint believed that it would be able to mitigate access line losses in the Spinco business with regionally-focused marketing, bundling, win-back strategies and the substantially increased availability of its broadband product in Maine, New Hampshire and Vermont. FairPoint assumed that by 2012, the Spinco business would be serving approximately 1.1 million switched access lines, a cumulative loss of approximately 400,000, or 27%, versus the levels of switched access lines in 2006.

Broadband — On a standalone basis without giving effect to the merger, FairPoint assumed increased broadband penetration in the Spinco business, primarily through the offering of DSL technology, as the result of bundling and through its planned network expansion. FairPoint assumed broadband penetration of residential access lines would reach 38% by 2012, at which point the Spinco business would serve approximately 375,000 broadband customers, an increase of approximately 187,000 over 2006 levels.

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Pro Forma Financial Summary

The January 2007 materials included two pro forma financial summaries for FairPoint after giving effect to the transaction, and assuming that the transition services agreement would remain in effect for six months and 12 months, respectively, focusing on free cash flow, earnings per share, dividend payout ratio and leverage. This material was presented in the January 10, 2007 materials and updated (using updated financial infonnation) in the January 14, 2007 materials.

Precedent Transaction Analysis

The January 2007 materials reviewed the net transaction value as a multiple of access lines and EBITDA for eight transactions using publicly available information, that Lehman Brothers and Morgan Stanley, based on their experience with merger and acquisition transactions, deemed relevant in preparing the materials. The materials reviewed the following transactions: CenturyTel/Madison River; Citizens Communications/Commonwealth Telephone; Alltel/Valor Telecom; The Carlyle Group/Verizon Hawaii; Consolidated Communications/TXU (telecom assets); Homebase Acquisition Corp./ICTC (McLeodUSA); Alltel/Verizon Kentucky; and CenturyTel/Verizon Missouri and Alabama.

Comparable Company Analysis

In order to assess how the public market values shares of similar publicly traded companies, the January 2007 materials reviewed and compared specific financial and operating data relating to FairPoint with selected companies that Lehman Brothers and Morgan Stanley deemed comparable to FairPoint and Spinco. The companies reviewed were selected by Lehman Brothers and Morgan Stanley based on their experience with companies in the rural telecommunications industry and included Alaska Telecommunications, Citizens Communications, Commonwealth Telephone, Consolidated Communications, Iowa Telecommunications, Windstream and Embarq. The January 2007 materials calculated Spinco's and each comparable company's ratio of enterprise value to EBITDA (estimated for 2007 and 2008), ratio of equity value to free cash flow (estimated for 2007 and 2008), current dividend yield, dividend payout ratio and total debt to historical EBITDA. All of these calculations were performed and based on publicly available financial data.

General

In preparing the January 2007 materials, Lehman Brothers and Morgan Stanley, in conjunction with FairPoint's management, made numerous assumptions with respect to industry trends and risks associated with industry performance, general business and economic conditions and other matters, many of which are beyond the control of FairPoint or Verizon. Any estimatescontained in the January 2007 materials are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by these estimates. The materials did not purport to be appraisals or to reflect the prices at which FairPoint common stock might trade following announcement or consummation of the merger.

The terms of the merger were determined through arm's length negotiations between FairPoint and Verizon and were approved by FairPoint's and Verizon's boards of directors. **Neither Lehman Brothers nor Morgan Stanley rendered a fairness opinion with respect to the transaction, and neither expressed any opinion as to the merits of the underlying decision by FairPoint to engage in the transaction.**

Lehman Brothers and Morgan Stanley are internationally recognized investment banking firms and, as part of their investment banking activities, are regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. FairPoint selected Lehman Brothers and Morgan Stanley as financial advisors because of their expertise, reputation and familiarity with FairPoint and the telecommunications industry generally and because their investment banking professionals have substantial experience in transactions comparable to the merger.

Non-Competition

The merger agreement and the distribution agreement do not contain any restrictions on Verizon's ability to compete with the combined company following the merger.

Proxy Materials

The parties agreed to prepare this proxy statement/prospectus and the registration statement of which it is a part, and to file them with the Securities and Exchange Commission and use their respective commercially reasonable efforts to have the proxy statement cleared and the registration statement declared effective by the Securities and Exchange Commission. FairPoint is required under the terms of the merger agreement to mail this proxy statement/prospectus to its stockholders as promptly as practicable after the registration statement is declared effective. If required by the Securities and Exchange Commission, the parties have agreed to prepare a registration statement to effect the registration of the shares of Spinco common stock to be issued in connection with the spin-off, and Spinco has agreed to file that registration statement with the Securities and Exchange Commission and use its commercially reasonable efforts to have the registration statement declared effective by the Securities and Exchange Commission prior to the spin-off.

Listing

FairPoint has agreed to apply to the New York Stock Exchange for the listing of the shares of its common stock to be issued in connection with the merger and use all reasonable best efforts to cause these shares to be approved for listing.

Efforts to Close

The merger agreement provides that each party to the merger agreement, subject to customary limitations, will use its commercially reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated by the merger agreement and the other transaction agreements, including executing documents, instruments or conveyances that may be reasonably necessary or advisable to carry out any of the transactions contemplated by the merger agreement and the other transaction agreements.

Regulatory Matters

The merger agreement provides that each of the parties to the merger agreement will use all commercially reasonable efforts to:

- obtain all necessary actions, waivers, consents, and approvals from any governmental authority;
- take all steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental authority;
- defend any lawsuits or other legal proceedings;
- contest any actions or proceedings instituted by a regulatory authority; and
- resolve any objections or challenges from a regulatory authority;

except that the parties are not obligated to appeal the denial of approval by any public utility commission in Maine, New Hampshire and Vermont.

Verizon, Spinco and FairPoint have also agreed to make all required filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and file all required applications with the Federal Communications Commission and state regulators.

Proposed Terms of the New Credit Facility

Under the new credit facility, FairPoint and Spinco expect to make borrowings at Adjusted LIBOR (as described below) plus a margin which in the case of the revolving credit facility will be subject to a leverage-based pricing grid to be agreed by the parties. The three month Adjusted LIBOR rate applicable to FairPoint's current credit facility for the quarter ending June 30, 2007 rate is 5.375%. The applicable margins under the new credit facility have not yet been negotiated

Adjusted LIBOR borrowings may be made for interest periods of 1, 2, 3 or 6 months and, if agreed to by, or available to, the applicable lenders under the new credit facility, 9 or 12 months, as selected by FairPoint. Interest on loans and all fees will be payable in arrears on the basis of a 360-day year in the case of Adjusted LIBOR loans and a 365-day year in the case of base rate loans (calculated, in each case, on the basis of actual number of days elapsed). Interest will be payable on Adjusted LIBOR loans on the last day of the applicable interest period (and at the end of each three months, in the case of interest periods longer than three months) and upon prepayment, and on base rate loans quarterly and upon prepayment.

The combined company will be required to pay certain fees and expenses in connection with the new credit facility. The combined company will be required to pay a commitment fee initially calculated at the rate of 0.375% per annum on the average daily amount of the unused portion of the revolving facility, payable quarterly in arrears. The commitment fee on the revolving facility shall accrue from the closing date of the merger. Following the delivery of financial statements for the first full fiscal quarter after the closing date of the merger, the commitment fee will be subject to a leverage-based pricing grid to be agreed upon by the parties.

The delayed draw term loan facility is available to be drawn until the first anniversary of the closing date of the merger. From the closing date of the merger until the delayed draw term loan facility is fully drawn or expires, the combined company will also be required to pay a commitment fee calculated at the rate per annum of 0.75% on the unused portion of the delayed draw term loan facility, payable quarterly in arrears and on the date the delayed draw term loan facility is fully drawn.

The combined company will be required to pay a per annum fee equal to: (i) with respect to standby letters of credit, the applicable spread over Adjusted LIBOR under the revolving facility in effect from time to time; and (ii) with respect to trade letters of credit, an amount equal to one-half of the applicable spread over Adjusted LIBOR under the revolving facility in effect from time to time, in each case, less the fronting fee (described below), which will accrue on the aggregate face amount of outstanding letters of credit under the revolving facility, payable in arrears at the end of each quarter and upon termination of the revolving facility. In addition, the combined company shall pay to each bank that issued to it a letter of credit, for its own account: (i) a fronting fee to be agreed upon on the aggregate face amount of outstanding letters of credit, payable in arrears at the end of each quarter and upon termination of the revolving facility; and (ii) the customary issuance and administration fees of the bank issuing the letter of credit

The revolving facility will mature on the sixth anniversary of the closing date of the merger. The term loan B facility and the delayed draw term loan facility will mature on the eighth anniversary of the closing date of the merger, and borrowings under each of the term loan B facility and the delayed draw term loan facility, respectively, will be repayable in quarterly installments equal to 1% of the original principal amount of the term loan B facility and the delayed draw term loan facility beginning with the third year after the date of closing, with the balance payable in full at maturity.

Mandatory prepayments of borrowings under the term loan B facility shall be prepaid after the closing date of the merger with: (i) 50% of the combined company's annual excess cash flow when the combined company's total leverage ratio exceeds (a) during the first year following the closing date of the merger, 5.75 to 1.0, and (b) thereafter, 5.50 to 1.0; (ii) net cash proceeds of certain asset sales or

(i)

In connection with the spin-off and prior to the merger with FairPoint, it has been assumed that Spinco will borrow $900 million through a new senior secured credit agreement or otherwise and incur $800 million of indebtedness through the issuance to a member of the Verizon Group of unsecured debt securities in a private placement for a total of $1.7 billion. Proceeds from the debt issuance will be used to make a cash payment to the Verizon Group in an amount not to exceed the Verizon Group's estimate of the tax basis of the assets transferred to Spinco (assumed to be $900 million for purposes of the pro forma financial statements).

(j)

Immediately following the merger, the combined company will repay with available cash on hand FairPoint's current portion of long-term debt of $1 million and long-term debt of $617 million at March 31, 2007 under its existing credit facility with new debt of $643 million. In addition, FairPoint will pay approximately $1 million in accrued interest on its outstanding debt. FairPoint expects to capitalize $25 million of debt issuance costs associated with the issuance of the long-term debt. The following table presents the estimated long-term debt outstanding of the combined company immediately following the merger on a pro forma basis (in millions):

Bank debt of combined company:	
Senior secured six year revolving credit facility, variable rate and unused fee of 0.375%[1]	$ —
Senior secured term loan B—8 year maturity, variable rate, assumed to be 6.5%[2]	1,543
Senior secured 12 month delayed draw term loan—8 year maturity, variable rate and unused fee of 0.75%[3]	—
Total bank debt	1,543
Spinco securities, fixed rate, assumed to be 7.5%:	800
Total bank debt and Spinco securities	2,343
Current portion of long-term debt	—
Total long-term debt	$ 2,343

(1)

Assumes the entire balance of $200 million is unused at the closing date.

(2)

The interest on a portion of the senior secured term loan B is expected to be fixed through the use of interest rate swap agreements. The total fixed portion was assumed to be $550 million at a blended rate of 6.3%.

(3)

Assumes the entire amount available of $200 million is unused at the date of closing.

It has been assumed that the senior secured term loan B will consist of $900 million borrowed at Spinco plus $643 million borrowed to refinance existing FairPoint debt and to pay debt issue costs. The $800 million in Spinco securities represents the debt securities issued to a member of the Verizon Group as discussed in Note (i) above.

The above table presents the total pro forma long-term debt obligations of the combined company. The final amount of bank debt and Spinco securities that will be issued will be determined prior to the closing of the transaction. To the extent additional Spinco securities are issued by Spinco, the bank debt will be reduced by a corresponding amount.(k)
This adjustment is to eliminate as of the merger date the recorded values of FairPoint's goodwill of $499 million and customer list of $13 million and to write-off FairPoint's remaining unamortized debt issuance costs of $8 million.

(l)

This adjustment is to eliminate FairPoint's additional paid in capital of $518 million, accumulated other comprehensive income of $3 million and accumulated deficit accounts of $312 million as of the merger date.

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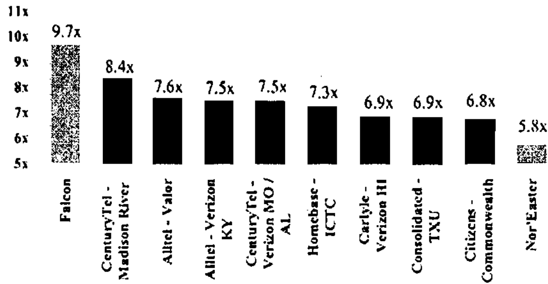
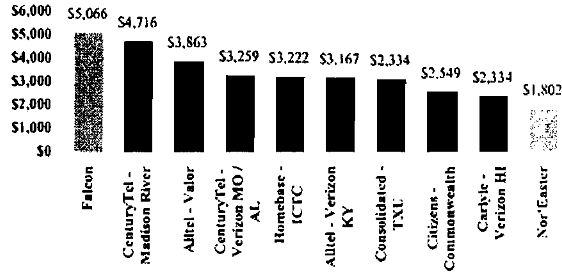
Precedent Transaction Analysis

Assumes $2.715 billion purchase price





Summary Comparaable Transactions

Date	Acquiror	Acquiree	Access Lines	Net Transaction Value	Net Transaction Value as a Multiple of: Access Lines	EBITDA
				($ in millions)		
12/18/06	CenturyTel	Madison River	176,000	$ 830	$ 4,716	8.4x
09/18/06	Citizens Communications	Commonwealth Telephone	454,297	1,158	2,549	6.8x
12/09/05	Alltel	Valor Telecom	524,702	2,027	3,863	7.6x
			2,885,673	9,150	3,171	6.4x(1)
05/21/04	The Carlyle Group	Verizon Hawaii	707,000	1,650	2,334	6.9x
01/16/04	Consolidated Communications	TXU (telecom assets)	172,000	527	3,064	6.9x
07/17/02	Homebase Acquisition Corp.	ICTC (McLeodUSA)	90,000	290	3,222	7.3x
10/31/01	Alltel	Verizon Kentucky	600,000	1,900	3,167	7.5x
10/22/01	CenturyTel	Verizon Missouri and Alabama	675,000	2,200	3,259	7.5x
			Average(2)		$ 3,272	7.4x

1. *Implied Alltel wireline valuation*
2. *Average excludes implied Alltel wireline valuation.*

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Comparable Company Analysis

Company	Price 1/5/07	Market Cap.	Enterprise Value	Ent. Value/ EBITDA(1) 2007E	Ent. Value/ EBITDA(1) 2008E	Equity Value/ Levered FCF 2007E	Equity Value/ Levered FCF 2008E	Current Dividend Yield	Divident Payout Ratio	Total Debt/ LTM EBITDA
						($ in millions, except per share amounts)				
RLEC High Dividend Payers										
Alaska (consol.)	$ 15.24	$ 644	$ 1,043	8.7x	8.4x	13.2x	12.8x	5.6%	75%	3.7x
Citizens	14.11	4,561	7,919	7.3x	7.3x	10.1x	10.9x	7.1%	65%	3.4x
Commonwealth (consol.)	41.56	1,199	1,072	7.0x	7.1x	21.8x	22.3x	4.8%	78%	0.0x
Consolidated Comm.	20.38	530	1,068	7.5x	7.3x	10.0x	9.9x	7.6%	70%	4.4x
Iowa Telecom	19.01	613	1,099	8.8x	9.0x	9.7x	10.0x	8.5%	78%	3.9x
Windstream	13.90	6,665	11,791	7.1x	7.1x	10.6x	11.0x	7.2%	81%	3.3x
Embarq	52.30	7,914	14,423	5.5x	5.6x	9.7x	9.5x	3.8%	39%	2.4x
Mean(2)				**7.7x**	**7.7x**	**12.6x**	**12.8x**	**6.8 %**	**75 %**	**3.1**
Median(2)				**7.4x**	**7.3x**	**10.3x**	**11.0x**	**7.1%**	**77%**	**3.6x**
$75 million Acquisition Case										
Falcon(3)	**$ 18.88**	**$ 666**	**$ 1,392**	**9.8x**	**9.3x**	**10.7x**	**10.6x**	**8.4%**	**91%(4)**	**4.9x**
Assumes $1.59 Dividend (66% Payout Ratio) and Dividend Yields of 6.9% to 8.4%										
Falcon/Viper(3)	$ 22.97	$ 2,045	$ 4,534	7.6x	8.2x	9.3x	9.5x	6.9%	66%	4.8x
Falcon/Viper(3)	$ 21.42	$ 1,907	$ 4,396	7.4x	8.0x	8.6x	8.8x	7.4%	66%	4.8x
Falcon/Viper(3)	$ 20.07	$ 1,787	$ 4,276	7.2x	7.8x	8.1x	8.3x	7.9%	66%	4.8x
Falcon/Viper(3)	$ 18.88	$ 1,681	$ 4,170	7.0x	7.6x	7.6x	7.8x	8.4%	66%	4.8x

1. *EBITDA multiples based on adjusted EBITDA, excluding pension/OPEB cash adjustments and one-time operating expenses and transaction related fees and expenses.*
2. *Payout ratio mean and median excludes Embarq.*
3. *Assumes 2008E FCF multiple based on 2008E pro forma free cash flow (excludes one-time operating expenses and transaction related fees and expenses).*
4. *Excludes one-time gains.*

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Pro Forma Financial Summary—$2.715 bn Purchase Price—New Base Case

Agreed upon pro forma ownership of 60.4% based upon a 30-day average Falcon stock price of $18.88 as of 1/7/07

- Assumes 6 months of TSA, plus $30 million of set-up costs
- Assumes NewCo will continue to pay a $1.59 per share dividend
- Meaningful FCF accretion achieved; EPS calculations impacted by non-cash depreciation and amortization charges

Free Cash Flow Analysis

	2008E	PF 2008E(2)	2009E	2011E	2013E
			($ in millions)		
FCF(1)	**$ 139**	**$ 193**	**$ 225**	**$ 224**	**$ 210**
FCF / Share	$ 1.56	$ 2.17	$ 2.53	$ 2.51	$ 2.36
FCF Accretion / (Dilution)—Status Quo	*(5)%*	*32%*	*69%*	*108%*	*155%*
FCF Accretion / (Dilution)—Acquisition Case	*(11)%*	*23%*	*45%*	*52%*	*77%*
Actual Dividend Payout Ratio (at $1.59 per share)	*102%*	*73%*	*63%*	*63%*	*67%*
EPS(3)	$ (0.32)	$ 0.06	$ 0.30	$ 0.36	$ 0.41
EPS Accretion / (Dilution)—Status Quo	*(145)%*	*(92)%*	*(55)%*	*(31)%*	*6%*
EPS Accretion / (Dilution)—Acquisition Case	*(140)%*	*(93)%*	*(63)%*	*(56)%*	*(52)%*
Pro Forma Net Debt (Incl. Conversion)(4)	$ 2,513	$ 2,513	$ 2,429	$ 2,260	$ 2,117
Pro Forma Net Debt / EBITDA(5)	5.1x	4.6x	4.2x	4.1x	4.0x
Falcon Acquisition Case FCF	**$ 61**	**$ 61**	**$ 61**	**$ 64**	**$ 58**
FCF / Share	$ 1.73	$ 1.73	$ 1.71	$ 1.65	$ 1.37
Dividend Payout Ratio	92%	92%	93%	98%	118%
EPS	$ 0.80	$ 0.80	$ 0.80	$ 0.81	$ 0.85
Leverage	4.8x	4.8x	4.9x	4.8x	4.9x
Falcon Status Quo FCF	**$ 57**	**$ 57**	**$ 53**	**$ 43**	**$ 33**
FCF / Share	$ 1.64	$ 1.64	$ 1.50	$ 1.21	$ 0.92
Dividend Payout Ratio	97%	97%	106%	132%	172%
EPS	$ 0.76	$ 0.76	$ 0.69	$ 0.56	$ 0.47
Leverage	4.6x	4.6x	4.8x	5.3x	6.0x

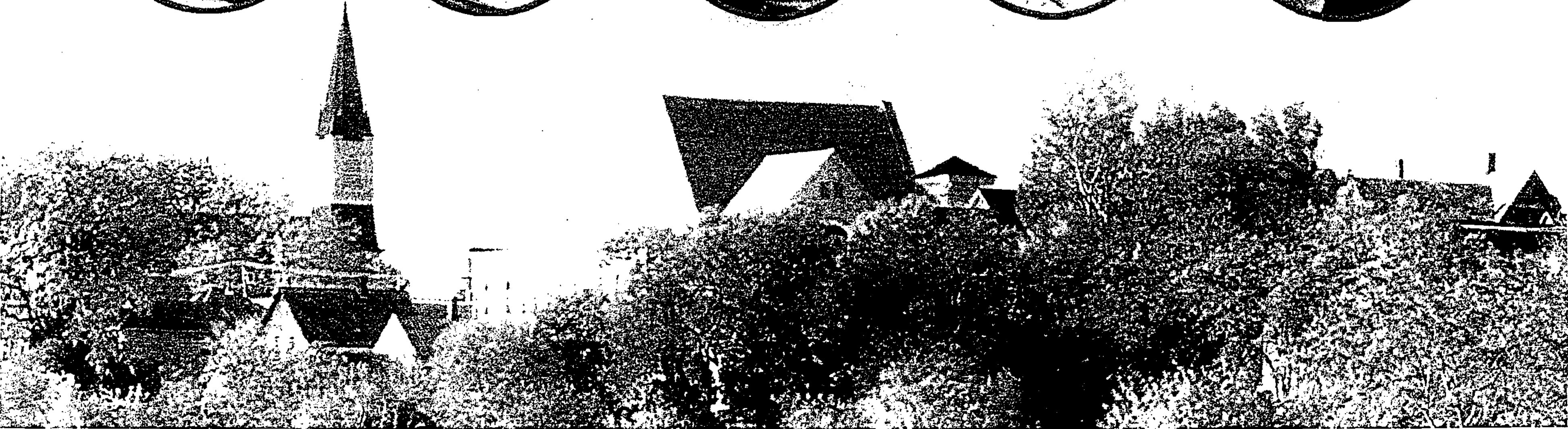
1. *Pro forma for sale of Orange County-Poughkeepsie (OP). Cash Adjusted EBITDA includes addback of forecast non-cash pension/OPEB expense. FCF excludes conversion capex.*

2. *Excludes one-time opex and TSA Schedule B set up costs in 2008.*

3. *EPS reflects actual cost savings.*

4. *2007 and 2008 include $37mm and $172mm of non-recurring conversion-related capital expenditures, respectively. 2008 includes one-time opex of $24mm and TSA set up costs of $30mm.*

5. *Leverage multiples based on year-end pro forma net debt (assumes conversion capital expenditures and one-time operating expenditures financed w/add'l debt) and pension / OPEB cash adjustments.*



FairPoint Communications, Inc.

January 16, 2007

FairPoint communications

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Rationale For The Merger

Compelling benefits for shareholders, customers and employees

> Benefits shareholders

- Improves dividend sustainability (FairPoint intends to maintain its dividend at $1.59 per share annually[1])
- Pro forma leverage improves to approximately 4.1 times EBITDA[2]
- Improves financial flexibility
- Pro forma dividend payout ratio improves to 60%–70% after anticipated cost-savings
- Improves revenue mix

> Benefits customers and employees

- Stronger competitive operations
- Increased focus on customers
- Significant DSL / broadband expansion in region
- Expanded employee-base enhances core capabilities
- Opening three scalable service centers in the region
- Constructive relationships with employees, unions, policymakers

(1) Subject to declaration by the board of directors and compliance with Delaware law and covenants in agreements governing indebtedness.
(2) Estimate at closing of merger. Calculated using combined EBITDA for 2005 and combined net debt at closing.

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Attractive Financial Characteristics

With defined opportunities for improvement

53.8 Million FairPoint Shares issued to Verizon Stockholders	
Implied Equity Value (@ $18.88 per share)	$1,015M
Plus Assumed Debt	$1,700M
Total Transaction Value	$2,715M
EBITDA multiple (based on 2005 EBITDA)(1)(2)	6.3x

- Expected cost savings and synergies of $60 - $75 million annually
- Full effect of synergies begins 12 months after closing
- Planned investment of $200 million in strategic systems

Verizon's Maine, New Hampshire and Vermont operations (2):	
Revenue	$1,206 million
Operating expenses(3)	$775 million
EBITDA	$431 million

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(1) Earnings before interest, taxes, depreciation and amortization.
(2) Based on 2005 audited financial results, net of adjustments to pension and other postretirement benefit expenses and certain one time items. 2005 unadjusted EBITDA was $395 million but included certain expenses that were not included in the merger.
(3) Excludes depreciation and amortization.

FairPoint communications

Summary Financial Comparison

Enhanced financial strength

FairPoint (pre-merger):	
Revenue[1]	$263 million
EBITDA[1]	$135 million
Net Debt[3]	$602 million
Dividend	$1.59 per share
Shares Outstanding[4]	35.1 million
Leverage[1][5]	4.5x
Payout ratio[1]	87%

Pro forma FairPoint Consolidated:	
Revenue[2]	$1,469 million
EBITDA[2]	$566 million
Net Debt[3]	$2,334 million
Dividend	$1.59 per share
Shares Outstanding	88.9 million
Leverage[7]	4.1x (at closing)
Payout ratio[6]	60 – 70%

> Expected cost savings/synergies of $60 - $75 million per year

> Full effect of synergies begins 12 months after closing

> Planned investment of $200 million in state-of-the-art systems

(1) Based on 2005 results which are the most recent full year audited financial statements available for both companies.
(2) Based on 2005 audited financial results, net of adjustments to pension and other postretirement benefit expenses and certain one time items.
(3) Long-term debt net of cash and cash equivalents.
(4) As of September 30, 2006.
(5) Defined as net debt/EBITDA.
(6) Pro-forma payout ratio after realization of anticipated cost savings and synergies of $60-75 million
(7) Calculated using 2005 combined EBITDA and estimated net debt at closing.

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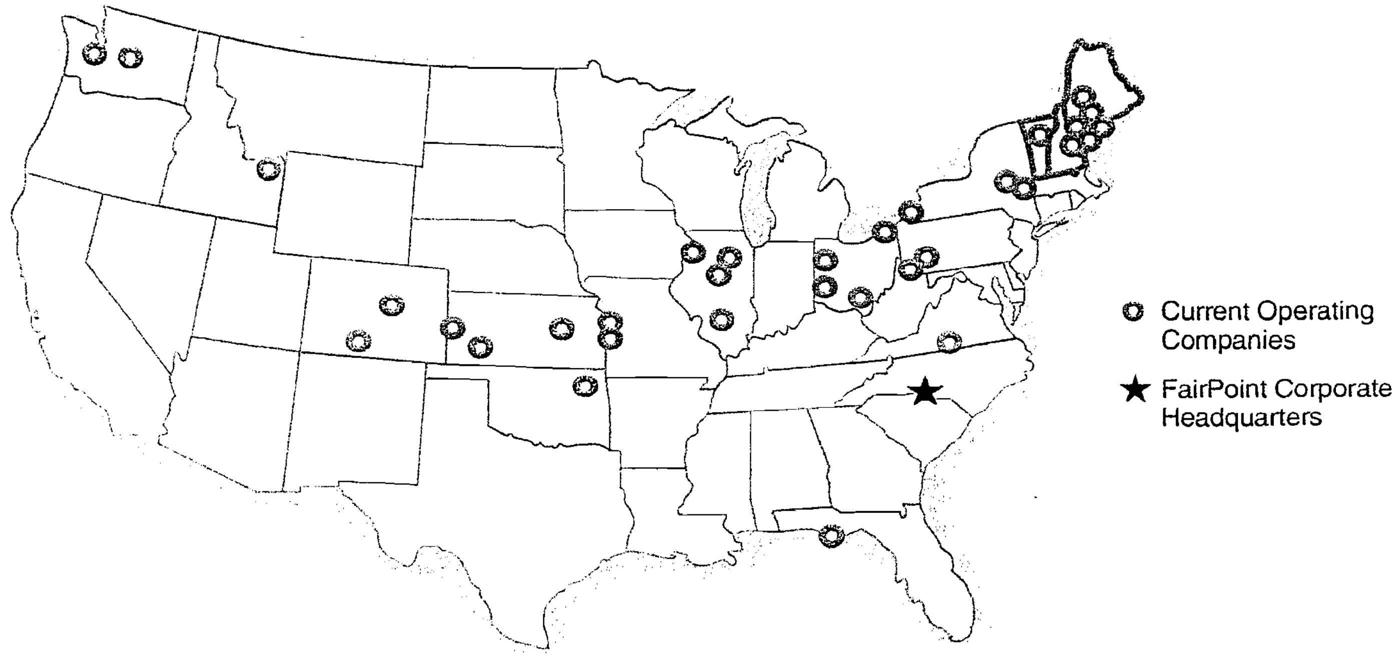
Overview of FairPoint

Significantly greater scope and scale



Pre-merger FairPoint[1]

- 308,858 total access line equivalents
- 194,002 residential voice access lines
- 57,761 business voice
- 57,095 HSD subscribers (including DSL, cable modem and WBB)

Post-merger[1]

- 2,022,109 total access line equivalents
- 1,176,955 residential voice access lines
- 451,368 business voice lines
- 159,722 wholesale access lines
- 234,064 HSD subscribers (including DSL, cable modem and WBB)

(1) As of September 30, 2006.

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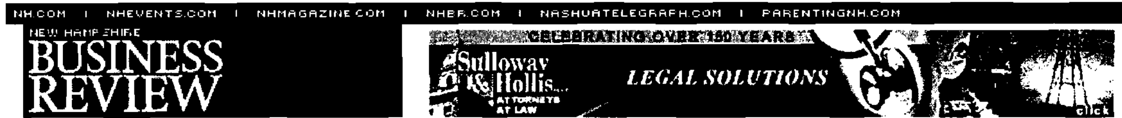

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FairPoint promises 675 new jobs if Verizon deal goes through

Published: Friday, Jul. 6, 2007

FairPoint Communications, the North Carolina-based firm that wants to buy Verizon's land line business in the three northern New England states says it plans to create another 675 jobs in New Hampshire, Maine and Vermont, if its $2.7 billion purchase is approved by regulators.

The company revised its estimate of job creation at a June 28 press conference. It had previously said it would add 600 jobs to the existing Verizon workforce in the three states.

New Hampshire would get 250 of those jobs, with about 190 jobs created in Manchester, 50 in Littleton and 10 other jobs will be located elsewhere around the state.

FairPoint also said Maine would see the creation of 280 new jobs and Vermont 145.

The company describe the jobs as long-term, skilled positions, including service technicians, telemarketers, regulatory experts, executives and members of the legal team. The 50 jobs in Littleton will be positions in telemarketing, credit and collections, officials said, while many of the jobs in Manchester will be in the engineering and network design fields.

Leach said FairPoint plans to house its data center for all of northern New England in Verizon's building at 770 Elm St. in Manchester. FairPoint also plans to house its network operations center in the Queen City, although a location hasn't yet been determined. Its building at 875 Holt Ave. also will be maintained, officials said.

FairPoint said it has already hired 17 supervisory personnel and executives in the three states and plans to hire most of the new workers starting in late fall, pending approval by federal and state regulators.

Company officials said they were hopeful the regulatory review process will wrap up in November or December.

"The bulk of the 675 will be hired over the fourth quarter of this year or the first quarter of next year, because of the expectation we will close (on the deal) at the end of January," said Walter E. Leach, FairPoint's executive vice president of corporate development.

Company executives have said they are committed to having senior leaders based in each state.

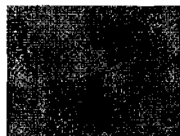
Dismissing doubters

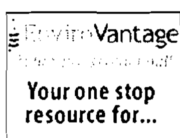
Meanwhile, Peter Nixon, FairPoint's chief operating officer, dismissed concerns being raised about the company's debt load and its ability to maintain and upgrade telecommunications service in the three states.

Nixon said the existing $1.2 billion revenue stream from Verizon's land lines in the three states will support operations, capital improvements, dividends and interest on the debt.

"The revenue stream today is sufficient — more than sufficient. actually — to cover those costs," Nixon said.

Nixon said Wall Street supports FairPoint's analysis. Bank of America, Merrill Lynch and Lehman Bros., among others, are assisting in the deal, he said.





Excellence

Your corporate communications are too important to be left up to just anybody.
Educational Marketing Through Multimedia

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But a report released in June by the New York investment banking firm Morgan Stanley & Co. expressed concerns about FairPoint's planned acquisition.

The report's authors said FairPoint's "apparent expectation that it will not be able to generate enough cash to pay its current dividend without the proposed merger with Verizon's NH, ME, and VT lines suggests that the company is in a vulnerable position," the report said.

And unions representing most of Verizon's 3,000 workers in the three states are worried that the $1.7 billion in debt load to be assumed by FairPoint will hinder promised investments, especially when it comes to expanding broadband Internet service, and imperil benefits and pensions.

FairPoint spokesman Bill Neagus insisted that the company's goal is to reach at least 92 percent of customers eventually, consistent with its existing operations in 18 states.

The company has so far only provided specifics of its broadband goal in Vermont, pledging $13.8 million for equipment upgrades upon the deal's closing. Proposals for boosting broadband offerings in Maine and New Hampshire are still being worked out, officials said. – ***JEFF FEINGOLD***

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Form 8-K

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: August 03, 2006 (period: August 01, 2006)

Report of unscheduled material events or corporate changes.

FairPoint believes EBITDA is useful to investors because EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, liquidity and leverage. FairPoint believes EBITDA allows a standardized comparison between companies in the industry, while minimizing the differences from depreciation policies, financial leverage and tax strategies.

Certain covenants in FairPoint's credit facility contain ratios based on Adjusted EBITDA and the restricted payment covenant in FairPoint's credit facility regulating the payment of dividends on its common stock is based on Adjusted EBITDA. If FairPoint's Adjusted EBITDA were to decline below certain levels, covenants in FairPoint's credit facility that are based on Adjusted EBITDA may be violated and could cause, among other things, a default under such credit facility, or result in FairPoint's inability to pay dividends on its common stock.

FairPoint believes Cash Available for Dividends is useful to investors as a means to evaluate FairPoint's ability to pay dividends on its common stock. However, FairPoint is not required to use such cash to pay dividends and any dividends are subject to declaration by FairPoint's board of directors and compliance with Delaware law and the terms of its credit facility.

While FairPoint uses these non-GAAP financial measures in managing and analyzing its business and financial condition and believes they are useful to its management and investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, Adjusted EBITDA does not represent the residual cash flows available for discretionary expenditures, since items such as debt repayment and interest payments are not deducted from such measure. FairPoint's management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures.

The information in this press release should be read in conjunction with the financial statements and footnotes contained in FairPoint's quarterly report to be filed with the Securities and Exchange Commission.

About FairPoint

FairPoint is a leading provider of communications services to rural communities across the country. Incorporated in 1991, FairPoint's mission is to acquire and operate telecommunications companies that set the standard of excellence for the delivery of service to rural communities. Today, FairPoint owns and operates 29 rural local exchange companies (RLECs) located in 18 states, offering an array of services, including local and long distance voice, data, Internet and broadband offerings.

Forward Looking Statements

This press release may contain forward-looking statements that are not based on historical fact, including without limitation, statements containing the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements. Such factors include those risks described from time to time in FairPoint's filings with the Securities and Exchange Commission, including, without limitation, the risks described in FairPoint's most recent Annual Report on Form 10-K on file with the Securities and Exchange Commission. These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements. All information is current as of the date this press release is issued, and FairPoint undertakes no duty to update this information. FairPoint's results for the

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corporate fact sheet

Strengthening Communities through Communications.

FairPoint Communications has a proven record of growth since our first acquisition in 1993. We focus on small and mid-size, privately and publicly owned local exchange carriers, as well as properties sold by the regional Bell operating companies.

History

Headquartered in Charlotte, North Carolina, FairPoint Communications, Inc. is a leading provider of communications services to rural and small urban communities. Since our first acquisition in 1993, our focus has been, first and foremost, to serve the unique needs of our customers.

Financials

- FairPoint is publicly traded on the NYSE under the ticker "FRP."
- FairPoint's consolidated revenues for the year ending December 31, 2006 were $270.1 million.

Employees

- FairPoint has approximately 900 employees.

Access Line Equivalents

- FairPoint is currently reporting a total of 311,150 (as of December 31, 2006) access line equivalents (voice access lines and HSD subscribers, which includes DSL, cable modem and wireless broadband).

Products and Services

- Local
- Long Distance
- Data
- Internet
- Broadband
- Video
- Business Communications Solutions

Locations

- FairPoint is headquartered in Charlotte, NC.
- FairPoint owns and operates 31 local exchange carriers in 18 states.

Alabama	Illinois	New Hampshire	Vermont
Colorado	Kansas	New York	Virginia
Florida	Maine	Ohio	Washington
Georgia	Massachusetts	Oklahoma	
Idaho	Missouri	Pennsylvania	

FairPoint Communications, Inc.

521 East Morehead Street
Suite 250
Charlotte, NC 28202
Phone 704 344 8150
www.fairpoint.com

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merger fact sheet

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About FairPoint

Incorporated in 1991, FairPoint's mission is to acquire and operate communications companies that set the standard of excellence for the delivery of service to rural and small urban communities. Today, FairPoint owns and operates 31 local exchange companies located in 18 states offering an array of services, including local and long distance voice, data, Internet and broadband offerings.

Transaction Facts

- FairPoint Communications, Inc. (NYSE: FRP) has entered into a definitive agreement to merge with a subsidiary of Verizon Communications, Inc. owning the wireline operations of Verizon in Maine, New Hampshire and Vermont.
- FairPoint will issue approximately 53.8 million shares of its common stock to be distributed in a tax-free Reverse Morris Trust transaction to the shareholders of Verizon. FairPoint's shareholders will own approximately 40% of the combined company, while Verizon's shareholders will own approximately 60%.
- The total transaction value for these Verizon operations is $2.715 billion, including the assumption of $1.7 billion of debt by FairPoint. FairPoint has financing commitments in place for what it anticipates to be a substantial portion of this debt.
- The Merger is expected to close by the end of January 2008 after the receipt of the required state and federal regulatory approvals.
- The combined company will serve approximately 1.6 million access lines and
  - 247,000 high-speed data subscribers,
  - 600,000 long distance customers,
  - and will provision 150,000 wholesale lines (as of December 31, 2006).
- As of December 31, 2006, FairPoint served 252,000 access lines, with 64,000 access lines currently located in Maine, New Hampshire and Vermont.

FairPoint Communications, Inc.

521 East Morehead Street
Suite 250
Charlotte, NC 28202
Phone 704 344 8150
www.fairpoint.com

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FairPoint Communications, Inc.

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Suite 250
Charlotte, NC 28202
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www.fairpoint.com

Customer Impact

The merger is expected to create a range of benefits for customers. FairPoint plans to:

- Significantly expand broadband availability.
- Increase local operational presence and create new local service centers to deliver industry-leading customer service.
- Enable delivery of a broader range of communications products and services.

Employee Impact

FairPoint is committed to a New England-based management presence focused on dedicating the necessary financial resources to benefit local communities.

FairPoint will:

- Maintain union jobs and work with the union in a collaborative fashion to continue existing collective bargaining agreements.
- Assume pension and other post employment benefit obligations for all active, continuing employees.
  - Pension obligations will be fully funded as of the closing of the merger.
  - Retired Verizon company employees from the region will continue to receive their benefits pursuant to the Verizon plans.
- Add 600 new positions within the three-state area to support administrative and technical service functions.

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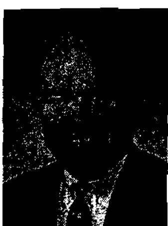
senior management team

Eugene B. Johnson
Chairman & Chief Executive Officer

Gene Johnson co-founded the company and has been Chief Executive Officer since January 2002, adding the Chairman's position in January 2003. Before that, Mr. Johnson led FairPoint's corporate development efforts as Executive Vice President. A former Captain in the U.S. Army, he started his career as a CPA. He owned a cable television construction company and later became head of the M&A group of Cable Investments, Inc. He also served as President and principal shareholder of JC&A, Inc., an investment banking and brokerage firm providing services to the cable TV, telephone and related industries. Today Mr. Johnson serves on the Board of Trustees for the University of North Carolina at Charlotte and is a regular supporter of local civic activities.

Peter G. Nixon
Chief Operating Officer

Mr. Nixon has been responsible for overseeing FairPoint's operations since November 2002. He began his career in 1978 when he joined Chautauqua and Erie Telephone Corporation. When FairPoint acquired C&E in July 1997, Mr. Nixon was named President of C&E. Since 1999, he has served in positions of increasing responsibility, including President of FairPoint's Eastern Region, President of the Telecom Group and Senior Vice President – Corporate Development, where he was responsible for acquisitions and new revenue opportunities.



Walter E. Leach, Jr.
Executive Vice President, Corporate Development

Walter Leach joined FairPoint in October 1994 as Chief Financial Officer, adding the title of Senior Vice President in 1998. In July 2004 Mr. Leach was promoted to Executive Vice President and in June 2005, accepted the position of Executive Vice President, Corporate Development. In his new position Walter will be responsible for all the merger and acquisition activity for the corporation. Prior to joining FairPoint, Mr. Leach spent 10 years at Independent Hydro Developers as Executive Vice President, responsible for project acquisition, financing and development activities. From 1980 to 1984, he was Vice President, Investor Relations, for The Pillsbury Company and served as Treasurer, Assistant Treasurer, and Controller for Burger King Corporation.

John Crowley
Executive Vice President, Chief Financial Officer

John Crowley is responsible for FairPoint's financial reporting and control, investor relations, treasury and risk management. Mr. Crowley joined FairPoint in May 2005 after independent investment banking for telecommunications clients in Europe and the United States, including FairPoint. In June 2005, Mr. Crowley accepted the position of Executive Vice President and Chief Financial Officer. He was previously a Managing Director of BT/Alex Brown in London. Mr. Crowley is a graduate of St. Lawrence University and holds an MBA from the Wharton School at the University of Pennsylvania.

Shirley J. Linn
Executive Vice President, General Counsel & Secretary

Shirley Linn is responsible for managing FairPoint's legal matters, including contracts, securities law compliance, employment issues and acquisitions. She joined FairPoint in October 2000. Prior to 2000, Ms. Linn had been a partner with the Charlotte law firm of Underwood Kinsey Warren & Tucker, P.A., where she specialized in general business matters, particularly mergers and acquisitions, after beginning her legal career in New York City. As outside counsel, she represented FairPoint in 10 of its telephone company acquisitions.

Lisa R. Hood
Chief Operating Officer - Telecom Group

Lisa Hood was appointed FairPoint's Chief Operating Officer - Telecom Group in April 2007. Since 2004 Ms. Hood has held the position of Senior Vice President and Controller. From December 1993 to July 2004 served as Controller and Vice President for FairPoint. Prior to joining FairPoint, Ms. Hood served as manager of a local public accounting firm in Kansas and is a Certified Public Accountant in Kansas.

Investor Contact:
Brett Ellis
Director, Financial Reporting and Investor Relations
FairPoint Communications, Inc.
704-227-3655
bellis@fairpoint.com

Media Contact:
Pam Joy
FairPoint Communications Media
FairPoint Communications, Inc.
207-642-7337
pjoy@fairpoint.com

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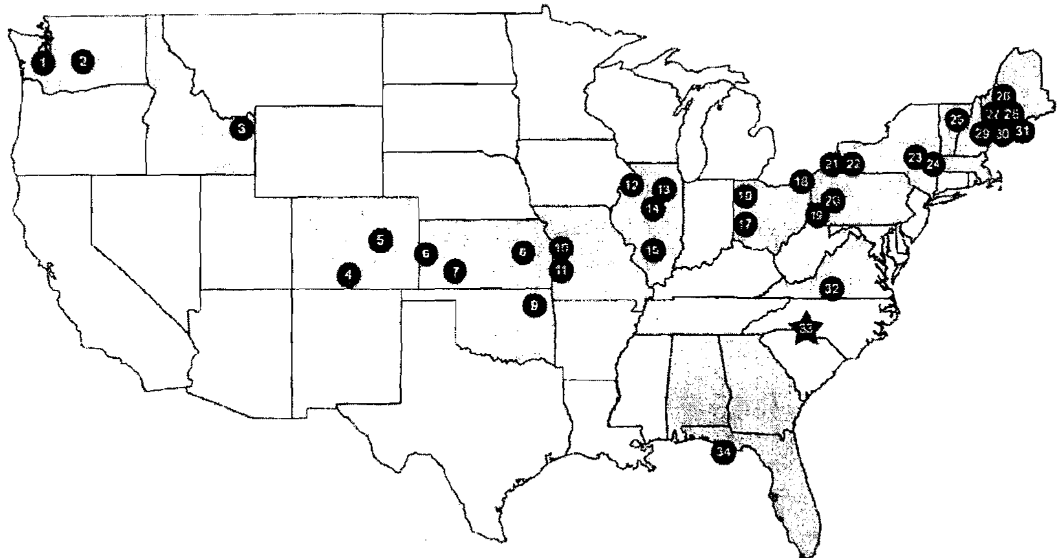
our locations

Strengthening Communities through Communications.

FairPoint Communications has a proven record of growth since our first acquisition in 1993. We focus on small and mid-size, privately and publicly owned local exchange carriers, as well as properties sold by the regional Bell operating companies.



1. **Yelm, Washington**
   (YCom Networks, Inc.)
   Acquired July 2000
2. **Ellensburg, Washington**
   (Ellensburg Telephone Company)
   Acquired April 1998
3. **St. Anthony / Idaho Falls, Idaho**
   (Fremont Telcom Co.)
   Acquired June 2000
4. **Crestone / Mosca, Colorado**
   (Columbine Telecom Company)
   Acquired April 1997
5. **Simla, Colorado**
   (Big Sandy Telecom, Inc.)
   Acquired June 1996
6. **Tribune / Leoti, Kansas**
   (Sunflower Telephone Company, Inc.)
   Acquired May 1993
7. **Dodge City, Kansas**
   (ST Enterprises, Ltd. Corporate Accounting and IS/IT Functions)
8. **Americus, Kansas**
   (Bluestem Telephone Company)
   Acquired August 1996
9. **Chouteau, Oklahoma**
   (Chouteau Telephone Company)
   Acquired June 1998
10. **Kearney, Missouri**
    (Unite Communications Systems, Inc.)
    Acquired August 2006
11. **Peculiar, Missouri**
    (FairPoint Communications Missouri, Inc.)
    Acquired July 2006
12. **Yates City, Illinois**
    (Yates City Telephone Company)
    Acquired September 1999
13. **Cornell / Ransom, Illinois**
    (C-R Communications, Inc.)
    Acquired October 1997
14. **El Paso, Illinois**
    (The El Paso Telephone Company)
    Acquired February 1999
15. **Odin, Illinois**
    (Odin Telephone Exchange, Inc.)
    Acquired August 1996
    East
    Acquired September 2001
16. **Columbus Grove, Ohio**
    (The Columbus Grove Telephone Company)
    Acquired February 1999
17. **Germantown, Ohio**
    (The Germantown Independent Telephone Company)
    Acquired November 2006
18. **Orwell, Ohio**
    (The Orwell Telephone Company)
    Acquired December 1999
19. **Bentleyville, Pennsylvania**
    (Bentleyville Communications Corporation)
    Acquired September 2005
20. **Marianna, Pennsylvania**
    (Marianna and Scenery Hill Telephone Company)
    Acquired September 2001
21. **Westfield, New York**
    (Chautauqua and Erie Telephone Corporation)
    Acquired July 1997
22. **FairPoint Carrier Services, Inc.**
23. **Kinderhook, New York**
    (Berkshire Telephone Corporation)
    Acquired May 2005
24. **Chatham, New York**
    (Taconic Telephone Corp.)
    Acquired March 1998

Maine, Vermont and New Hampshire

25. *(FairPoint Vermont, Inc.)*
    Acquired August 1994
26. *(Sidney Telephone Company)*
    Acquired January 1996
27. *(Northland Telephone Company of Maine, Inc.)*
    Acquired August 1994
28. *(Community Service Telephone Co.)*
    Acquired December 2003
29. *(Standish Telephone Company)*
30. *(Maine Telephone Company*
31. *(China Telephone Company)*
    Acquired November 1998
32. **Gretna, Virginia**
    (Peoples Mutual Telephone Company)
    Acquired April 2000
33. **FairPoint Communications, Inc.**
    Corporate Headquarters
34. **Port St. Joe, Florida**
    (GTC, Inc.)
    Acquired April 2000

FairPoint Communications, Inc.

521 East Morehead Street
Suite 250
Charlotte, NC 28202
Phone 704.344.8150
www.fairpoint.com

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8-K

FAIRPOINT COMMUNICATIONS INC filed this Form 8-K on 01/19/07

Entire Document

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FairPoint Investment Communication
Moderator: Tom Rozycki
January 16, 2007
8:30 a.m. ET

OPERATOR: Good morning. My name is Tiara , and I will be your conference operator today. At this time, I would like to everyone to the FairPoint Investment Community conference call. All lines have been placed on mute to omit any backgrour After the speaker's remarks, there will be a question-and-answer period. If you'd like to pose a question during this time, ple than the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank yc

It is now my pleasure to turn the floor over to your host, Mr. Brett Ellis. Sir, you may begin your conference.

BRETT ELLIS, FAIRPOINT COMMUNICATIONS: Good morning, and thank you for joining us on this morning's investr community conference call.

By now you should have received a copy of this morning's press release. If you have not, please contact Laura Kowalcyk at 6895, and she will be happy to e-mail you a copy.

As a reminder, this conference call is also being Webcast with a supplemental slide presentation. To access the Webcast, ple: this morning's press release, which contains the Web address that will take you to the registration page.

Please note that the supplemental slide presentation is also available for download on our Web site at fairpoint.com in the Inv Relations section under the heading, "Featured Report." Today's speakers will be referencing that presentation throughout th call.

Also members of the financial team, including John Crowley our CFO, will be on the road this week and will be available fo New York tomorrow, which is Wednesday, and Boston on Thursday. If you would like to book a one-on-one meeting, or pa the group lunches scheduled for each city, please call 866-377-3747, and ask to speak to Laura, , who will be handling the scl will do our best to accommodate all requests.

Before I introduce the speakers, I would like to read the Safe Harbor statement. This presentation may contain forward-looki that are not based on historical facts including, without limitation, statements containing the words, "expect," "anticipate," "i "plan," "believe," "seeks," "estimate" and similar expressions and statements relating to potential cost savings and synergies be realized in the proposed merger with the wireline operations of Verizon Communications, Inc. in Maine, New Hampshire Vermont. Because these forward-looking statements involve known and unknown risks and uncertainties, there are importan could cause actual results, events or developments to differ materially from those expressed or implied by these forward-look statements. Such factors include those risks described from time to time in FairPoint Communication, Inc.'s filings with the Exchange Commission, including without limitation, the risks described in FairPoint's most recent annual report on Form 10 with the Securities and Exchange Commission. These factors should be considered carefully and your call should not place on such forward-looking statements. All information is current as of the date of this presentation, and FairPoint Communicat undertakes no duty to update this information. Thank you.

Joining us on today's call are Gene Johnson, our Chairman and CEO, John Crowley, our CFO and Walt Leach, Executive Vi of Corporate Development.

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At this time, I would like to turn the call over to Gene Johnson, Chairman and CEO of FairPoint Communications. Gene?

GENE JOHNSON, CHAIRMAN, CEO, FAIRPOINT COMMUNICATIONS, INC.: Thanks a lot, Brett, and good morning t And thanks for joining us on today's call.

For all of you that know me well, you know that I get pretty excited about good news. And you can only imagine how I feel we announced what we believe is one of the most important telecommunications transactions in recent memory.

Before I get started though, I wanted to thank all of the FairPoint team members that literally canceled vacations, skipped the burned the midnight oil to make this day a reality. It is with a great sense of pride and personal gratitude that I say to all of th you." There should be no doubt that with this team in place, this merger and transition is going to be a very, very resounding

Specifically however, I want to thank Walt Leach, Shirley Linn and Peter Nixon. As you know, Shirley's our General Couns handles Corporate Development, and Peter is our Chief Operating Officer. Their stewardship of this transaction really is, in a why we're speaking to you today. So again, thanks Walt, Shirley and Peter, you did a terrific job here. Everybody at FairPoi the tremendous effort that they all put forth. And the good news is that we have 12 months of transition work for Walter and on this afternoon, literally this afternoon.

So let's get to it. Let's talk about the transaction. Today we announced that we've entered into a definitive agreement where local telephone and related operations in Maine, New Hampshire and Vermont will be spun off and merged with and into Fai believe this transaction marks an historic date for our industry.

Obviously it's an historic date for our Company as well, as this is clearly the single largest transaction we've ever undertaken some of the raw numbers in a minute, and then John's going to provide the financial view during his remarks.

But first let me give you an overview of the transaction. Let me be very clear on something from the very outset. What we a today dramatically accelerates our existing growth plan. It's not a change in direction, it's not a different business model, it' where the FairPoint train was headed. We're just arriving at the station well ahead of our schedule.

What we'll accomplish with this merger might have taken us five years or longer by acquiring smaller operating companies a integrating them into FairPoint. What it means to our shareholders is, concurrent with the closing of this transaction, we will eliminated many of the questions that you had about the future of our Company. Quite simply, this larger growth platform w be more aggressive and more nimble in acquiring and improving local telecom operations throughout the Country. It means t opportunities to grow, build value and appreciation in our share price.

But first we must work towards closing the transaction. So let me give you some of the specifics. The merged company will an attractive valuation of approximately 6.3 times 2005 EBITDA in line with past transactions that we've completed, and cer attractive when compared to other recent telecommunications transactions.

Further after considering the approximately 60 to 75 million in recurring annual synergies and cost savings that we expect to the multiple drops to below six. The transaction will improve our dividend sustainability and our financial flexibility, and qu dramatically increase our scale.

Transactionally, this will be done through a tax-free spin off of specific Verizon Communications, Inc. operations in Maine, N Hampshire and Vermont, followed by a tax-free merger with and into FairPoint. Consideration for the deal is $2.715 billion, made up of $1.7 billion in assumed debt, and $1.015 billion in FairPoint stock.

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Form S-4/A

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: July 10, 2007 (period:)

Pre-effective amendment to an S-4 filing

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certain actions during the two years following the spin-off that could jeopardize the tax-free status of the spin-off or merger, FairPoint expects that a portion of its future growth will result from additional acquisitions, some of which may be material. Growth through acquisitions entails numerous risks, including:

- strain on financial, management and operational resources, including the distraction of the management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;

- difficulties in integrating the network, operations, personnel, products, technologies and financial, computer, payroll and other systems of acquired businesses;

- difficulties in enhancing customer support resources to service its existing customers and the customers of acquired businesses adequately;

- the potential loss of key employees or customers of the acquired businesses; and

- unanticipated liabilities or contingencies of acquired businesses.

The combined company may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase the combined company's leverage and could have an adverse effect on its ability to pay dividends. The combined company may not be able to raise sufficient additional capital on terms that it considers acceptable, or at all.

The combined company may not be able to complete successfully the integration of Spinco or other businesses that FairPoint has recently acquired or successfully integrate any businesses that the combined company might acquire in the future. If the combined company fails to do so, or if the combined company does so but at greater cost than it anticipated, its business, financial condition and results of operations may be adversely affected.

A network disruption could cause delays or interruptions of service, which could cause the combined company to lose customers.

To be successful, the combined company will need to continue to provide its customers reliable service over its expanded network. Some of the risks to the combined company's network and infrastructure include:

- physical damage to access lines;

- wide spread power surges or outages;

- software defects in critical systems; and

- disruptions beyond the combined company's control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the combined company to lose customers and incur expenses.

The combined company's relationships with other communications companies will be material to its operations and their financial difficulties may adversely affect its future business, financial condition and results of operations.

The combined company will originate and terminate calls for long distance carriers and other interexchange carriers over its network. For that service, the combined company will receive payments for access charges. These payments represent a significant portion of FairPoint's current revenues and are expected to be material to the business of the combined company. If these carriers go bankrupt or experience substantial financial difficulties, the combined company's inability to then collect access charges from them could have a negative effect on the combined company's business, financial condition and results of operations.

the Spinco business described below under the caption "FairPoint's Summary Projections for the Spinco Business."

Expenses — The combined company expense projections were the result of the combination of FairPoint's assumptions for FairPoint on a standalone basis (described above) and its expectations for the Spinco business described below under the caption "FairPoint's Summary Projections for the Spinco Business." In addition, the combined company projections included FairPoint's assumptions for depreciation and amortization expense, interest expense, income tax expense and fees payable in 2008 under the transition services agreement. The FairPoint standalone expenses are not indicative of the actual operating expenses that FairPoint would incur if the proposed merger with Spinco was not pending because FairPoint would run its business differently in that case.

Depreciation and Amortization — FairPoint assumed that depreciation and amortization expense would gradually decline through the projection period, primarily driven by decreasing capital expenditures following a near doubling in 2008, and projected declines in switched access lines. Capital expenditures per access line were projected to remain relatively constant.

Interest Expense — Interest expense was comprised of interest charges on the combined company's bank debt and the Spinco securities. Based on FairPoint's financing commitments, FairPoint assumed the interest on the combined company's bank debt would equal LIBOR plus 175 basis points. FairPoint's estimate of LIBOR for the projection period was based on the then prevailing yield curve. FairPoint assumed that the interest rate on the Spinco securities would be 7.75%. FairPoint also assumed that excess cash flow would be used to repay outstanding debt (other than the Spinco securities), which would have the effect of gradually lowering interest expense.

Income Tax Expense — FairPoint assumed that income taxes would be calculated using a federal rate of 34% and state taxes were calculated on a separate basis. FairPoint assumed that the combined company would be able to take advantage of FairPoint's existing net operating loss carryforwards, which would have the effect of lowering taxes to be paid in cash through 2014.

FairPoint's Summary Projections for the Combined Company
(dollars in millions)

	2008[(1)]	2009	2010	2011	2012	2013	2014	2015
FairPoint Revenues	$ 275	$ 274	$ 272	$ 269	$ 266	$ 263	$ 260	$ 257
% Y-o-Y Growth		*(0.4%)*	*(0.7%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.2%)*
Spinco Revenues	1,152	1,144	1,149	1,145	1,138	1,136	1,137	1,137
% Y-o-Y Growth		*(0.7%)*	*0.4%*	*(0.3%)*	*(0.6%)*	*(0.2%)*	*0.1%*	*0.0%*
Pro Forma Combined Revenues	**$ 1,427**	**$ 1,418**	**$ 1,421**	**$ 1,414**	**$ 1,404**	**$ 1,399**	**$ 1,397**	**$ 1,394**
% Y-o-Y Growth		*(0.6%)*	*0.2%*	*(0.5%)*	*(0.7%)*	*(0.4%)*	*(0.1%)*	*(0.2%)*
FairPoint Operating Expenses	162	164	167	167	167	168	168	168
% Y-o-Y Growth		*1.2%*	*1.8%*	*0.0%*	*0.0%*	*0.6%*	*0.0%*	*0.0%*
Spinco Operating Expenses	799	710	716	723	728	735	743	749
% Y-o-Y Growth		*(11.1%)*	*0.8%*	*1.0%*	*0.7%*	*1.0%*	*1.1%*	*0.8%*
Pro Forma Combined EBITDA	**$ 466**	**$ 544**	**$ 538**	**$ 524**	**$ 509**	**$ 496**	**$ 486**	**$ 477**
FairPoint Capital Expenditures	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29	$ 29
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Spinco Capital Expenditures	315	138	134	130	128	127	127	127
% Y-o-Y Growth		*(56.2%)*	*(2.9%)*	*(3.0%)*	*(1.5%)*	*(0.8%)*	*0.0%*	*0.0%*
Pro Forma Combined Capital Expenditures	**$ 344**	**$ 167**	**$ 163**	**$ 159**	**$ 157**	**$ 156**	**$ 156**	**$ 156**
% Y-o-Y Growth		*(51.5%)*	*(2.4%)*	*(2.5%)*	*(1.3%)*	*(0.6%)*	*0.0%*	*0.0%*

(1)
2008 financials include one-time operating expenses of $24 million and capital expenditures of $172 million related to the merger.

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FairPoint's Summary Projections for the Combined Company
Income Statement
(dollars in millions)

	2008[1]	2009	2010	2011	2012	2013	2014	2015
FairPoint Revenues:								
Local	$ 69	$ 69	$ 69	$ 69	$ 68	$ 68	$ 68	$ 68
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*(1.4%)*	*0.0%*	*0.0%*	*0.0%*
Access	118	111	104	100	95	91	88	85
% Y-o-Y Growth		*(5.9%)*	*(6.3%)*	*(3.8%)*	*(5.0%)*	*(4.2%)*	*(3.3%)*	*(3.4%)*
Long Distance	27	28	29	29	29	29	29	29
% Y-o-Y Growth		*3.7%*	*3.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Data / Internet	40	45	49	50	50	50	50	50
% Y-o-Y Growth		*12.5%*	*8.9%*	*2.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other	21	21	21	21	24	25	25	25
% Y-o-Y Growth		*0.0%*	*0.0%*	*0.0%*	*14.3%*	*4.2%*	*0.0%*	*0.0%*
Subtotal FairPoint	$ 275	$ 274	$ 272	$ 269	$ 266	$ 263	$ 260	$ 257
% Y-o-Y Growth		*(0.4%)*	*(0.7%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.1%)*	*(1.2%)*
Spinco Revenues								
Local	610	579	556	537	521	508	497	485
% Y-o-Y Growth		*(5.1%)*	*(4.0%)*	*(3.4%)*	*(3.0%)*	*(2.5%)*	*(2.2%)*	*(2.4%)*
Access	458	473	490	503	516	531	548	566
% Y-o-Y Growth		*3.3%*	*3.6%*	*2.7%*	*2.6%*	*2.9%*	*3.2%*	*3.3%*
Other	18	17	15	14	13	12	11	10
% Y-o-Y Growth		*(5.6%)*	*(11.8%)*	*(6.7%)*	*(7.1%)*	*(7.7%)*	*(8.3%)*	*(9.1%)*
Long Distance	89	90	91	92	91	90	90	89
% Y-o-Y Growth		*1.1%*	*1.1%*	*1.1%*	*(1.1%)*	*(1.1%)*	*0.0%*	*(1.1%)*
Data / Internet	99	121	142	147	146	146	144	143
% Y-o-Y Growth		*22.2%*	*17.4%*	*3.5%*	*(0.7%)*	*0.0%*	*(1.4%)*	*(0.7%)*
MVNO	0	1	6	11	15	19	22	25
% Y-o-Y Growth		*N/A*	*500.0%*	*83.3%*	*36.4%*	*26.7%*	*15.8%*	*13.6%*
Eliminations	(122)	(137)	(151)	(159)	(164)	(170)	(175)	(181)
% Y-o-Y Growth		*12.3%*	*10.2%*	*5.3%*	*3.1%*	*3.7%*	*2.9%*	*3.4%*
Subtotal Spinco	$ 1,152	$ 1,144	$ 1,149	$ 1,145	$ 1,138	$ 1,136	$ 1,137	$ 1,137
% Y-o-Y Growth		*(0.7%)*	*0.4%*	*(0.3%)*	*(0.6%)*	*(0.2%)*	*0.1%*	*0.0%*
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% Y-o-Y Growth		*(0.6%)*	*0.2%*	*(0.5%)*	*(0.7%)*	*(0.4%)*	*(0.1%)*	*(0.2%)*

FairPoint Operating Expenses	162	164	167	167	167	168	168	168
% Y-o-Y Growth		*1.2%*	*1.8%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*
Spinco Operating Expenses	799	710	716	723	728	735	743	749
% Y-o-Y Growth		*(11.1%)*	*0.8%*	*1.0%*	*0.7%*	*1.0%*	*1.1%*	*0.8%*
Pro Forma EBITDA	**$ 466**	**$ 544**	**$ 538**	**$ 524**	**$ 509**	**$ 496**	**$ 486**	**$ 477**
Depreciation and Amortization	330	322	314	302	292	276	247	218
Stock-based Compensation and Other	2	0	0	0	0	0	0	0
Operating Income	**$ 134**	**$ 222**	**$ 224**	**$ 222**	**$ 217**	**$ 220**	**$ 239**	**$ 259**
Interest / Dividend Income	0	0	0	0	0	0	0	0
Interest Expense	(182)	(181)	(177)	(172)	(166)	(161)	(157)	(155)
Total Other Income / (Expense)	($ 182)	($ 181)	($ 177)	($ 172)	($ 166)	($ 161)	($ 157)	($ 155)
Pre-Tax Income / (Loss)	**($ 48)**	**$ 41**	**$ 47**	**$ 50**	**$ 51**	**$ 59**	**$ 82**	**$ 104**
Income Tax Benefit / (Expense)	16	(15)	(17)	(18)	(18)	(21)	(29)	(36)
Net Income / (Loss)	**($ 32)**	**$ 26**	**$ 30**	**$ 32**	**$ 33**	**$ 38**	**$ 53**	**$ 68**

(1)
2008 financials include one-time operating expenses of $24 million.

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FairPoint's Summary Projections for the Combined Company
Balance Sheet
(dollars in millions)

	As of December 31,								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current Assets:									
Cash	$ 7	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Other Current Assets	339	330	324	320	314	308	307	307	306
Total Current Assets	$ 346	$ 333	$ 327	$ 323	$ 317	$ 311	$ 310	$ 310	$ 309
FairPoint Net PP&E	$ 242	$ 228	$ 214	$ 200	$ 189	$ 180	$ 173	$ 168	$ 163
Spinco Net PP&E	$ 1,732	$ 1,770	$ 1,639	$ 1,512	$ 1,389	$ 1,273	$ 1,165	$ 1,083	$ 1,031
Goodwill	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924	$ 924
Customer List	71	66	61	56	52	47	42	38	33
Other Assets	157	175	162	147	132	118	101	86	85
Total Assets	**$ 3,472**	**$ 3,496**	**$ 3,327**	**$ 3,162**	**$ 3,003**	**$ 2,853**	**$ 2,715**	**$ 2,609**	**$ 2,545**
Total Current Liabilities	$ 221	$ 217	$ 216	$ 216	$ 216	$ 215	$ 215	$ 215	$ 214
Long-Term Liabilities:									
Spinco Credit Facility	$ 1,680	$ 1,680	$ 1,680	$ 1,680	$ 1,608	$ 1,534	$ 1,467	$ 1,413	$ 1,387
Delayed Draw Term Loan	0	172	91	9	0	0	0	0	0
Total Secured Debt	$ 1,680	$ 1,852	$ 1,771	$ 1,689	$ 1,608	$ 1,534	$ 1,467	$ 1,413	$ 1,387
Remaining FairPoint Securities:									
2010 Senior Notes, 11.875%	$ 2	$ 2	$ 2	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Taconic Fixed/Berkshire Rural Telephone Finance Cooperative	1	1	1	1	1	1	1	1	1
Utilities Inc.—Rural Telephone Finance Cooperative	1	1	1	1	1	0	0	0	0
Demand Note Payable	0	0	0	0	0	0	0	0	0
Spinco Securities	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660
Long-Term Debt	$ 2,344	$ 2,516	$ 2,435	$ 2,351	$ 2,270	$ 2,195	$ 2,128	$ 2,074	$ 2,048
Other Long Term Liabilities	$ 246	$ 273	$ 301	$ 331	$ 362	$ 397	$ 429	$ 465	$ 501
Total Long Term Liabilities	$ 2,590	$ 2,789	$ 2,736	$ 2,682	$ 2,632	$ 2,592	$ 2,557	$ 2,539	$ 2,549
Minority Interest	0	0	0	0	0	0	0	0	0
Total Shareholders' Equity/(Deficit)	$ 661	$ 490	$ 375	$ 264	$ 155	$ 46	$ (57)	$ (145)	$ (218)
Total Liabilities & Shareholders' Equity	**$ 3,472**	**$ 3,496**	**$ 3,327**	**$ 3,162**	**$ 3,003**	**$ 2,853**	**$ 2,715**	**$ 2,609**	**$ 2,545**

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FairPoint's Summary Projections for the Combined Company
Cash Flow
(dollars in millions)

	2008	2009	2010	2011	2012	2013	2014	2015
Cash Flows from Operations								
Net Income/(Loss)	$ (32)	$ 26	$ 30	$ 32	$ 33	$ 38	$ 53	$ 68
Amortization of Financing Fees	5	5	5	5	5	0	0	0
Amortization of Customer List	5	5	5	5	5	5	5	5
Depreciation and Amortization	320	312	304	292	282	271	242	213
Deferred Income Taxes	(18)	13	15	15	14	17	16	1
Pension/OPEB Cash Adjustment	27	29	30	31	33	34	36	37
Stock-based compensation	2	0	0	0	0	0	0	0
Changes in Working Capital	1	0	0	2	1	0	0	0
Net Cash Provided by Operating Activities	$ 310	$ 390	$ 389	$ 382	$ 373	$ 365	$ 352	$ 324
Cash Flows from Investing								
Acquisition of PP&E (Capital Expenditures)	(344)	(167)	(163)	(159)	(157)	(156)	(156)	(156)
Net Cash Used in Investing Activities	$ (344)	$ (167)	$ (163)	$ (159)	$ (157)	$ (156)	$ (156)	$ (156)
Cash Flows from Financing								
Mandatory Repayment of Long-Term Debt	0	0	(2)	0	0	0	0	0
Dividends Paid to Common Stockholders	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)
Net Cash Used in Financing Activities	$ (142)	$ (142)	$ (144)	$ (142)	$ (142)	$ (142)	$ (142)	$ (142)
Net Increase/Decrease in Cash Balance	$ (176)	$ 81	$ 82	$ 81	$ 74	$ 67	$ 54	$ 26
Cash Balance, Beginning	$7	$3	$3	$3	$3	$3	$3	$3
Revolver/Delayed Draw Term Loan	172	(81)	(82)	(9)	0	0	0	0
Optional Debt Repayment	0	0	0	(72)	(74)	(67)	(54)	(26)
Cash Balance, Ending	$3	$3	$3	$3	$3	$3	$3	$3

FairPoint's Summary Projections for the Spinco Business

The standalone Spinco projections reflect FairPoint's projections for the Spinco business on a standalone basis.

Assumptions

Customer Assumptions

Switched Access Lines — On a standalone basis without giving effect to the merger, FairPoint assumed continued, but slowing, access line losses in the Spinco business as the result of overall industry trends such as cable competition and use by customers of alternative technologies. FairPoint believed that it would be able to mitigate access line losses in the Spinco business with regionally-focused marketing, bundling, win-back strategies and the substantially increased availability of its broadband product in Maine, New Hampshire and Vermont. FairPoint assumed that by 2012, the Spinco business would be serving approximately 1.1 million switched access lines, a cumulative loss of approximately 400,000, or 27%, versus the levels of switched access lines in 2006.

Broadband — On a standalone basis without giving effect to the merger, FairPoint assumed increased broadband penetration in the Spinco business, primarily through the offering of DSL technology, as the result of bundling and through its planned network expansion. FairPoint assumed broadband penetration of residential access lines would reach 38% by 2012, at which point the Spinco business would serve approximately 375,000 broadband customers, an increase of approximately 187,000 over 2006 levels.

Long Distance — On a standalone basis without giving effect to the merger, FairPoint assumed increased long distance penetration in the Spinco business as the result of bundling and regionally-focused marketing. FairPoint assumed retail long distance penetration of residential access lines would reach 67% by 2012, at which point the Spinco business would serve approximately 650,000 long distance customers, an increase of approximately 52,000 over 2006 levels.

Revenue Assumptions

Consumer Revenue — Consumer revenue was assumed to be derived primarily from local residential (or retail) customers purchasing local wireline and value added services. Value added services include products such as voicemail, call waiting and other non-regulated services. On a standalone basis without giving effect to the merger, FairPoint assumed continued losses in residential revenues of the Spinco business as the result of access line losses and declines in average revenue per unit. FairPoint assumed no change in local exchange tariffs and modest decreases in average revenue per unit from value added services. FairPoint assumed that total average revenue per unit for the Spinco business would decline 3% versus 2006 levels by 2012.

Small Business Revenue — Small business revenue was assumed to be derived primarily from local small business customers purchasing local wireline and value added services. On a standalone basis without giving effect to the merger, FairPoint assumed continued losses in small business revenues of the Spinco business as the result of access line losses and declines in average revenue per unit. FairPoint assumed no change in local exchange tariffs and modest decreases in average revenue per unit from value added services. FairPoint assumed total average revenue per unit for the Spinco business would decline 3% versus 2006 levels by 2012.

Enterprise Revenue — Enterprise revenue was assumed to be derived primarily from medium and large business customers purchasing local exchange and value added services. On a standalone basis without giving effect to the merger, FairPoint assumed continued losses in local exchange revenues of the Spinco business as the result of access line losses, offset partially by increases in average revenue per unit. FairPoint assumed total average revenue per unit for the Spinco business would increase 26% versus 2006 levels by 2012 as the Spinco business captured a greater percentage of the overall spending by Enterprise customers.

Partner Solutions Revenue — Partner solutions revenue was assumed to be derived primarily from wholesale offerings to other carriers such as competitive local exchange carriers and inter-exchange carriers. On a standalone basis without giving effect to the merger, FairPoint assumed total partner solutions revenue in the Spinco business would increase 4% from 2006 levels by 2012. The following are the primary components of partner solutions revenue:

Special Access Revenue — Special access revenue was assumed to be derived primarily from the sale of special circuits to other carriers in the region. On a standalone basis without giving effect to the merger, FairPoint assumed modest annual increases (between 2% and 5%) in special access revenue as the result of increased bandwidth capacity demands in the marketplace.

Switched Access Revenue — Switched access revenue, which is also referred to as network access revenue, was assumed to be derived primarily from the charges to inter-exchange carriers for use of the network of the Spinco business. FairPoint assumed switched access revenue of the Spinco business would continue to decline as minutes of use, which was assumed to be the primary driver of switched access revenue, would continue to erode industry-wide.

Local Revenues — Local revenues were assumed to include unbundling, interconnection, resale and collocation revenues derived primarily from competitive local exchange carriers connecting to and using the network of the Spinco business. On a standalone basis without giving effect to the

merger, FairPoint assumed these revenues in the Spinco business would increase 4% versus 2006 levels by 2012 as the result of continued competitive local exchange carrier competition.

Other Partner Solutions Revenues — Other revenues were assumed to include revenues from other independent telephone companies, wireless providers, late pay, billing and collections services and carrier billing credits and adjustments. On a standalone basis without giving effect to the merger, FairPoint assumed other revenues in the Spinco business would increase 19% versus 2006 levels by 2012, primarily as the result of increased wireless presence in the region. While use of wireless services by customers was assumed to drive continued access line losses and losses in the local wireline revenue of the Spinco business, FairPoint also assumed that greater wireless presence would result in increased traffic across Spinco's network which would drive increased partner solutions revenues.

Fiduciary Revenue — Fiduciary revenue was assumed to be derived primarily from high-cost loop support, other National Exchange Carrier Association, referred to as NECA, reimbursements and payments from a non-regulated affiliate to a regulated affiliate for items such as billing and collection and DSL line sharing. Payments from the non-regulated affiliate to the regulated affiliate were assumed to have been eventually eliminated in the consolidation process. On a standalone basis without giving effect to the merger, FairPoint assumed high-cost loop support and NECA reimbursements of the Spinco business would continue to decline with access line losses, while inter-company payments would increase with the growth in non-regulated products like broadband and long distance. FairPoint assumed fiduciary revenues of the Spinco business would increase 61% versus 2006 levels by 2012, primarily driven by increases in inter-company revenues.

Public Revenue — Public revenue was assumed to be derived from public pay telephones. On a standalone basis without giving effect to the merger, FairPoint assumed these revenues of the Spinco business would continue to decline consistent with overall industry trends.

LiveSource Revenue — LiveSource revenue was assumed to be derived from directory assistance and operator services. On a standalone basis without giving effect to the merger, FairPoint assumed these revenues of the Spinco business would continue to decline consistent with overall industry trends.

Internet Service Provider Revenue — Internet service provider revenue was assumed to be derived from broadband and dial-up services and includes DSL and fiber-to-the-premises products. On a standalone basis without giving effect to the merger, FairPoint assumed that competitive pressures would result in decreased average revenue per unit of the Spinco business, while increased product penetration would result in overall revenue growth. FairPoint assumed that Internet service provider revenues of the Spinco business would increase 125% versus 2006 levels by 2012.

Long Distance Revenue — Long distance revenue was assumed to be derived from the sale of long distance services to residential and business customers. On a standalone basis without giving effect to the merger, FairPoint assumed that competitive pressures would result in decreased average revenue per unit of the Spinco business, while increased product penetration would result in overall revenue growth. FairPoint assumed that long distance revenues of the Spinco business would increase 11% versus 2006 levels by 2012.

MVNO Revenue — MVNO revenue was assumed to be derived from the resale of wireless voice products purchased from another wireless network operator, such as Cellco. On a standalone basis without giving effect to the merger, FairPoint assumed that the Spinco business would have an MVNO product to complement its bundling strategy beginning in 2009. FairPoint assumed that 3.5% of the Spinco business's switched access line customer base would subscribe to its MVNO product by 2012 and that the product would contribute approximately $15 million in annual revenue in 2012, or approximately 1% of total revenues of the Spinco business.

at par upon issuance (including for purposes of any debt exchange that Verizon may elect to consummate) and (ii) all other terms of the Spinco securities and related agreements that are not addressed above will be subject to the joint approval of Verizon and FairPoint, acting reasonably. Verizon has the sole right to structure the arrangements with third parties relating to any debt exchange of the Spinco securities but is obligated to keep FairPoint reasonably informed regarding any debt exchange arrangements. See "Financing of the Combined Company—Spinco Securities" for additional discussion of the terms of the Spinco securities.

Simultaneously with the execution of the merger agreement, FairPoint entered into a debt commitment letter for credit facilities and term loans. See "Financing of the Combined Company—New Credit Facility." The merger agreement provides that if for any reason any portion of the debt contemplated by this commitment letter becomes unavailable or is insufficient to consummate the transactions contemplated by the merger agreement, the distribution agreement and the other transaction agreements, FairPoint will take all actions necessary to obtain, in consultation with Verizon, and consummate on such terms as may then be available, including from alternate sources, alternative financing for the same purposes as the purposes of the financing contemplated by the debt commitment letter. Verizon is required to cooperate with FairPoint's efforts to seek to obtain any alternative financing but is not obligated to incur any obligations in connection with any alternative financing (other than to pay certain debt expenses).

Director and Officer Insurance and Release

Under the terms of the merger agreement, the parties have agreed that FairPoint, the combined company and each of their respective subsidiaries will assist Verizon in maintaining after the closing of the merger, at Verizon's expense, directors' and officers' liability insurance policies and fiduciary liability insurance policies covering certain officers, directors, trustees and fiduciaries of Verizon, its subsidiaries and certain other entities. The parties also agreed that as of the effective time of the merger, the combined company, on behalf of itself, its subsidiaries and their respective successors and assigns, will release the covered persons from any and all claims pertaining to acts or omissions by the covered persons prior to the closing of the merger.

Tax Matters

The merger agreement contains certain additional representations, warranties and covenants relating to the preservation of the tax-free status of (i) the series of preliminary restructuring transactions to be engaged in by the Verizon Group, (ii) the contribution transactions, (iii) the distribution transactions, (iv) the exchange of the Spinco securities for debt obligations of the Verizon Group and (v) the merger of Spinco and FairPoint (which the merger agreement refers to collectively as the tax-free status of the transactions). Additional representations, warranties and covenants relating to the tax-free status of the transactions are contained in the tax sharing agreement. Indemnification for all matters relating to taxes is governed by the terms of the tax sharing agreement. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement."

Certain Other Covenants and Agreements

The merger agreement contains certain other covenants and agreements, including covenants (with certain exceptions specified in the merger agreement) relating to:

- the negotiation of mutually acceptable arrangements permitting the parties to occupy and use certain properties in New Hampshire;

- the incurrence by Verizon and its subsidiaries of capital additions in respect of the Spinco business in amounts not less than $137.5 million during the year ended December 31, 2007 and $11 million per month during the year ended December 31, 2008;

Proposed Terms of the New Credit Facility

Under the new credit facility, FairPoint and Spinco expect to make borrowings at Adjusted LIBOR (as described below) plus a margin which in the case of the revolving credit facility will be subject to a leverage-based pricing grid to be agreed by the parties. The three month Adjusted LIBOR rate applicable to FairPoint's current credit facility for the quarter ending June 30, 2007 rate is 5.375%. The applicable margins under the new credit facility have not yet been negotiated

Adjusted LIBOR borrowings may be made for interest periods of 1, 2, 3 or 6 months and, if agreed to by, or available to, the applicable lenders under the new credit facility, 9 or 12 months, as selected by FairPoint. Interest on loans and all fees will be payable in arrears on the basis of a 360-day year in the case of Adjusted LIBOR loans and a 365-day year in the case of base rate loans (calculated, in each case, on the basis of actual number of days elapsed). Interest will be payable on Adjusted LIBOR loans on the last day of the applicable interest period (and at the end of each three months, in the case of interest periods longer than three months) and upon prepayment, and on base rate loans quarterly and upon prepayment.

The combined company will be required to pay certain fees and expenses in connection with the new credit facility. The combined company will be required to pay a commitment fee initially calculated at the rate of 0.375% per annum on the average daily amount of the unused portion of the revolving facility, payable quarterly in arrears. The commitment fee on the revolving facility shall accrue from the closing date of the merger. Following the delivery of financial statements for the first full fiscal quarter after the closing date of the merger, the commitment fee will be subject to a leverage-based pricing grid to be agreed upon by the parties.

The delayed draw term loan facility is available to be drawn until the first anniversary of the closing date of the merger. From the closing date of the merger until the delayed draw term loan facility is fully drawn or expires, the combined company will also be required to pay a commitment fee calculated at the rate per annum of 0.75% on the unused portion of the delayed draw term loan facility, payable quarterly in arrears and on the date the delayed draw term loan facility is fully drawn.

The combined company will be required to pay a per annum fee equal to: (i) with respect to standby letters of credit, the applicable spread over Adjusted LIBOR under the revolving facility in effect from time to time; and (ii) with respect to trade letters of credit, an amount equal to one-half of the applicable spread over Adjusted LIBOR under the revolving facility in effect from time to time, in each case, less the fronting fee (described below), which will accrue on the aggregate face amount of outstanding letters of credit under the revolving facility, payable in arrears at the end of each quarter and upon termination of the revolving facility. In addition, the combined company shall pay to each bank that issued to it a letter of credit, for its own account: (i) a fronting fee to be agreed upon on the aggregate face amount of outstanding letters of credit, payable in arrears at the end of each quarter and upon termination of the revolving facility; and (ii) the customary issuance and administration fees of the bank issuing the letter of credit.

The revolving facility will mature on the sixth anniversary of the closing date of the merger. The term loan B facility and the delayed draw term loan facility will mature on the eighth anniversary of the closing date of the merger, and borrowings under each of the term loan B facility and the delayed draw term loan facility, respectively, will be repayable in quarterly installments equal to 1% of the original principal amount of the term loan B facility and the delayed draw term loan facility beginning with the third year after the date of closing, with the balance payable in full at maturity.

Mandatory prepayments of borrowings under the term loan B facility shall be prepaid after the closing date of the merger with: (i) 50% of the combined company's annual excess cash flow when the combined company's total leverage ratio exceeds (a) during the first year following the closing date of the merger, 5.75 to 1.0, and (b) thereafter, 5.50 to 1.0; (ii) net cash proceeds of certain asset sales or

ERISA-related events, judgments in excess of an agreed amount, change in control, and actual or asserted material invalidity of any guarantee, loan document or security interest.

FairPoint expects that the initial borrowings under the new credit facility will occur contemporaneously with the consummation of the merger. However, entering into the agreements governing the new credit facility and any funding under these agreements will remain subject to a number of conditions. These conditions will include: (i) the consummation of the merger; (ii) prior to or concurrently with the initial borrowings under the agreements governing the new credit facility, amounts outstanding under FairPoint's existing credit agreement shall be repaid and all commitments thereunder shall be terminated and all liens securing those facilities shall be terminated; (iii) the receipt of certain financial statements and projections, (iv) the receipt of all documentation and other information required by bank regulatory authorities under applicable anti-money laundering rules and regulations, including the U.S.A. Patriot Act; and (v) miscellaneous closing conditions customary for credit facilities and transactions of this type.

If the financing contemplated by the financing letters is insufficient to complete the transactions contemplated by the merger agreement, the distribution agreement and the other transaction documents, FairPoint is obligated under the merger agreement to seek alternative financing. See "The Merger Agreement—Financing Matters."

Spinco Securities

The distribution agreement contemplates that debt securities of Spinco will be issued to the Verizon Group immediately prior to the spin-off. The distribution agreement contemplates that these Spinco securities will be senior unsecured notes, will mature on the ten-year anniversary of issuance, will not be callable at the option of the combined company for five years after issuance and will rank equally with all existing and future senior unsecured debt and senior to all existing and future subordinated debt of Spinco. The covenants and economic terms of the Spinco securities will be established so that they will be valued at par upon issuance (including for purposes of any debt exchange Verizon may elect to undertake, as described below). Other terms of these Spinco securities, including covenants, will be established in accordance with the terms of the merger agreement, and some of the terms described above may change depending on market conditions. See "The Merger Agreement—Financing Matters." It is currently anticipated that the Spinco securities will be rated below investment grade.

Verizon has the right to elect to undertake an exchange of the Spinco securities for debt obligations of Verizon or its affiliates, and, if it elects to do so concurrently with the closing, Verizon has the right to condition the spin-off of Spinco on its ability to consummate that exchange concurrently. See "The Distribution Agreement—Conditions to the Completion of the Spin-Off." If Verizon elects to effect an exchange or distribution of the Spinco securities, it may be deemed to be an "underwriter" for purposes of the Securities Act. It is Verizon's intention to make the distribution, if any, of Spinco securities in reliance on the exemption from registration provided by Rule 144A promulgated under the Securities Act or under another available exemption.

The Tax Sharing Agreement imposes certain limitations on the combined company's ability to modify the terms of the Spinco securities or take certain other actions following the closing of the merger. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement."

(h)

This adjustment reflects the total adjustment necessary to parent funding to give effect to adjustments discussed in Notes (a) through (g).

(i)

In connection with the spin-off and prior to the merger with FairPoint, it has been assumed that Spinco will borrow $900 million through a new senior secured credit agreement or otherwise and incur $800 million of indebtedness through the issuance to a member of the Verizon Group of unsecured debt securities in a private placement for a total of $1.7 billion. Proceeds from the debt issuance will be used to make a cash payment to the Verizon Group in an amount not to exceed the Verizon Group's estimate of the tax basis of the assets transferred to Spinco (assumed to be $900 million for purposes of the pro forma financial statements).

(j)

Immediately following the merger, the combined company will repay with available cash on hand FairPoint's current portion of long-term debt of $1 million and long-term debt of $617 million at March 31, 2007 under its existing credit facility with new debt of $643 million. In addition, FairPoint will pay approximately $1 million in accrued interest on its outstanding debt. FairPoint expects to capitalize $25 million of debt issuance costs associated with the issuance of the long-term debt. The following table presents the estimated long-term debt outstanding of the combined company immediately following the merger on a pro forma basis (in millions):

Bank debt of combined company:		
Senior secured six year revolving credit facility, variable rate and unused fee of 0.375%[1]	$	—
Senior secured term loan B—8 year maturity, variable rate, assumed to be 6.5%[2]		1,543
Senior secured 12 month delayed draw term loan—8 year maturity, variable rate and unused fee of 0.75%[3]		—
Total bank debt		1,543
Spinco securities, fixed rate, assumed to be 7.5%:		800
Total bank debt and Spinco securities		2,343
Current portion of long-term debt		—
Total long-term debt	$	2,343

(1)

Assumes the entire balance of $200 million is unused at the closing date.

(2)

The interest on a portion of the senior secured term loan B is expected to be fixed through the use of interest rate swap agreements. The total fixed portion was assumed to be $550 million at a blended rate of 6.3%.

(3)

Assumes the entire amount available of $200 million is unused at the date of closing.

It has been assumed that the senior secured term loan B will consist of $900 million borrowed at Spinco plus $643 million borrowed to refinance existing FairPoint debt and to pay debt issue costs. The $800 million in Spinco securities represents the debt securities issued to a member of the Verizon Group as discussed in Note (i) above.

The above table presents the total pro forma long-term debt obligations of the combined company. The final amount of bank debt and Spinco securities that will be issued will be determined prior to the closing of the transaction. To the extent additional Spinco securities are issued by Spinco, the bank debt will be reduced by a corresponding amount.(k)
This adjustment is to eliminate as of the merger date the recorded values of FairPoint's goodwill of $499 million and customer list of $13 million and to write-off FairPoint's remaining unamortized debt issuance costs of $8 million.

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Verizon Considers FairPoint Bid For Land Lines in New England

8/19/06

By Dionne Searcey

Verizon Communications Inc. is considering an offer for its land lines in three New England states from **FairPoint Communications** Inc. as well as other bidders, a person familiar with the situation said.

Because FairPoint is a small carrier with a market capitalization of about $560 million, any deal with that company is likely to include financing from a private-equity firm, the person said. A spokeswoman for FairPoint declined to comment other than to say the company considers all transactions that increase shareholder value. FairPoint, of Charlotte, N.C., operates 29 rural local-phone companies in 18 states and has roughly 300,000 phone and Internet lines.

Verizon also was fielding offers from **CenturyTel** Inc., of Monroe, La., and **Citizens Communications** Co., of Stamford, Conn., according to union officials. Verizon declined to comment.

Verizon said in May it was putting lines in New Hampshire, Vermont and Maine on the block as well as lines in several Midwestern states. Any Midwestern deal appears to be stalled for now.

Verizon, of New York, is looking to shed land lines that are expensive to maintain as it upgrades its network with fiber and starts selling Internet-based services rather than focusing on traditional phone service. Many of the more than 1.6 million New England lines are in rural areas and are difficult to service. Those lines have been estimated to fetch $2 billion to $3 billion.

Union officials have complained that any land-line sale will result in a decrease in customer service. They have rallied politicians to send letters to Verizon executives asking the company to keep the lines.

"The sale of lines to a smaller, less-resourced company isn't particularly reassuring," said Steve Early, a spokesman for the Communications Workers of America.

Verizon also plans to shed its directories business. While Verizon has received recent offers from several private-equity firms for its directories, most likely the company will spin off the unit in a tax-free deal that could be completed as soon as this fall, said a person close to the company.

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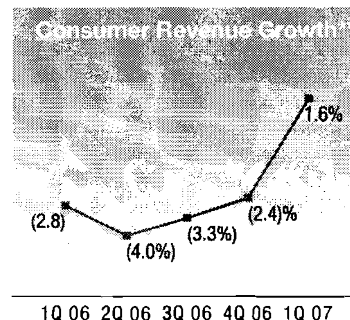
Wireline

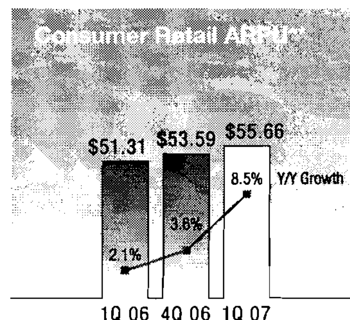
> Wireline total operating revenues, which include both Verizon Telecom and Verizon Business, increased 0.1 percent to $12.5 billion in the first quarter 2007, compared with the first quarter 2006.
> On a pro-forma basis, Wireline operating revenues decreased 1.7 percent, comparing first quarter 2007 with first quarter 2006, driven in part by a continuation of the expected declines in former MCI operations serving mass market (residential and small business) customers. This is a sequential improvement from the 3.5 percent decrease when comparing fourth quarter 2006 with fourth quarter 2005.
> Operating income margin increased to 9.1 percent in the first quarter 2007, compared with 8.6 percent in the first quarter 2006.
> Verizon's net addition of 416,000 broadband connections in the quarter outpaced a 408,000 decline in primary residential access lines. Broadband connections are not included in Verizon's total of traditional wireline access lines. As of the end of the quarter, Verizon served 44.2 million traditional access lines, a 7.9 percent decrease from a year ago.
> Verizon's broadband fiber-to-the-premises network—over which customers receive FiOS Internet and FiOS TV services—passed a total of nearly 6.8 million premises by the end of the first quarter 2007, toward a year-end target of 9 million. With accelerated FiOS customer growth, EPS dilution from FiOS deployment was 11 cents in the quarter—in line with previously announced expectations.

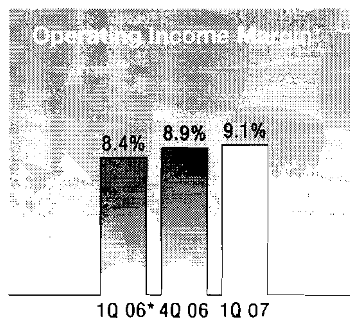
Verizon Telecom

> FiOS Internet and FiOS TV services continue to gain market share.
> FiOS Internet was available for sale to 5.3 million premises by the end of the first quarter. Penetration for the service is 16 percent across all markets, compared with 14 percent against a 4.8 million potential customer base at year-end 2006.
> FiOS TV was available for sale to 3.1 million premises by the end of the first quarter. Penetration for the service is 11 percent across all markets, compared with 9 percent penetration among a 2.4 million potential customer base at year-end 2006.
> FiOS TV is now offered in more than 400 communities in 10 states. By the end of the quarter, Verizon had obtained 769 cable TV franchises covering about 10 million households.
> Consumer RGUs (revenue generating units) totaled 32.3 million, essentially flat year-over-year but up 65,000 since year-end 2006. RGUs are a measure of retail consumer primary and non-primary residential access lines, consumer broadband connections and video subscribers. In the first quarter 2007, the broadband and video component of this measure increased to 23.2 percent of the total, or 7.5 million, from 16.6 percent of the total in the first quarter 2006.

Wireline







* Results shown are pro forma and adjusted for special items
**Legacy Verizon

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Application of Verizon New England Inc., NYNEX Long Distance Company, Bell Atlantic Communications, Inc., Verizon Select Services Inc., Verizon Communications Inc., and Northern New England Spinco Inc., Transferors, and FairPoint Communications, Inc., Transferee, For Consent to Transfer Certain Assets and Long-Distance Customer Relationships in the States of Maine, New Hampshire, and Vermont	WC Docket No. 07-22

OPPOSITION TO PETITIONS TO DENY

Verizon New England Inc. ("Verizon New England"), NYNEX Long Distance Company ("NYNEX Long Distance"), Bell Atlantic Communications, Inc. ("BACI"), Verizon Select Services Inc. ("VSSI"), Verizon Communications Inc. ("Verizon Communications"), and Northern New England Spinco Inc. ("Spinco") (collectively, "Verizon"), and FairPoint Communications, Inc. ("FairPoint," and together with Verizon, "the Applicants"), hereby oppose the petitions to deny filed by One Communications Corp. ("One Communications") and the Communications Workers of America and International Brotherhood of Electrical Workers (collectively, "CWA").[1] In the proposed transaction, FairPoint seeks to acquire local exchange

[1] *See* Petition to Deny of One Communications Corp., WC Docket No. 07-22 (filed Apr. 27, 2007) ("One Communications Pet."); Petition to Deny of Communications Workers of America and International Brotherhood of Electrical Workers, WC Docket No. 07-22

distance operations to a newly formed subsidiary, Northern New England Telephone Operations Inc. ("Telco"); similarly, NYNEX Long Distance, BACI, and VSSI will transfer certain accounts receivable, liabilities, and customer relationships relating to their long-distance operations to another newly formed subsidiary, Enhanced Communications of Northern New England Inc. ("Newco"). The transaction does not involve any assets held by other Verizon affiliates such as Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless") or Verizon Business Global LLC f/k/a MCI, LLC ("Verizon Business"). Both Telco and Newco will become direct, wholly-owned subsidiaries of Spinco, which will be spun off through a stock distribution to Verizon Communications shareholders.

Second, Spinco will be merged with and into FairPoint, such that Telco and Newco will become wholly-owned subsidiaries of FairPoint. FairPoint will continue to operate under its own name, and current FairPoint management will continue to manage and control FairPoint's day-to-day operations. Both the spin-off and the merger qualify as tax-free transactions, helping to ensure a reasonable transaction price. FairPoint will finance the transaction with $1 billion in additional equity to current Verizon shareholders and $1.7 billion in debt (predominantly bank financing).

The proposed transaction illustrates—and facilitates—FairPoint's and Verizon's respective (and somewhat divergent) business strategies. FairPoint's core business is in serving rural and small urban markets; the exchanges in Maine, New Hampshire, and Vermont that are the subject of this transaction fit readily within that model. In contrast, Verizon's various strategic opportunities have required it to prioritize the demands on its capital, and it has chosen to divest these exchanges in order to accommodate those competing needs.

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II. THE TRANSACTION WILL NOT HARM COMPETITION OR CONSUMERS.

A. There Will Be No Increased Concentration as a Result of the Transaction.

As discussed above, the manner in which the Commission conducts its public interest analysis depends on the extent to which a transaction will harm competition. The transaction proposed here will not affect competition, a conclusion that finds support in the fact that the antitrust authorities, in their own review of the transaction, did not issue a second request.[108] Although FairPoint already has a presence in this region, none of its current exchanges overlap with the Verizon exchanges. Thus, there will be no increased concentration in the market.

If anything, the proposed transaction will increase competition. Following the transaction, FairPoint will be independent from and will compete with Verizon, including Verizon Business and Verizon Wireless. FairPoint also will compete with other wireline, wireless, and VoIP providers in the region, as CWA concedes.[109] This competition will ensure FairPoint has strong incentives to provide the best possible service for its customers. That overarching goal in turn requires that FairPoint work toward a smooth transition, invest in broadband, and ensure that service quality does not suffer.

B. The Transaction Will Not Adversely Affect the Provision of Wholesale Services.

One Communications argues that the transaction will harm competition by disrupting the ability of competitive carriers to obtain wholesale services from FairPoint. This concern is

[108] *See Granting of Request for Early Termination of the Waiting Period Under the Premerger Notification Rules*, 72 Fed. Reg. 21014-02 (Apr. 27, 2007); *see also* Letter from Sandra M. Peay, Bureau of Competition, Federal Trade Commission, to David Wheeler, Vice President & Associate General Counsel, Verizon Communications Inc., Transaction Identification Number 20071026 (Apr. 11, 2007).

[109] CWA Pet. at 16-17 (stating that FairPoint will face "heightened competition from Comcast and Time Warner and a city-owned telecommunications utility in critical urban areas").

FairPoint's Financial Stability

6. FairPoint expects that it will be able to generate solid cash flows that support its investment plans, debt servicing, and dividends as appropriate.
7. Dividends are discretionary—FairPoint can choose not to pay them under its current dividend policy. As a general matter, businesses typically will decline to make dividend payments when warranted—for example, if the company incurs significant, one-time expenses. Moreover, the terms of FairPoint's financing agreements with its lending banks, through which it is partly financing the transaction, require FairPoint to stop paying dividends under certain circumstances, such as if debt levels exceed prescribed thresholds. Thus, FairPoint's future dividend payments will not divert valuable resources; to the contrary, they could be reduced if additional funding were necessary.
8. The total value to be received by Verizon and its stockholders in exchange for these operations will be approximately $2.715 billion. Verizon stockholders will receive approximately $1.015 billion of FairPoint common stock in the merger, based upon FairPoint's recent stock price and the terms of the merger agreement. Verizon will receive $1.7 billion in value through a combination of cash distributions to Verizon and debt securities issued to Verizon before the stock distribution and merger. As a result, the transaction price is funded by an appropriate combination of equity (37% or $1.015 billion of $2.715 billion) and debt (63% or $1.7 billion of $2.715 billion). FairPoint has signed commitments for approximately $2.1 billion in bank financing.
9. The transaction is expected to qualify as a tax-free transaction, except to the extent that cash is paid to Verizon stockholders in lieu of fractional shares. These tax savings allowed the two parties to agree to a reasonable transaction price, which resulted in a

Verizon New England Inc.
d/b/a Verizon New Hampshire

State of New Hampshire

Docket No. DT 07-011

Respondent: Stephen E. Smith
Title: Vice President – Business Development

REQUEST: Labor Intervenors, Group I, Set #1
Transactional and Financial Issues

DATED: April 6, 2007

ITEM: Labor G I 1-13

Pursuant to the terms of the Agreement and Plan of Merger and associated transaction agreements, provide documents as they are so produced and delivered by Verizon, including but not limited to:

a) Copies of any FCC applications (Merger Agreement, 7.6(c), p.85)
b) Verizon's list of other state regulators requiring application or consent (Merger Agreement, 7.6(b), p.85)
c) Verizon Audited Financials of "Selected Assets, Selected Liabilities and Parent Funding" of ME-NH-VT ILECs and related landline activities for FY 2006 (Merger Agreement, 7.18(a), p. 100)
d) Verizon's Quarterly Financial Statements "of Selected Assets, Selected Liabilities and Parent Funding of the local exchange businesses and related landline activities of Verizon in the states of Maine, New Hampshire and Vermont (including Internet access, long distance and customer premises equipment services provided to customers in those states) . . . (to the extent relating to the Spinco Business)" (Merger Agreement, 7.18(b), p. 100)
e) Verizon's calculation of Spinco Adjusted EBITDA as of the end of each quarter for which Quarterly Financial Statements are required (Merger Agreement, 7.18(c), p. 101)
f) Verizon's notification to FairPoint of its 6 designees to FairPoint's Board of Directors (Merger Agreement, 7.19, p. 101)
g) Verizon Preliminary Cutover Plan (Transition Services Agreement, 14.1(c), p. 13)
h) Verizon and/or Spinco Hart-Scott-Rodino filings (Merger

ITEM: Labor G I
(Cont'd) 1-13

Agreement, 7.6(c), p. 85)

i) Verizon notification to Spinco of "Special Dividend" amount to be paid by Spinco to Verizon (Distribution Agreement, p. 11)
j) Any notice by Verizon to Fairpoint regarding its computation of FairPoint's Adjusted EBITDA minimum (Merger Agreement, 9.1(j), p. 116)
k) Any additional disclosures, notices or reports required by any of the confidential (or otherwise not publicly disclosed) schedules, exhibits, disclosure letters, or other documents provided by Verizon to FairPoint.

SUPPLEMENTAL REPLY:

Verizon NH considers information responsive to this request to be proprietary and competitively sensitive. It will be provided subject to confidential treatment in accordance with RSA 378:43 and a duly executed protective agreement.

a) Please see Verizon NH's reply to OCA GI: 1-1.
b) Please see Verizon NH's reply to OCA GI: 1-3.
c) Please see Proprietary Attachment NH Labor GI-1-13c for the Verizon FY 2006Audited Financials of "Selected Assets, Selected Liabilities and Parent Funding" of ME-NH-VT ILECs and related landline activities.
d) Please see Proprietary Attachment NH Labor GI-1-13d for Verizon's Quarterly Financial Statements related to Spinco for each 2006 quarter.
e) Please see Proprietary Attachment NH Labor GI-1-13e which contains Verizon's calculation of Spinco Adjusted EBITDA as of the end of each 2006 quarter.
f) Verizon will provide the information when available.
g) Please see Verizon NH's reply to OCA GI: 1-124.
h) Objection to 1-13(h). The request seeks Verizon and/or Spinco Hart-Scott-Rodino Act (the HSR Act) filings. The HSR Act, together with Section 13(b) of the Federal Trade Commission Act and Section 15 of the Clayton Act, enables the Federal Trade Commission and the Antitrust Division of the Department of Justice to obtain relief against anticompetitive mergers under federal law. In general, the HSR Act requires that certain proposed acquisitions of voting securities or assets must be reported to the federal agencies prior to completion. The primary purpose of the federal statutory scheme is to provide the antitrust enforcement agencies with the opportunity to review mergers and acquisitions before they occur.

   The request for information on HSR Act filings seeks information not reasonably calculated to lead to the discovery of admissible

evidence regarding whether the transaction with FairPoint in New Hampshire, that is currently under review by the Public Utilities Commission under New Hampshire law, meets the no net harm standard and will be for the public good.

i) No notices have been provided or are yet due under the terms of the Distribution Agreement.
j) No notices have been provided or are yet due under the terms of the Merger Agreement.
k) No notices have been provided or are yet due under the terms of the agreements.

VZ # 70

Docket 7270
Response of FP to CWA/IBEW's 1st Set
of Discovery Requests
April 19, 2007

Q.CWA/IBEW:FP.1-23: Re: Nixon testimony, p. 9. The witness states that "[b]oth parties took into account the tax-free nature of the transaction in negotiating the consideration that would be paid to Verizon and the amount of debt that FairPoint would assume. This structure is beneficial because it allows us to consummate the transaction at a lower purchase price than would otherwise be the case." Please describe how this process worked and, specifically, how much FairPoint believes Verizon lowered its price in recognition of the tax-free nature of the transaction.

A.CWA/IBEW:FP.1-23: FairPoint cannot speculate on what price Verizon might have otherwise accepted for this business in a taxable transaction, but the company and its shareholders are clearly better off due to the tax-free nature of this transaction. The Reverse Morris Trust structure allows the FairPoint shares to be distributed to Verizon shareholders on a tax-free basis, and the amount of the one-time dividend received by Verizon will also be a tax-free distribution.

Person Responsible for Response: Walter E. Leach, Jr.
Title: Executive Vice President, Corporate Development
Date: April 19, 2007

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DB-P-14

EQUITY RESEARCH

RAYMOND JAMES

Telecommunications Services
Wireline
Industry Brief

January 30, 2007

Frank G. Louthan IV
(404) 442-5867
Frank.Louthan@RaymondJames.com

Jason Fraser
Research Associate
(404) 442-5804

VZ: Analyzing Future Line Sales Under Reverse Morris Trust Scenarios

More Verizon Line Sales In the Works? Given the sale of Verizon lines to FairPoint earlier this month, we have taken a look at the potential implications for further access line sales down the road, as this is an oft discussed topic among rural ILEC investors. We believe the deal has implications for further proceedings, including: a) Verizon's implicit signal that it favors a tax-free structure, and b) the company has been able to find a way of presenting the proper revenue and cash flow characteristics of individual state properties as well as developing ways to satisfy regulators and other parties affected when such a separation occurs. Of these, we believe the tax free desires of Verizon are the most telling, especially with regards to how additional deals that have been rumored to be in the works will ultimately play out.

The FairPoint deal offered a few advantages for both parties. By diversifying into a larger base of customers and lowering its FCF payout ratio, while divesting its wireless minority partnership, we believe FairPoint shed some risk it had previously borne, while expanding its presence in one of its largest states (Maine). For Verizon, however, it would appear to us to be the best possible offer it could have structured. Had the company sold the property for cash (presumably at a multiple higher than the 6.3x it sold to FairPoint), then paid taxes, we believe Verizon would have netted a multiple below 6x. We believe the assets are close to if not fully depreciated, thus requiring a multiple higher than 7.5x which does not appear rational or likely for these properties. Thus, a spin out to FairPoint appears to be the best option for Verizon to maximize value, even if the multiple appears a bit low. A third option, would have been for the company to spin the properties out to shareholders as a new company, but that would have destroyed value in the process as a management team and company infrastructure would have to be created, leaving Verizon's shareholders with an asset likely worth less than 6.3x. Again, this makes the announced structure appear to be the rational choice, in our opinion.

Why Smaller ILECs will be Advantaged in These Sales. We believe the apparent tax adverse nature of Verizon will lend itself to doing (or at least attempting to re-produce) a FairPoint-type deal in order to unload additional former GTE lines. The reason, as explained further in the following text, is that the value maximizing equation for Verizon is to structure the deal as a Reverse Morris Trust then sell the spin-co to an existing company, with extant management, back office, and other required infrastructure to run the combined company so that value is not destroyed in creating such corporate infrastructure. This leads us directly to smaller ILECs as the key players due to the equity limitations placed on the spin-co parent, whose shareholders (Verizon in this example) must end up owning over 50% of the equity in the surviving entity.

This is easy to accomplish when a smaller cap name is the acquirer, but when larger cap names such as the usual suspects CenturyTel, Citizens, or Windstream, – itself under Reverse Morris Trust limitations from its spin-out last year – become involved, the equity involved needs to be quite large for them to qualify. Therefore, we do not believe these companies could buy less than 4.5 million lines, and would probably take quite a bit more to get them to be part of the deal under such a structure, as outlined later in this report.

Target: GTE Lines. We believe the former GTE lines in Verizon's footprint will continue to be targets for such deals. Two areas we have heard are parts of the GTE North property (Ohio, Indiana, Illinois, and Michigan), which we believe has about 2.8 million lines, and West Virginia, which we believe has 1.1 million lines. We do not believe these would be large enough for the usual access line aggregators due to equity limitations, leaving an interesting group of suitors, such as Iowa Telecom, Consolidated, Alaska

All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc. (RJA) as of the date stated above and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee that the facts cited in the foregoing report are accurate or complete. Other departments of RJA may have information that is not available to the Research Department about companies mentioned in this report. RJA or its affiliates may execute transactions in the securities mentioned in this report that may not be consistent with the report's conclusions.

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Access Line Valuation (Verizon North Metrics)			
Lines			2,800,000
	Revenue/Line		*$558*
Revenue			**1,562,400,000**
	Margin		58.0%
EBITDA			**906,192,000**
	Multiple		6.3
Price (EV)			**5,709,009,600**
	Debt/EBITDA		*4.0x*
	Debt		3,624,768,000
Equity			**2,084,241,600**
Cap ex per line		$110	308,000,000
Interest rate		7.0%	253,733,760
Free cash			**344,458,240**
Price/Free cash			6.1x

Source: Raymond James estimates.

Reverse Morris Trust Details. The deal is structured as a Reverse Morris Trust in order for it to be tax free to the divesting company's current shareholders. The Reverse Morris Trust structure basically governs the transfer of assets and who maintains a controlling ownership. In order for the transfer of assets to not generate a tax liability as determined by the IRS and the U.S. tax code, greater than 50% of the new entity must be controlled by the company distributing the assets. We used 55% as the minimum percentage threshold as we doubt companies would try to aim for 50.1% and risk a huge tax bill if something were to happen and impact the ownership percentages.

In our opinion, the use of a Reverse Morris Trust will be a significant driving factor for ILEC line divestures going forward, as the divesting company could fetch a much higher after-tax multiple for the properties sold. For example, if the lines were to be sold at 7x or 8x , the after tax multiples could be as low as 4.7x and 5.4x respectively which would be lower than the most recent 6.3x multiple from a Reverse Morris Trust transaction. Also, a 6x multiple on a Reverse Morris Trust transaction equates to a pre-tax multiple of 9x assuming a 33% tax rate and full asset depreciation, a multiple that is unrealistic in our opinion. Although the IRS has not set a fast rule, we believe the majority ownership rules are in place for the first 24 months following a deal.

Below is a table analyzing the equity value of a 2.8 million line sale given various EBITDA margins and EBITDA multiples for the sale. We assume 4x debt/EBITDA and $800/line in annual revenue. As an example, company "X" has 100 million shares worth $20 a share. If the company wished to enter a Reverse Morris transaction for the 2.8 million lines at 6.4x with a 40% EBITDA margin, the company would have to issue 107.5 million shares (2.15 billion/$20 a share). As a result company "X" would only have 48% ownership, which would result in a successful Reverse Morris Trust. However if the lines had lower margins or if the company paid a smaller multiple than it would likely cross the 50% ownership threshold and would not be able to engage in a Reverse Morris Trust transaction.

Equity Value of 2.8 million Line Sale (in $billions)									
		EBITDA Margin							
		32.5%	**35.0%**	**37.5%**	**40.0%**	**42.5%**	**45.0%**	**47.5%**	**50.0%**
EBITDA Multiple	**6.0**	$1.456	$1.568	$1.680	$1.792	$1.904	$2.016	$2.128	$2.240
	6.2	1.602	1.725	1.848	1.971	2.094	2.218	2.341	2.464
	6.4	1.747	1.882	2.016	2.150	2.285	2.419	2.554	2.688
	6.6	1.893	2.038	2.184	2.330	2.475	2.621	2.766	2.912
	6.8	2.038	2.195	2.352	2.509	2.666	2.822	2.979	3.136
	7.0	2.184	2.352	2.520	2.688	2.856	3.024	3.192	3.360

Source: Raymond James estimates.

**Verizon New England Inc.
d/b/a Verizon New Hampshire**

State of New Hampshire

Docket No. DT 07-011

Respondent: Stephen E. Smith
Title: Vice President – Business Development

REQUEST: Office of the Consumer Advocate, Group I, Set #1
Transactional and Financial Issues

DATED: April 6, 2007

ITEM: OCA GI 1-113

Please state or provide the following information regarding Verizon's proposed transfer of its ILEC and other operations in New Hampshire, Vermont and Maine (hereafter "the New England properties"). Dates can be approximated to month and year if necessary:

a. State the date at which Verizon decided to investigate prospects for transfer of the New England properties;
b. Provide the document used by Verizon to notify potentially interested parties of the potential for transfer of the New England properties;
c. State the names of each party that was so notified;
d. State the date at which Verizon began providing information to parties potentially interested in acquiring the New England properties;
e. State the names of each party to which Verizon provided information on the New England properties;
f. For each party which submitted a serious bid for the New England properties, state:
   i. The name of the party;
   ii. The date of the bid and any subsequent bids;
   iii. The amount and structure of the bid and any subsequent bids; and,
   iv. Any conditions attached to the bid or subsequent bids.
g. State the date at which each bidder withdrew or decided not to pursue its bid;
h. State the date or dates at which FairPoint withdrew from negotiations for acquisition of the New England properties, and the reason(s) for such withdrawal.

SUPPLEMENTAL REPLY:

Objection. The request for information regarding Verizon's proposed transfer of its ILEC and other operations in New Hampshire, Vermont

SUPPLEMENTAL REPLY:
(Cont'd)

and Maine seeks information not reasonably calculated to lead to the discovery of admissible evidence regarding whether the transaction with FairPoint in New Hampshire that is currently before the Public Utilities Commission meets the no net harm standard and will be for the public good.

Supplemental Reply

f. The highly proprietary documents provided with Verizon NH's response to Labor GI: 1-13h disclose all serious bids (that were reflected by the execution of binding agreements or were reflected in an indication of interest) and that Verizon deemed "serious" enough either to describe to its Board or in the case of the FairPoint agreements to submit to its Board for review and approval.

h. Please see the discussion in FairPoint's S-4 Registration Statement filed with the SEC on April 4, 2007, page 46, and as amended as of June 11, 2007, page 52, regarding the background of the transaction.

VZ# 244

PUBLIC
DB-P-16

Morgan Stanley

April 17, 2006

Industry View
Cautious

Telecom Services

Initiation of Coverage: High Payout Rural Telecoms Offer Near-term Opportunities, Long-term Risks

Initiation

Conclusion: Our analysis highlights Windstream (the soon-to-be combined Valor Communications Group and Alltel Wireline) as attractive within our Cautious industry view, with potential for a 14% total return at our target price, and especially on a relative basis such as a pair trade favoring Windstream over Iowa Telecom given the two companies' risk/reward profiles. We are initiating coverage of Windstream with an Overweight rating and assuming coverage of FairPoint and Iowa Telecom, retaining our Equal-weight-V rating on FairPoint and downgrading Iowa from Equal-weight to Underweight.

What's New: In light of volatility in the sector over the last 12 months and the expected mid-2006 distribution of Windstream shares to Alltel shareholders, we take a detailed look at RLEC fundamentals as well as at important differences between high-payout rural telecoms such as tax paying status, definition of free cash flow, current payout amount, and capital spending intensity.

Implications: While there are attractive relative value opportunities within rural telecoms paying out a high percentage of their free cash flow as dividends (or returns of capital), our proprietary analysis of net present value of cash flows over the forecast operating life of these companies suggests longer-term risk. There is likely significant downside to the stocks when dividends are eventually cut, though this is likely more than 3-5 years away, in our view.

GICS Sector: Telecom Services

Strategist's Recommended Weight	1.7%
S&P 500 Weight	3.2%

Recent Reports

Title	Date
Valor Communications Initiation of Coverage: Windstream Offers Relative Value Raina Smyth / Simon Flannery / Jessica Yau	April 17, 2006
Iowa Telecom: Less Upside Potential [illegible] Offset Risk Raina Smyth / Simon Flannery / Jessica Yau	April 17, 2006
FairPoint Comm.: Scenario Analysis Suggests Balanced Risk/Reward Raina Smyth / Simon Flannery / Jessica Yau	April 17, 2006

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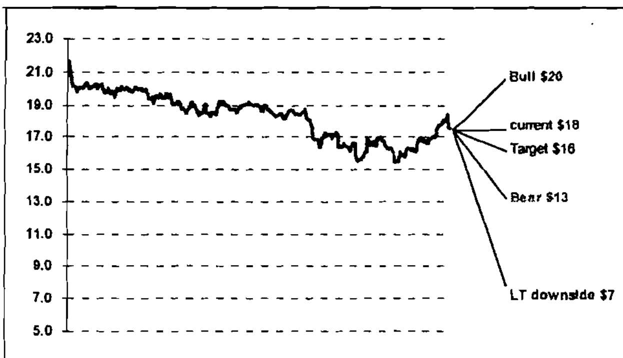
We rate FairPoint Communications Equal-weight-V. Positively, FairPoint has had lower line loss than its peers (2.5% loss in 4Q05, compared to 4.1% for the RLEC group), representing less competitive markets. FairPoint has a more balanced risk/reward profile according to our analysis, despite its current high payout ratio, given its higher yield compared to peers. The company's 11.2% dividend yield is attractive compared to yields available in the broader market.

However, FairPoint's focus on M&A exposes it to more risk that less acquisitive peers, in our view. The company's recent billing system issues, while being resolved by the company represent some ongoing execution risk. The company has a lower payout cushion than peers, though we note that some risk of a dividend cut is likely already priced into the stock. FairPoint's lower trading liquidity compared to larger market cap companies such as Citizens, Windstream, and Sprint's pending Embarq spin-off could make FairPoint less attractive to investors.

We are downgrading Iowa Telecom to Underweight and estimate a (4)% total return at our $16 price target. Our price target is based on a target dividend yield of 8.0%, which is based on an analysis of yields of comparable companies, as well as a dividend discount model that assumes full tax paying status, an 85% payout of after-tax free cash flow, and a 9.5% cost of equity.

Exhibit 32
Iowa Telecom Risk/Reward Less Attractive



Source: Company data, Morgan Stanley Research

Iowa Telecom Investment Positives. Iowa has less USF exposure than many of its RLEC peers, meaning that to the extent that USF funds continue to decline for RLECs or the program is revised, Iowa would stand to lose less revenue and profits. Iowa offers an attractive 8.8% dividend yield, well above yields offered by the S&P 500 and the 25th highest yield in the Russell 2000.

Iowa Telecom Investment Concerns. Iowa Telecom has experienced higher line loss than its RLEC peers, losing 5.1% lines y/y in 4Q05, compared to a 4.1% average for RLECs in the period. Cable operator Mediacom will begin offering telephony services during 2Q05 we believe, which will likely keep line loss elevated in the near-term. Iowa's capex per line is at the low end of its peer group range ($121 in 2007 we estimate compared to an average of $126, range $101-160), and to the extent that this level of capex proved unsustainably low, the company's free cash flow could be negatively impacted. The issuance of larger-cap wireline stocks such as Windstream and Embarq could pressure RLEC stocks such as Iowa Telecom, especially given Iowa's lower trading liquidity.

Risks to our Iowa Telecom price target. Though we believe Iowa Telecom's lower trading liquidity should lead it to trade on discount (higher yield) to comparables such as Citizens and Windstream, to the extent that yields for the group decline it is possible that Iowa Telecom could exceed our target yield. Additionally, it may take more than several quarters for fluctuations in operating expenses or capex to pressure Iowa's dividend payout, delaying the time to reach our price target, given our belief that the stock will trade on a dividend yield basis in the absence of a negative catalyst.

Stocks Unattractive Beyond 3-5 Years

Our view that the stocks will trade on relative dividend yields and apples-to-apples dividend discount models near-term is based on our assessment that Windstream, FairPoint, Iowa Telecom or important peers such as Citizens Communications will not cut their per share dividends over the next 3-5 years. The companies either have enough of a payout cushion currently that the added burden of cash taxes will not force them to reduce their dividend, as we estimate will be the case for Citizens and Windstream, or they have large enough NOLs that the companies will not face paying significant cash taxes for more than five years, which exceeds many investors' investing horizon.

We do however believe that reductions in the dividends will happen eventually given the declining nature of these businesses. As the businesses near the point when eventual dividend cuts happen, we believe the stocks will trade on a net present value of the remaining cash flows of the business less net debt.

We have valued Windstream, FairPoint, and Iowa Telecom on this basis (NPV of remaining cash flows less net debt), and

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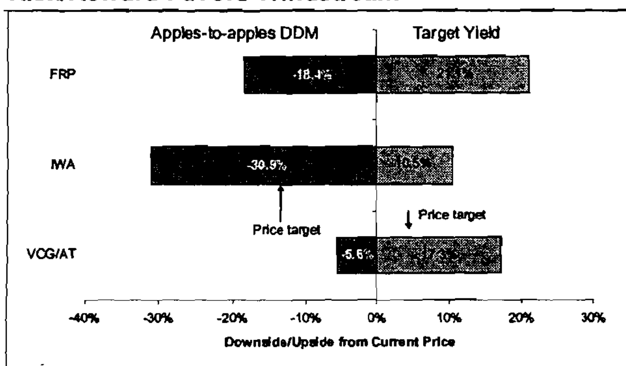
If one company stumbles, all could fall. These companies do trade with the ten year Treasury yield, but movements in Treasuries account for less than 40% of the changes in high-payout RLEC prices over the last 11 months (0.6 correlation and 0.38 R-square, based on period from June 2005 to April 2006). Operational issues at one of the companies had a larger impact on the trading of the group. FairPoint's billing system issues in 2H05 triggered pressure on its peers as well. We believe that if one of these high payout RLECs began having trouble generating enough cash to pay its dividend, even on a temporary basis, the market could move in the direction of these apples-to-apples dividend discount model values.

Risk/reward favors Windstream. We combine the results of our target yield and apples-to-apples dividend discount model analyses to asses the relative risk reward tradeoffs of the stocks. Our analysis suggests that Windstream offers the best risk/reward profile, FairPoint is fairly balanced given that some risk is already priced in, and Iowa Telecom faces a more negative risk/reward profile.

Exhibit 30
Risk/Reward Favors Windstream



Note: VCG/AT represents Windstream on a pro forma basis for the combination of the companies
Source: Company data, Morgan Stanley Research

Stock Specific Ratings and Risks to Price Targets

We are initiating coverage of Windstream with an Overweight rating and estimate a 14% total return at our target price of $14 including a 7.6% yield. Windstream represents the planned combination of Valor Communications Group (ticker VCG) with Alltel's (AT) wireline business through a reverse Morris Trust merger. The deal is expected to close by mid-2006, with roughly 403 MM shares distributed to current Alltel shareholders. Windstream stock will trade under the ticker "WIN" following the close of the deal.

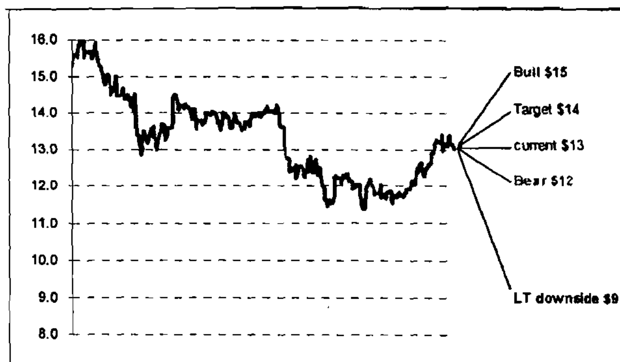
Windstream Investment Positives. The combined company's better payout cushion on an apples-to-apples basis with peers drives a more attractive risk/reward profile, according to our analysis. The company's roughly $6 billion market cap will afford it better trading liquidity than smaller cap peers such as FairPoint and Iowa Telecom. Though its current pro forma 7.6% dividend yield is lower than other RLEC peers, it is nevertheless attractive relative to yields available in the S&P 500 or the Russell 2000. Additionally, spin-offs often out-perform, which could prove true for Windstream.

Windstream Investment Concerns and Risks to Our Price Target. The reverse merger of Alltel with Valor will require integration of the two companies' systems, operations, and workforces, representing some operating risk. The combined company will have significant (79% according to company estimates) overlap with cable operators, meaning that as the cable companies roll out telephony offerings, Windstream could face incremental competition. Windstream shares will be distributed to current Alltel shareholders, which could lead wireless-focused investors to sell their Windstream shares following the close of the deal, creating near-term pressure for the stock. If for any reason the deal did not take place Valor stock could decline.

Windstream Valuation

Our price target is based on a target dividend yield of 6.5%, which is based on an analysis of yields of comparable companies, as well as a dividend discount model that assumes full tax paying status, an 85% payout of after-tax free cash flow, and a 9.5% cost of equity.

Exhibit 31
Windstream Near-Term Risk/Reward Is Attractive



Source: Company data, Morgan Stanley Research

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FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

SUPPLEMENTAL RESPONSE

Respondent: Walter E. Leach, Jr.
Title: Executive Vice President, Corporate Development

REQUEST: Public Utilities Commission Staff
Group I

DATED: April 6, 2007

ITEM: Staff 1-89 What contingency plans for funding of transition services (given the accelerating costs of the transition services after month 12) does FairPoint have if it can't complete the transition by the 12th month after closing?

FIRST SUPPLEMENTAL REPLY: Excess cash flow and cash available for dividends will provide sufficient contingency in the event the TSA period lasts longer than projected. In addition, FairPoint will have up to $200 million available for borrowings under its anticipated revolving credit facility.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Walter E. Leach, Jr.
Title: Executive Vice President, Corporate Development

REQUEST: NHPUC Staff
Group I, Set 1

DATED: April 6, 2007

ITEM: Staff 1-89 What contingency plans for funding of transition services (given the accelerating costs of the transition services after month 12) does FairPoint have if it can't complete the transition by the 12th month after closing?

REPLY: There is no maximum amount of time that FairPoint can purchase transition services from Verizon. FairPoint plans to convert in mid-2008. Planning and integration work began immediately following the signing on January 15, 2007. This will allow FairPoint at least 15 months to plan, design and integrate all necessary systems to replace the transition services. FairPoint is confident that this timeframe can be achieved. However, in the unlikely event it is not, the time between planned cutover in mid-2008 and the month when increasing payments begin is the contingency plan.

PUBLIC
DB-P-18

Form 10-K

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: March 14, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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December 31, 2005, approximately 82% of our indebtedness bore interest at fixed rates rather than variable rates. After these interest rate swap agreements expire, our annual debt service obligations with respect to borrowings under our credit facility will vary from year to year unless we enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge. If we choose to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge in the future, the amount of cash available to pay dividends on our common stock may decrease. However, to the extent interest rates increase in the future, we may not be able to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge on acceptable terms.

In addition, prior to the maturity of our credit facility, we will not be required to make any payments of principal on our credit facility, and it is not likely that we will generate sufficient funds from operations to repay the principal amount of our indebtedness at maturity. We therefore will need to refinance our debt. We may not be able to refinance our outstanding indebtedness under our credit facility, or if refinanced, the refinancing may occur on less favorable terms, which may materially adversely affect our ability to pay dividends. If we were unable to refinance our credit facility, our failure to repay all amounts due on the maturity date would cause a default under our credit facility. We expect our required principal repayments under the term loan facility of our credit facility to be approximately $588.5 million at its maturity in February 2012. Our interest expense may increase significantly if we refinance our credit facility on terms that are less favorable to us than the terms of our credit facility.

We may also be forced to raise additional capital or sell assets and, if we are forced to pursue any of these options under distressed conditions, our business and the value of your investment in our common stock could be adversely affected. In addition, these alternatives may not be available to us when needed or on satisfactory terms due to prevailing market conditions, a decline in our business, legislative and regulatory factors or restrictions contained in the agreements governing our indebtedness.

If we have insufficient cash flow to cover the expected dividend payments under our dividend policy we would need to reduce or eliminate dividends or, to the extent permitted under the agreements governing our indebtedness, fund a portion of our dividends with additional borrowings.

If we do not have sufficient cash to fund dividend payments, we would either reduce or eliminate dividends or, to the extent we were permitted to do so under our credit facility and the agreements governing future indebtedness we may incur, fund a portion of our dividends with borrowings or from other sources. If we were to use borrowings under our credit facility's revolving facility to fund dividends, we would have less cash available for future dividends and other purposes, which could negatively impact our financial condition, our results of operations and our ability to maintain or expand our business.

Our substantial indebtedness could restrict our ability to pay dividends on our common stock and have an adverse impact on our financing options and liquidity position.

As of December 31, 2005, we had approximately $607.4 million of total consolidated indebtedness. Our substantial indebtedness could have important adverse consequences to the holders of our common stock, including:

- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations, including under our credit facility;
- limiting our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- causing us to not be able to refinance our indebtedness on terms acceptable to us or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;

26,442 remain outstanding at December 31, 2005. Non-cash compensation charges associated with restricted units and restricted stock were $2.4 million for the twelve months ended December 31, 2005. We did not recognize any additional charges associated with the stockholder appreciation rights that were settled in 2005.

Non-cash compensation charges associated with restricted units totaled $49,000 in 2004. These charges consisted of compensation charges of $0.2 million for restricted units, a charge of $0.3 million in connection with the modification of employee stock options and a non-cash benefit of $0.4 million associated with the reduction in estimated fair market value of stockholder appreciation rights. Non-cash compensation charges in 2003 were not material, primarily due to the fact that the fair market value per share of our common stock remained relatively stable.

Discontinued Operations

On September 30, 2003, MJD Services Corp., or MJD Services, a wholly-owned subsidiary of the Company, completed the sale of all of the capital stock owned by MJD Services of Union Telephone Company of Hartford, Armour Independent Telephone Co., WMW Cable TV Co. and Kadoka Telephone Co. to Golden West Telephone Properties, Inc. The sale was completed in accordance with the terms of the South Dakota purchase agreement. MJD Services received approximately $24.2 million in proceeds from the South Dakota disposition. The companies sold to Golden West provided communication services to approximately 4,150 voice access lines located in South Dakota as of the date of such disposition. The operations of these companies were presented as discontinued operations beginning in the second quarter of 2003. Therefore, the balances associated with these activities were reclassified as "held for sale." All prior period financial statements have been restated accordingly. We recorded a gain on disposal of the South Dakota companies of $7.7 million during the third quarter of 2003.

In November 2001, we decided to discontinue the competitive local exchange carrier operations of FairPoint Carrier Services, Inc., or Carrier Services. This decision was a proactive response to the deterioration in the capital markets, the general slow-down of the economy and the slower-than-expected growth in Carrier Services' competitive local exchange carrier operations. Carrier Services now provides wholesale long distance services and support to our rural local exchange carriers and communications providers not affiliated with us. These services allow such companies to operate their own long distance communication services and sell such services to their respective customers. Our long distance business is included as part of continuing operations in the accompanying financial statements.

The information in our year to year comparisons below represents only our results from continuing operations.

Operating Expenses

Operating expenses and cost of goods sold, excluding depreciation and amortization. Operating expenses increased $12.3 million to $141.1 million in 2005 compared to 2004. Of the increase, $9.3 million is related to our existing operations and $3.0 million is related to expenses of the acquired operations in 2005. Consulting fees increased $1.8 million primarily related to preparation for compliance with Section 404 of the Sarbanes-Oxley Act. Expenses related to high speed data and long distance services increased $2.3 million principally due to the increase in HSD and long distance subscribers. Bad debt expense was $1.4 million higher in 2005 than 2004 due primarily to difficulties experienced in our billing conversion related to the delay of non-pay disconnect notices. Billing costs have increased $2.0 million as we incurred costs associated with the conversion of our billing systems into an integrated platform and recurring expenses from our outsourced billing service provider. The balance of the increase is attributable to smaller miscellaneous items.

Depreciation and amortization. Depreciation and amortization from continuing operations increased $2.1 million to $52.4 million in 2005 from $50.3 million in 2004. The Berkshire and Bentleyville acquisitions accounted for $1.0 million of the increase and the remaining increase was attributable to the increased investment in our communications network for existing operations.

Stock based compensation. For the year ended December 31, 2005, stock based compensation increased $2.3 million to $2.4 million in 2005 primarily due to the issuance of restricted stock and restricted units to certain key employees and directors under the 2005 Stock Incentive Plan.

Income from operations. Income from operations decreased $6.5 million to $67.0 million in 2005 compared to 2004. This decrease is principally due to the increase in expenses discussed above.

Other income (expense). Total other expense increased $24.2 million to $121.6 million in 2005 from $97.4 million in 2004. Interest expense decreased $57.9 million to $46.4 million in 2005 mainly due to the transactions associated with the offering which substantially de-leveraged us and provided a decrease in interest expense. In addition, in connection with the offering we repurchased our series A preferred stock (together with accrued and unpaid dividends thereon) which eliminated dividends and accretion on our series A preferred stock for the twelve months ended December 31, 2005. The dividends and accretion on our series A preferred stock were being reported as interest expense under SFAS 150. In connection with the offering, we also refinanced our old credit facility and repurchased and/or redeemed the 9 1/2% notes, the floating rate notes, the 12 1/2% notes and the 11 7/8% notes, which resulted in significant charges of $87.7 million due to fees and penalties paid on the repurchase/redemption and for the write-off of unamortized debt issuance costs. Earnings from equity investments increased $0.4 million to $11.3 million in 2005. For the twelve months ended December 31, 2004, other non-operating income (expense) includes the write-off of debt issuance and offering costs of $6.0 million associated with an abandoned offering of Income Deposit Securities.

Income tax expense. In 2005, income tax benefits of $83.1 million are primarily the result of the recognition of deferred tax benefits of $66.0 million from the reversal of the deferred tax valuation allowance that resulted from our expectation of generating future taxable income following the recapitalization. The income tax benefit for 2005 also includes deferred tax benefits of $29.3 million related to the extinguishment of debt and $1.6 million for an adjustment of our net deferred tax assets to an expected federal income tax rate of 35% from 34%, in anticipation of higher levels of taxable income in subsequent periods. These benefits were partially offset by income tax expense associated with taxable income generated following the recapitalization. During the twelve months ended December 31, 2004, the income tax expense related primarily to income taxes owed in certain states.

Discontinued operations. During the twelve months ended December 31, 2005 and 2004, we recorded a reduction to our liability associated with the discontinuation of our competitive local exchange carrier

PUBLIC
DB-P-19

NEW ROUTE

As Competition Rebounds, Southwest Faces Squeeze

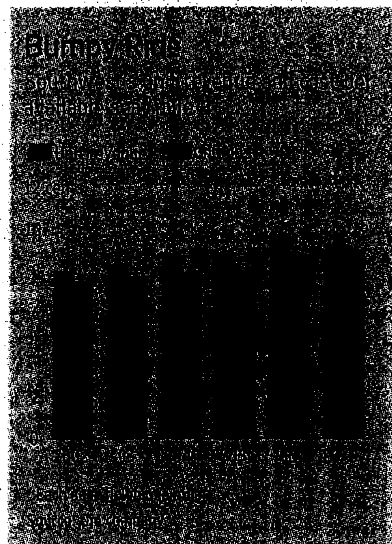
Growth Hits Turbulence For Low-Cost Pioneer; Fuel Hedges Lose Lift

By MELANIE TROTTMAN 6/27/07

DALLAS—For years, Southwest Airlines managed to fly above the industry's storm clouds, trouncing rivals with a hard-to-match formula of low costs and low fares. Now it's facing a painful role reversal.

Its revenue growth has slowed, its costs are mounting, and its resurgent rivals have torn key pages out of its playbook. The shifting landscape has Chief Executive Officer Gary Kelly contemplating such major changes as offering assigned seating and international flights for the first time, and curtailing the company's rapid growth.

"The threat to our future is real," Mr. Kelly wrote in a four-page memo to his managers last month. "Now is the time to lead."



During the slump in air travel that followed 9/11, Southwest was one of the few carriers to remain profitable. Its costs were far lower than those of its rivals, and its web of short-haul domestic flights allowed it to operate more efficiently. Mr. Kelly shrewdly

Please turn to page A11

Southwest Airlines Faces Squeeze

Continued from Page One

utilized financial hedging instruments to lock in low fuel prices, saving Southwest hundreds of millions of dollars as oil prices soared.

But many big competitors suffered severe financial losses and restructured—in some cases, in federal bankruptcy courts—and the cost gap began narrowing. Southwest's fuel hedges are growing less effective. Its rivals have reduced labor costs substantially, helping them offer lower fares at a profit. That, in turn, has left the aging work force of 36-year-old Southwest among the highest paid in the industry.

In addition, newer low-cost airlines such as JetBlue Airways have grabbed many elements of Southwest's model, while dangling enticements that Southwest has resisted, such as in-flight television.

Southwest is wrestling with a broader predicament in business: When a company's competitive weapon is low costs and efficiency, it's vulnerable to rivals that respond by getting leaner themselves. Like Southwest, retailer Wal-Mart Stores Inc. and computer maker Dell Inc., for example, relied on low costs to grow rapidly. Now, both are struggling to adjust to resurgent competition.

Since Mr. Kelly, who is 52 years old, took over as chief executive of Dallas-based Southwest three years ago, he has boosted fares aggressively and raised employee productivity by 20%. But increasingly, the airline appears boxed in by its strategy of frequent flights and rapid growth in a weak domestic market.

Gary Kelly

Southwest's cost advantage over competitors has narrowed. Its "unit cost"—the cost per seat, per mile flown—was 8.8 cents last year, up 17% from 7.52 cents four years earlier. By contrast, the cost per seat-mile at AMR Corp.'s American Airlines, excluding its regional affiliates, was 10.9 cents last year, down from 11.14 in 2002.

Southwest raised ticket prices six times last year, which boosted its average fare by 11.4%, nearly double the pace of the prior year. When Southwest reported first-quarter results in April, however, Mr. Kelly indicated he had begun to see evidence that passengers are starting to resist fare increases. The airline's "unit revenue"—revenue per seat, per mile flown—didn't keep pace with the increase in unit costs.

First-quarter net income rose 52.5% to $93 million. But excluding one-time fuel-hedging gains, net income fell to

Growing Capacity

Southwest's available seat miles*:

100 billion
80
60
40
20
0
2002 '03 '04 '05 '06

*One seat flown one mile
Source: the company

$33 million, down nearly 50% from a year earlier, the company said. Southwest probably won't hit its 15% profit-growth target this year, Mr. Kelly says.

Although Southwest is still profitable, its stock has languished. Shares of airlines like American plunged in value several years ago, then recovered. Over the past five years, Southwest's stock has bounced around between $12 to $19 a share. Its shares closed yesterday at $14.64 in 4 p.m. composite trading on the New York Stock Exchange.

Mr. Kelly says he has little choice but to shake things up further. "It's time for a little remodeling," he says. "We may need to bring in some new plays, and that does carry some risk." The company may shed more light on its plans during a meeting with analysts today in New York.

If not for its fuel hedges, Southwest would have lost money during eight of the last 16 financial quarters, according to J.P. Morgan Chase & Co. analyst Jamie Baker. (The company says only five would have been unprofitable, and two "roughly break-even.") As its hedges become less effective, Southwest is facing big jumps in fuel costs—increases that its unhedged rivals weathered two of three years ago. Last year, Southwest paid 47% more per gallon of jet fuel than in the previous year, while American's per-gallon cost rose about 17%, according to Southwest and American's financial disclosures.

In a report published last month by Prudential Equity Group, analyst Bob McAdoo said Southwest's hedges have been masking other problems as the airline moved in recent years into higher-cost airports such as Philadelphia and Denver. Since early 2003, Southwest has continued to add flights to new routes that are consistent money-losers, in an effort to gain market share, Mr. McAdoo said. He calculated that losses have occurred in 84% of the 73 new routes added since that time. "When you're waiting for a market to become profitable, you don't put in a fifth or sixth flight," he wrote. (Prudential Equity Group has eliminated its market-research group since Mr. McAdoo published the report.)

Mr. Kelly says Mr. McAdoo's report is "flawed," although he declines to elaborate. He says Southwest doesn't disclose profitability by route, and that he believes in giving new markets ample time to make money.

Mr. Kelly, a native Texan who is fond of jalapeño peppers with his dinner, has been at Southwest for 21 years. While serving as controller and chief financial officer, he worked closely with co-founder and executive chairman Herb Kelleher. Mr. Kelly developed Southwest's budgeting system in 1986 and was responsible for the airline's fuel-hedging program.

He became CEO in July 2004 and quickly made his mark with some bold strategic moves. Southwest won an auction for assets of discount carrier ATA Airlines, which was then operating under bankruptcy-court protection but has since emerged. Southwest entered a "code-share" agreement with ATA that enabled the two carriers to expand their networks by selling tickets on one another's flights. That agreement has generated millions in revenue for Southwest.

More recently, Mr. Kelly led a fight against American Airlines to overturn the Wright Amendment. The decades-old federal law restricts long-haul flying from Dallas's Love Field Airport, where Southwest is based and dominates service. American's headquarters are less than 20 miles away at Dallas-Fort Worth International Airport. American and local Dallas-Fort Worth officials ultimately settled on a phase-out of the law over the next seven years.

Southwest executives say he has brought a new focus on quantifying the airline's performance. Under an airport-efficiency program that kicked off in Phoenix two years ago, employees with stopwatches have measured the time passengers have to wait to check in.

Southwest has built customer loyalty with frequent daily flights between many of the 63 cities it serves in 32 states. The flight frequency and its lack of small jets also explain why its percentage of seats filled—73% last year—is below the industry average of 79%.

Mr. Kelly recently ordered his staff to get more aggressive about identifying underperforming flights, with an eye toward shifting planes to more lucrative routes. This summer, the airline is using new software developed in-house to squeeze 50 more hours of flying time out of its fleet each day, the equivalent of four new planes.

Last week, Lehman Brothers airline analyst Gary Chase noted that Southwest has stopped selling seats on a number of long-haul routes, effective in October, including flights from Baltimore and Philadelphia to both Los Angeles and Oakland. That is "leading us to believe that the company might significantly adjust or reduce some of its long-haul flying later this year," Mr. Chase said in a research note.

Southwest has never offered assigned seating. That wasn't an issue when Southwest's fares were hundreds of dollars cheaper than other airlines. But now that the price gap has narrowed and Mr. Kelly is trying to woo more demanding business travelers, the airline is considering assigned seating.

Southwest says it has already conducted tests that show this wouldn't slow the boarding process. Mr. Kelly says the airline is now testing a variety of boarding and seating concepts that could alter at least one Southwest phenomenon: passengers lining up long before their flights depart to get a decent seat.

Southwest does not have entertainment systems on its planes, relying on flight attendants to amuse passengers with their wit and sense of humor. Now that Southwest is flying longer routes and some other discount airlines are offering entertainment systems, Mr. Kelly says, that may no longer be sufficient. He recently requested bids on in-flight systems offering Internet access and possibly movies or television. The airline, which might charge passengers for those services, hopes to begin in-flight testing early next year, according to one person involved in the project.

Under the Radar

- **The Situation:** Southwest survived the industry's slump with its low-cost strategy and fuel-cost hedging. But now the airline's growth has slowed, as its rivals are rebounding.
- **The Background:** Airlines that were hit hard by the slump have cut costs, and some have benefited from bankruptcy reorganization.
- **The Gamble:** Southwest risks alienating its loyal customer base if it cuts underperforming flights or follows its rivals in tacking on extra fees.

Southwest has never flown internationally, but Mr. Kelly has indicated that he wants to change that. These days, competitors like American Airlines and Continental Airlines use lucrative international fares to help offset less profitable domestic fares.

Southwest doesn't have the technology to book international itineraries, but plans to have it by 2009. Rather than fly its own jets, Mr. Kelly says, Southwest is likely to begin international service by offering flights through ATA Airlines. That would enable Southwest to avoid high international start-up costs while garnering some new revenue.

Mr. Kelly's critics say he isn't acting quickly enough. Some contend that he should have curtailed growth months ago or begun charging fees for passenger conveniences.

Lehman's Mr. Chase says the problem lies elsewhere. "The real problem is labor costs," he says. "We don't see ancillary revenue as a sufficient fix for the problem."

Southwest is one of the only airlines that has not sought wage or benefit concessions from its workers. The airline characterizes its work force as ultra-productive and friendly to passengers. If management seeks pay cuts, it risks alienating employees who Mr. Kelly calls the airline's "greatest weapon."

Mitch Hall, an in-flight crew-scheduling supervisor who started at Southwest 15 years ago as a mail worker, says he was confident after 9/11 that Southwest wouldn't cut pay or lay off workers. "There wasn't a doubt in my mind," he says, adding that the company has always treated him well so he's going to "do them right." Mr. Kelly says he'd consider pay cuts a "management failure."

It would be difficult for Southwest to start charging fees for snacks and itinerary changes without appearing to contradict its credo not to nickel-and-dime its customers. Southwest's ads have even poked fun at other airlines for various charges.

Mr. Kelly maintains that Southwest, which has little debt and a strong balance sheet, has time to address its cost problem. He expects costs per seat-mile flown will rise each year until 2010, when he expects them to level off. By then, he says, his plans for more revenue should be in full swing.

For now, he continues to advocate growth. During a question-and-answer session he held this month in Dallas with about 20 Southwest managers, one of them asked why Southwest continues to buy new planes. Mr. Kelly said he fears that if Southwest doesn't enter new markets in time, competitors will get there first.

In his memo last month to managers, Mr. Kelly signaled the airline would slow growth if its profit trends didn't improve by the third quarter. But growing slowly, he wrote, "jeopardizes our employees' job security." He said he expects managers to find new ways to cut costs. "Communicate with your people...talk about waste continuously...control spending," he wrote.

When Mr. Kelly learned that he had been booked into a suite for a recent conference at New York's Waldorf-Astoria, says Chief Financial Officer Laura Wright, he downgraded to a regular room.

But Mr. Kelly has said that "little bitty incremental improvements aren't going to solve" the airline's problem. "We can't do it overnight."

WSJ.COM

ONLINE TODAY: WSJ.com subscribers can read Mr. Kelly's May memo to Southwest employees, at WSJ.com/OnlineToday.

PUBLIC
DB-P-19

PUBLIC
DB-P-20

Demand Continues for Debt

Investors Rush In To Take On Risk; Bonds Edge Lower

By CYNTHIA KOONS

It might sound like an ad for mortgage financing circa last summer, but it's true: There's never been a better time to borrow money in the credit markets.

Companies, as well as the private-equity firms that are buying them, have found a reliable, and cheap source of financing in the debt markets where investor demand continues unabated, no matter how risky the borrower.

Though buyers have grumbled over individual debt deals, and even secured some protective provisions in a handful of cases, there's little sign that the incredibly accommodative debt markets will suddenly become more discerning when it comes to financing the current frenzy of leveraged buyouts.

The premium investors charge companies to compensate them for default risk has shrunk to reach near or record lows in May, even though the new debt raised is being used to finance activities that typically bode poorly for bondholders: stock buybacks and leveraged buyouts.

Some market participants worry bondholders are more vulnerable than they realize.

"While credit risk in the U.S. market is rising, it appears that investors have not paid much attention," Diane Vazza, managing director at Standard & Poor's said in her latest report. "The decline in credit quality associated with the increased use of leverage has not held back spread compression."

She cited the low default rate, calm financial markets and resilient economy as reasons investors seem willing to take on credit risk.

In both the high-yield and high-grade markets, May has so far ranked as one of the busiest supply months on record.

In the investment-grade bond market, share buybacks have helped fuel the borrowing binge. May saw more than $102 billion of new debt issued, according to Thomson Financial, ranking as the third-busiest supply month on record behind the Marchs of this year and last. Riskier junk bond supply for the month is $23.4 billion, second only to November's record of $29.2 billion, according to Thomson's data.

For investment-grade bondholders, "the concerning part is more and more of this supply is going to shareholder-friendly actions like stock buybacks and dividends," said Mark Kiesel, executive vice president of money manager Pimco. "You're seeing more and more of the wealth going to the shareholders rather than the bondholders."

Such moves, while increasing the value of a company's shares outstanding, aren't favored by bondholders because they don't promote the generation of cash flow that could pay down debt. They also weaken existing bondholders' claims on assets should a company stumble into default.

Year-to-date, Mr. Kiesel's figures indicate that investment-grade supply is 20% greater than the year-earlier period. But he said, spreads in the Lehman Credit Index are at 0.83 percentage point over Treasurys, near eight- to nine-year lows. Spreads in investment-grade are usually about 100 basis points over Treasurys, he said.

"Basically the market is taking the supply, the 20% increase in supply without seeing a material widening in spreads, that tells me the demand still is pretty strong for credit risk," he said.

In the junk-bond and leveraged-loan markets, a good portion of the debt is being used to finance buyouts.

"Deals are getting so large at this point it seems a lot of the private-equity shops are going into the leverage loan and the high-yield market for funding, as a result we're seeing a bit of a pick up in high yield," Eric Tutterow, managing director at Fitch Ratings.

Year-to-date, Standard & Poor's Leveraged Commentary & Data Group reports $305.14 billion in loans were issued compared to $209.41 billion for the same period a year ago. That growth was largely fueled by an increase in loans sold to institutional investors, rather than the loans that are held by banks.

Meanwhile, the flood of new debt in the high-yield bond market hasn't widened risk premiums. Within the past week, the Lehman Brothers U.S. High Yield index showed risk premiums hit a record low of 232 basis points over Treasurys.

Bonds Edge Lower As Investors Await Data

Bond prices were buffeted by a heavy slate of economic data yesterday, but ended only modestly lower as investors got ready for key manufacturing and payroll data, both set for release today.

The day was indeed a big one for economic numbers, the lifeblood of the Treasury market, even as the market closed with small losses felt mostly in shorter-dated maturities.

Investors started off the day by confronting a revised estimate of first-quarter U.S. economic growth that saw an already anemic gain of 1.3% hacked down to a 0.6% advance, the weakest advance in four years. Released at the same time, the government also said claims for jobless insurance fell last week for the sixth time in seven weeks, dropping by 4,000 to 310,000. The four-week average—which economists use to gauge underlying labor-market trends—rose by 1,000 to 304,500.

The benchmark 10-year note was down 3/32 point, or $0.9375 per $1,000 face value, at 96 30/32. Its yield rose to 4.892% from 4.880% Wednesday, as yields move inversely to prices. The 30-year bond was unchanged at 95 31/32 points to yield 5.011%.

Rates Increase For Mortgages

"Opinions 6/18/07

PUBLIC
DB-P-21

The Coming Credit Meltdown

By Steven Rattner

The subprime mortgage world has been reduced to rubble with no lasting impact on another, larger, credit market dancing on an equally fragile precipice: high-yield corporate debt. In this fast-growing arena of loans to business—these days, mostly, private equity deals—lending proceeds as if the subprime debacle were some minor skirmish in a little known, far away land.

How curious that so many in the financial community should remain blissfully oblivious to live grenades scattered around the high-yield playing field. Amid all the asset bubbles that we've seen in recent years—emerging markets in 1997, Internet and telecoms stocks in 2000, perhaps emerging markets or commercial real estate again today—the current inflated pricing of high-yield loans will eventually earn quite an imposing tombstone in the graveyard of other great past manias.

In recent months, lower credit bonds—conventionally defined as BB+ and below—have traded at a smaller risk premium (as compared to U.S. Treasuries) than ever before in history. Over the past 20 years, this margin averaged 5.42 percentage points. Shortly before the Asian crisis in 1998, the spread was hovering just above 3 percentage points. Earlier this month, it touched down at a record 2.63 percentage points. That's less than 8% money for high-risk borrowers.

So robust has the mood become that providers of loans now rush to offer "repricing" at ever lower rates, terrified that borrowers will turn to others to refinance their loans, leaving the original lenders with cash on which they will earn even less interest. Between Jan. 1 and April 19, $115 billion of debt was repriced, representing 29% of all bank loans in the U.S.

> The current inflated pricing of high-yield bonds will earn an impressive place in the pantheon of investment manias.

The low spreads have been accompanied by less tangible indicia of imprudent lending practices: the easing of loan conditions ("covenants," as they are known in industry parlance), options for borrowers to pay interest in more paper instead of cash, financings to deliver large dividends to shareholders (generally private equity firms) and perhaps most importantly, a general deterioration in the credit quality of borrowers.

In 2006, a record 20.9% of new high-yield lending was to particularly credit-challenged borrowers, those with at least one rating starting with a "C." So far this year, that figure is at 33%. No exaggeration is required to pronounce unequivocally that money is available today in quantities, at prices and on terms never before seen in the 100-plus years since U.S. financial markets reached full flower.

Led by private equity, borrowers have rushed to avail themselves of seemingly unlimited cheap credit. From a then-record $300 billion in 2005, new leveraged loans reached $500 billion last year and are pacing toward another quantum leap in 2007.

Even leading buyers of loans, such as Larry Fink, chief executive of BlackRock, say "we're seeing the same thing in the credit markets" that set the stage for the fall of the subprime loan market.

Why should so many theoretically sophisticated lenders be willing to bet so heavily in a casino with particularly poor odds? Strong economies around the world have pushed default rates to an all-time low, which has in turn lulled lenders into believing these loans are safer than they really are. Just 0.8% of high-yield bonds defaulted last year, the lowest in modern times. And with only three defaults so far this year, we've luxuriated in the first default-free months since 1997. By comparison, high-yield default rates have averaged 3.4% since 1970; higher still for paper further down the totem pole.

Like past bubbles, the current ahistorical performance of high-yield markets has led seers and prognosticators to proclaim yet another new paradigm, one in which (to their thinking) the likelihood of bankruptcy has diminished so much that lenders need not demand the same added yield over the Treasury or "risk-free" rate that they did in the past.

To be sure, the emergence in the past 20 years of more thoughtful policy making may well have sanded the edges off of economic performance—what some economists call "the Great Moderation"—thereby reducing the volatility of financial markets and consequently the amount of extra interest that investors need to justify moving away from Treasuries.

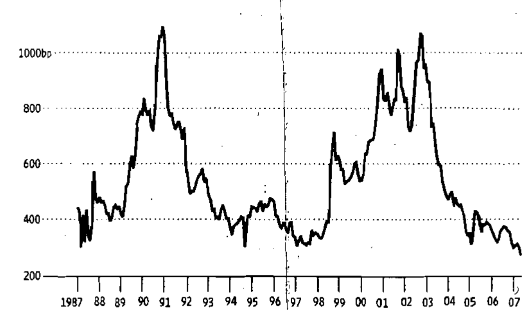
But to think that corporate recessions—and the attendant collateral damage of bankruptcies among overextended companies—have been outlawed would be as foolhardy as believing that mortgages should be issued to home buyers with no down payments and no verification of financial status.

And just as the unwinding of the subprime market occurred at a time of economic prosperity, the high-yield market could readily unravel before the next recession. With the balance sheets of many leveraged buyouts strung taut, a mild breeze could topple a few, causing the value of many leveraged loans to tumble as shaken lenders reconsider their folly.

The surge in junk loans has also been fueled by a worldwide glut of liquidity that has descended more forcefully on lending than on equity investing. Curiously, investors seem quite content these days to receive *de minimis* compensation for financing edgy companies, while simultaneously fearing equity markets. The price-to-earnings ratio for the S&P 500 index is currently hovering right around its 20-year average of 16.4, leagues below the 29.3 times it reached at the height of the last great equity bubble in 2000.

Cheap Money

Spread between lower credit bonds and U.S. Treasuries, 1987-2007, in basis points



Source: JP Morgan

Some portion of this phenomenon seems to reflect tastes in Asia and elsewhere, where much of the excess liquidity resides: Foreign investors own only about 13% of U.S. equities but 43% of Treasury debt. In search of higher yields, these investors are moving into corporate and sovereign debt. Today, the debt of countries like Colombia trades at less than two percentage points above U.S. Treasuries, compared to 10 percentage points five years ago.

Perhaps the mispricing of high-yield debt has been exacerbated by the surge in derivatives, a generally useful lubricant of the financial markets. Banks hold far fewer loans these days; mostly, they resell them, often to hedge funds, which frequently layer on still more leverage, thereby exacerbating the risks.

Another popular destination is in new classes of securities where the loans have been resliced to (theoretically) tailor the risk to specific investor tastes. But in the case of subprime mortgages, this securitization process went awry, as buyers and rating agencies alike misunderstood the nature of the gamble inherent in certain instruments.

Assessing the likely consequences of a correction is more daunting than merely predicting its inevitability. The array of lenders with wounds to lick is likely to be far broader than we might imagine, a result of how widely our increasingly efficient capital markets have spread these loans. No one should be surprised to find his wallet lightened, whether out of retirement savings, an investment pool or even the earnings on their insurance policy.

The bigger—and harder—question is whether the correction will trigger the economic equivalent of a multi-car crash, in which the initial losses incur large enough damages to sufficiently slow spending enough to bring on recession, much like what happened during the telecom meltdown a half-dozen years ago.

But we have little choice but to sit back and watch this car accident happen. It would have been a mistake to dispatch the Federal Reserve to deflate the dot-com mania or the housing bubble. And it would be a mistake now for the Fed to rescue imprudent high-yield lenders. They have to learn the hard way. Hopefully, not too many innocent bystanders will share their pain.

Mr. Rattner is managing principal of the private investment firm Quadrangle Group LLC.

THE WALL STREET JOURNAL.

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The government of Prime Minister Romano Prodi estimates that unpaid taxes, including income from the country's sizable black-market economy, are equal to 27% of Italy's gross domestic product. That's more than the country spends on pensions and health care combined.

Italy's public debt is a staggering 106% of its GDP, and is the third largest national debt pile after Japan and the U.S. The country's sovereign debt rating has faced three downgrades in the

Italy's tax collection agency. Jewelry store owners declare an average of €16,600, less than the yearly rent on a

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mong Elders: '-Home Kids

ıper Home Care, but Medicaid ionalize; Ronnie's Journey

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home to receive 24-hour care for the few weeks she was expected to live.

Ronnie outlived expectations and remains here, more than 100 miles from her home. She doesn't go to school. Her world consists largely of the home's long corridors, its atrium with a big-screen TV and her room, with its cinder-block walls painted blue.

About 4,000 children nationwide live in nursing homes, according to Medicaid—a small, often hidden population that has wound up in these incongruous settings, often against their parents' wishes. While some of the homes cater to children, many are traditional facilities designed for the aged. Their staff may dote on young residents but are often more familiar with geriatrics and dementia. Visits to family may be limited: Nursing facilities often give away residents' beds if they spend more than 10 nights a year away from the home.

"Any child in a nursing home is so outrageous—it offends the sensibilities," says Ruby Moore, executive director of the nonprofit Georgia Advocacy Office, a federally chartered group that supports the disabled.

But for these families, there is often no alternative. Parents may seek help after their disabled child suffers a life-threatening emergency, or a divorce leaves a single working parent without time or resources for child care. Depending on what institutions are located near the family, a child may be sent to a group home, a state or private school or, often in the case of the most severe disabilities, to a nursing home. A total of about 26,400 children are in out-of-home facilities across the country.

Home care isn't an option for many parents. Medicaid, the federal-state program that insures people with low income or disabilities, automatically pays for nursing homes. It's up to individual states to decide how much they will pay for in-home services. Few

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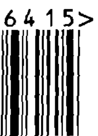

Market's Jitters Stir Some Fears For Buyout Boom

Takeover-Related Debt Gets Chilly Reception; Hearing 'Wake-Up Call'

6/28/07

As several debt offerings faced resistance yesterday, bankers and investors began to wonder whether the tremors coursing through the nation's debt markets signaled that the buyout

By Serena Ng, Tom Lauricella and Michael Aneiro

boom is in jeopardy or just suffering a temporary setback.

Much of the recent record wave of takeovers has been built on borrowed money, fueled by easy credit terms and low interest rates. But on Tuesday, investors rejected a $3.6 billion buyout-related bond-and-loan deal by U.S. Foodservice Inc., the nation's second-largest food distributor, which subsequently pulled the bond offering and postponed plans to sell the loans.

That left underwriters of U.S. Foodservice, which is being acquired for $7.2 billion by private-equity

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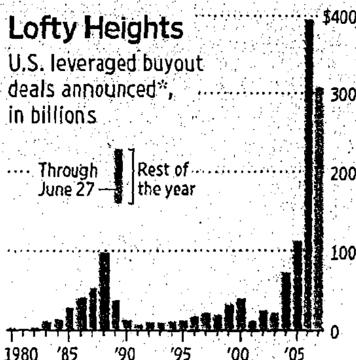
Is Change in the Wind?

- **Series of tremors threaten to roil placid markets** **A2**
- **Banks behind buyouts may see revenue starting to dry up. Heard on the Street** **C1**
- **Investors wonder if deals will falter as risk rises** **C1**



*Based on the value of shares purchased and debt assumed in takeovers

Source: Thomson Financial

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Market's Jitters Stir Some Fears for

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Continued from Page One

firms Kohlberg Kravis Roberts & Co. and Clayton, Dubilier & Rice Inc., holding the debt on their own books, something the Wall Street firms wanted to avoid.

There wasn't any similar-sized stumble yesterday. But Catalyst Paper Corp., citing "adverse" market conditions, scrapped a $200 million offering of junk bonds the Canadian company planned to use for funding its business and other investments or acquisitions. Meanwhile, underwriters delayed the launch of a buyout-financing deal for Myers Industries Inc. in the hope that the market would settle down in coming days. Late in the day, Magnum Coal Co. became the latest company to postpone a junk-bond offering, this one for $350 million.

In Europe, Arcelor Finance, the borrowing vehicle for Arcelor SA, which is being acquired by Mittal Steel Co., put off its plans to issue more than €1 billion ($1.34 billion) in bonds, citing the turbulent debt market. In Malaysia, shipping company called MISC Bhd. put plans for a $750 million bond offering on the back burner.

In another sign that investors may be developing some indigestion from the buyout boom, Blackstone Group, the buyout firm that listed shares on the New York Stock Exchange last week, fell 2.7% in 4 p.m. composite trading yesterday to $29.92, below its offer price of $31 a share.

'The Biggest Risk'

Taken together, the setbacks are stoking unease across Wall Street. "The biggest risk we face—and there are a lot of things that contribute to this risk—would be a very big crisis in the credit markets," Lloyd Blankfein, chief executive of Goldman Sachs Group Inc., told an audience assembled for The Wall Street Journal's Deals & Deal Makers conference. A "sentiment shift," he said, "could unravel very quickly" the vast wealth that has been created by the takeover boom.

At the same conference, Treasury Secretary Henry Paulson called the market jitters "a wake-up call to focus on excesses" that have developed in recent years in the debt markets.

Several factors underlie the new pushback against buyout financings. One is the growing awareness that investors have been demanding very little in return for the risk they have accumulated in buying buyout-related loans and debt. Yields on junk bonds, when compared with ultrasafe U.S. Treasury securities, hit historic lows around a month ago. The near-collapse of two Bear Stearns Cos. hedge funds that invest in risky subprime-mortgage debt also sparked broader investor worries about risky investments.

Still, it isn't clear if the latest credit-market turmoil represents the kind of shift in sentiment that Mr. Blankfein and others worry about. Mr. Blankfein himself, and many others at the conference, said they expected a soft landing for the market. Underpinning that hope: The global economy remains in strong shape. Growth is robust, and inflation and interest rates are low.

And some deals are still moving forward, including debt offerings by Dollar General Corp. and ITT Switches, a unit of ITT Corp., both of which are being acquired by private-equity firms. Banks handling the Dollar General deal intend to sell investors $2.4 billion of loans and an additional $1.9 billion in junk bonds with provisions that give the company leeway if it struggles. To entice investors, the underwriters have been offering higher interest rates.

Other less-risky bond sales were completed yesterday, including a $3 billion junk-bond offering by Community Health Systems Inc., a hospital operator.

In recent years, easy credit has allowed private-equity investors to raise gobs of cash to take private such corporate giants as student lender Sallie Mae, utility TXU Corp. and hospital operator HCA Inc., transferring them from public markets into private hands. The low-interest-rate loans and bonds behind these takeovers also increasingly give borrowers extra leeway if their operations struggle.

Last year, announced private-equity buyouts in the U.S. hit $395 billion in value, including the companies' existing debt, according to Thomson Financial. Already this year, the total has hit $308 billion.

If buyers of these loans and bonds—typically institutional investors, such as big mutual funds, pension funds, hedge funds and endowments—start to turn sour on these borrowings, it could slow, if not derail, the boom.

Some big buyout-related deals remain in the pipeline. Investors are looking ahead at $250 billion of new debt coming to market in the next several months. Just this week, Chrysler Group, which is being sold by DaimlerChrysler AG, began marketing a debt fund raising that will total more than $60 billion.

In addition to demanding higher interest rates, investors are resisting many bonds and loans that they believe to be too easy on borrowers. Investors have rejected a number of recent deals that included "payment-in-kind" provisions, which allow companies to postpone debt payments to their lenders if they run short of cash. Investors also have rejected loans that are light on certain common performance requirements, known as covenants.

"A lot of managers are starting to get miffed about deals with no covenants and the fact that underwriters seem to have little regard for the risks investors are assuming," said Bradley Kane, who manages a portfolio of corporate loans at SCM Advisors LLC in San Francisco.

Banks in several cases have been stuck holding portions of loans or bonds they planned to parcel out to investors, something that could make them more selective in underwriting deals. Meanwhile, companies and their private-equity buyers face big-

GLOBAL BUSI

Rolls-Royce PLC

Singapore Airlines to Buy Engines for 20 A350 Jets

Aircraft-engine maker **Rolls-Royce** PLC said it won an $800 million order with **Singapore Airlines** Ltd. to supply its Trent engines for a fleet of 20 Airbus A350 jets. The price the company quoted is a list price. Singapore Airlines operates 58 Boeing 777s powered by Trent 800 engines and five Airbus A340-500s with the Trent 500. Rolls-Royce's Trent extra-wide-body, or XWB, is the only engine offered on the A350 extra-wide-body twinjet, according to the British company. Rolls-Royce shares slipped 0.5% to 530 pence ($10.60) in London.

—Associated Press

EADS

Probe Attributes Difficulties To Management Errors

Management errors and an internal power struggle contributed to the difficulties of Airbus parent company **European Aeronautic Defence & Space** Co., a French Senate investigation found. Senator Jean-François Le Grand said the struggle between former chief executives Noël Forgeard and Philippe Camus "created a disturbance that continues to exist." He blamed "management errors," the strong euro and EADS's "very complex" management system for its woes. He also suggested the company was overly optimistic in its forecasts for sales of the A380 double-decker superjumbo. Airbus is struggling to turn itself around after profit-bruising delays to the A380.

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ars for the Buyout Boom

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l cases have been tions of loans or to parcel out to in- ; that could make e in underwriting companies and buyers face big- ger drains on their cash flow as their interest costs rise.

The debt offering by U.S. Foodservice is emblematic of the type of deal that just a month or two ago was getting snapped up, largely by hedge funds.

Tuesday evening, a group of Wall Street underwriters canceled a $1.55 billion bond offering and a $2 billion sale of corporate loans for U.S. Foodservice after failing to find enough investors to take on the debt. The banks had to provide the $3.6 billion debt on their own via a "bridge" loan, in addition to a $1.3 billion revolving loan, which the company can draw down as needed.

On the surface, U.S. Foodservice ought to have been an attractive investment. The company, which distributes food to 250,000 restaurants, hotels and schools nationwide, provides the kind of stable cash flow that debt investors like.

Frosty Reception

But when bankers began to shop the offering around two weeks ago, they met a frosty reception from analysts and portfolio managers at big mutual-fund companies and other potential buyers. The offering was handled by Citigroup Inc., Deutsche Bank AG, J.P. Morgan Chase & Co., Morgan Stanley, Goldman Sachs and RBS Greenwich, and now sits on their books. The banks hope to distribute the loans and bonds to investors in the months ahead.

Investors were concerned about the large amount of debt U.S. Foodservice was taking on to finance the buyout. For such risky loans, they typically look for protections should the company run into trouble. One protection is collateral to seize if the company goes into default. But most of U.S. Foodservice's assets are already securing other debt obligations.

The loans in the deal also included few covenants, and the bonds included payment-in-kind features. Neither of those factors sat well with potential investors, who refused to buy the debt unless these provisions were changed.

"We didn't think investors were being compensated for the risk," said Andrew Cestone, head of the high-yield team at Evergreen Investments, a money-management arm of Wachovia Corp. Evergreen turned down the deal.

Market participants said hedge funds, which had been reliable buyers of even the most speculative offerings were also suddenly absent from the marketplace.

It quickly became clear that the deal would struggle, participants say. Underwriters shopping the debt were soon making calls to investors, asking what would make the deal more enticing. The main demands from potential buyers were structural—get rid of the payment-in-kind feature and add in covenants. Then there were the returns being offered investors; the yields being offered were below what fund managers thought they needed to offset the deal's risk.

But the underwriters said they couldn't budge. They also didn't cede much ground on price. And investors continued to say no thanks.

—Gregory Zuckerman and Dana Cimilluca contributed to this article.

BAL BUSINESS BRIEFS

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People's United Financial Inc.

Chittenden to Be Bought In Deal for $1.9 Billion

People's United Financial Inc. said it planned to buy Burlington, Vt., bank **Chittenden** Corp. for $1.9 billion in cash and stock, or $37 a share. People's, a Bridgeport, Conn., bank, said the purchase price is 55% cash and 45% stock. Chittenden has $6.4 billion in total assets and about 130 branches in Vermont, Massachusetts, New Hampshire and Maine. People's has 160 branches across Connecticut. The consolidated company will have assets of about $22 billion. Vermont Bankers Association President Christopher D'Elia said consolidation in the industry was being driven by interest rates, regulatory burdens and "the cost of do-

National Basketball Association

TV Deals Are Extended In Eight-Year Agreement

The **National Basketball Association** has extended its television contracts with the ESPN sports cable channels, their ABC network parent and the TNT cable channel. The eight-year extensions continue through the 2015-2016 season. The current six-year contracts expire at the end of next season. Financial details weren't disclosed. The previous deal paid the NBA an average of $765 million a year. The digital rights include the ability for the networks to show games live and other content on digital media. The deal covers any outlet ESPN develops between now and 2016. ABC and ESPN are owned by **Walt Disney** Co.; TNT is

The Junkyard Dogs Investors In Some Funds

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Rising Risk Premiums Hit High-Yield Holdings; 'I Wouldn't Be an Owner'

By SHEFALI ANAND

INVESTING IN MUTUAL funds holding "junk" may be getting costlier.

Prices for so-called junk, or high-yield, bonds have fallen in recent weeks, partly thanks to rising yields on safer bonds, like Treasurys. Investors are also pulling back from riskier bonds like these amid worries about the mortgage market and troubles at two **Bear Stearns** Cos. hedge funds.

FUND TRACK

Money managers are also shying away from the slew of new junk bonds coming to the market. Just yesterday, meat-processing company **Swift** & Co. had to withdraw its $600 million-junk bond offering, the fifth such deal to have soured in the past two weeks.

Mark Hudoff, a high-yield manager at Pimco, says that so far "the generic assumption was that if [a company] had a little bit of cash flow, you could lever the lights out of it"—referring to leverage, or the practice of borrowing heavily by issuing new bonds. "I think investors are rejecting that."

This wariness is hurting bond prices—and by extension, the mutual funds that invest in them. The average junk-bond fund is down 1.5% for the 30 days ended July 6—the category's worst monthly performance since 2005, according to Morningstar Inc. Until now the category has been doing well: Over the past 12 months through Friday, it's up 10.5%.

Financial advisers say this marks a good time for investors to re-evaluate their high-yield holdings. Currently the average high-yield bond is giving a yield of only about three percentage points more than U.S. Treasury bonds, which are among the safest investments available. For comparison, as recently as 2002, that gap was around nine to 10 percentage points.

"I wouldn't be an owner of a high-yield bond fund right now," says Kurt Brouwer, a fee-only financial planner in Tiburon, Calif. For investors already holding these funds, he advises reducing the allocation to around 5% or so of their overall portfolio.

Investors have already started voting with their feet, pulling out more than $1.6 billion from high-yield funds and exchange-traded funds in the four weeks through July 3, according to AMG Data Services. Previously, investors were pouring money into these

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Fund Investors Lose Interest in Junk Bond[s]

Continued from page C1
funds, which have seen inflows of $3.7 billion through July 3—more than last year's total inflows of $2.7 billion.

High-yield funds and ETFs tracked by AMG currently hold about $133 billion in assets, up from $120 billion at the end of 2005.

Some funds that aren't focused on junk bonds can still hold sizeable chunks of high-yield debt. For example, some "income" funds like the **Franklin Income Fund** or the **First American Income Builder** fund—which hold both stocks and bonds—hold more than a quarter of the portfolio in these bonds.

Also, many traditional bond funds, with titles like "core" or "total return" in their name, have the ability to buy junk bonds, along with a variety of other bonds.

Advisers say more-diversified funds like these may be a better bet in the current environment, as opposed to fund focused primarily on junk bonds. "It is useful to use a bond fund that has some flexibility in its fundamental investment strategies, so the manager can change when conditions change," Mr. Brouwer says.

Ross Levin, a fee-only adviser in Edina, Minn., says investors who have been buying these funds for their high yields need to ask themselves if the current risk is worth the potential reward. "High-yield is junkier than it's been in a long time," says Mr. Levin, who hasn't had any allocation to high-yield bond funds since 2004.

High-yield bonds have been in high demand in recent years, amid historically low interest rates, which have driven investors to turn to riskier investments to earn an extra buck. Also, defaults on junk bonds have been at a historically low levels, keeping them less volatile.

But observers are starting to see hints that the bull run in these bonds could be running out of steam. For instance, investors have recently shown less appetite for new junk bonds issued by companies being bought out by private-equity firms, saying they often have too few protections for investors. The Merrill Lynch High-Yield Master II Index of junk bonds has fallen nearly 2% since the start of June.

Junk Sale

◆ **What's New:** Funds that invest in junk, or high-yield, bonds have been hit in the past month after having been top performers in the past year.

◆ **The Background:** Money managers are increasingly wary of riskier assets like junk bonds and have been pulling away from deals coming to market.

◆ **The Bottom Line:** For individual investors, financial advisers say now may be the time to re-evaluate junk-bond holdings.

Given the current environment, it's increasingly important for fund managers to do homework before buying a junk bond. "It's no longer a market where the rising tide lifts all ships," says Diane Vazza, managing director for global fixed-income research at Standard & Poor's.

Some fund managers are now becoming more cautious. Many are buying better-quality high-yield bonds, or different securities altogether.

"We've been set up kind of defensively for the past six months or so," says Tom Huggins, co-manager of the Eaton Vance Income Fund of Boston. "We just thought at the end of the last year, that there wasn[illegible] much capital appreciation left," he says. A[s] a result, his fund has been buying ban[k] loans, which has more protection in case [of] default. However, given the current volati[l]ity, the managers expect there might be few opportunities.

Mr. Hudoff of Pimco sa[illegible] his firm had been expecting volatility t[illegible] pi[illegible] have consequently been "building up th[e] conservatism of the portfolio" since the be[ginning] ginning of the year. He says they're closel[y] watching global economic conditions an[d] corporate earnings, which are key drive[rs] for the high-yield market.

—*Michael Aneiro contribute[d] to this articl[e]*

Lipper Indexes

Stock-Fund Indexes	PRELIM CLOSE	PERCENT CHANGE FROM PREV CLOSE	WK AGO	DEC.
Large-Cap Growth	3976.23	+0.09	+2.47	+10.3
Large-Cap Core	3099.69	+0.10	+1.95	+ 9.4
Large-Cap Value	14419.65	+0.04	+1.64	+ 9.0
Multi-Cap Growth	3795.81	+0.13	+2.58	+12.1
Multi-Cap Core	10420.45	+0.08	+1.96	+11.0
Multi-Cap Value	6262.84	+0.14	+1.94	+ 9.1
Mid-Cap Growth	1020.12	+0.28	+3.27	+18.4
Mid-Cap Core	1013.55	+0.04	+2.12	+13.4
Mid-Cap Value	1591.87	−0.02	+2.13	+13.7
Small-Cap Growth	763.62	+0.13	+2.51	+13.7
Small-Cap Core	605.43	+0.23	+2.27	+12.0
Small-Cap Value	1003.42	+0.11	+2.00	+10.7
Equity Income Fd	6275.68	+0.11	+1.72	+ 9.3
Science and Tech Fd	846.24	+0.33	+3.05	+13.7
International Fund	1500.62	+0.54	+2.72	+14.5
Balanced Fund	6727.01	+0.22	+1.31	+ 7.1
Bond-Fund Indexes				
Short Inv Grade	278.55	+0.06	−0.05	+ 1.9
Intmdt Inv Grade	335.49	+0.21	−0.40	+ 0.3
US Government	434.99	+0.19	−0.42	+ 0.0
GNMA	477.43	+0.20	−0.37	+ 0.2
Corp A-Rated Debt	1191.60	+0.18	−0.48	+ 0.2

Indexes are based on the largest funds within the same investment obje[c]tive and do not include multiple share classes of similar funds.

Source: Lipper In[c.]

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Corporations have trouble borrowing

Subprime meltdown makes lenders wary

By Adam Shell
USA TODAY

NEW YORK — Accessing once-plentiful cheap money is getting more difficult — and expensive.

It's not just folks looking to buy or refinance a home that are having trouble lining up a loan after the subprime mortgage meltdown. Corporations looking to raise money are also having a tougher time borrowing money from lenders at terms that make financial sense.

In the latest fallout caused by the steep losses suffered by lenders who gave money to home buyers with low incomes and sketchy credit, tighter lending standards are beginning to crimp the borrowing habits of U.S. corporations.

In an environment where risk has been reintroduced to the market, the people lending the money are "demanding tougher terms," such as higher interest rates, says Don Rissmiller, chief economist at Strategas Research Partners. As a result, more companies are opting not to borrow and shelving deals that are less financially attractive.

Says Bill Hornbarger, fixed income strategist at A.G. Edwards, "Companies are having a harder time finding buyers for their debt."

Corporate debt

The issuance of U.S. high-yield corporate debt has plummeted this month.

Issue dates	Amounts	No. of Issues
January	**$9.4 billion**	25
February	**$11.4 billion**	29
March	**$18.9 billion**	34
April	**$10.9 billion**	21
May	**$24.8 billion**	43
June	**$22.5 billion**	40
July (to date)	**$816 million**	4

Source: Thomson Financial

The issuance of high-yield corporate debt, dubbed junk bonds by Wall Street, has virtually dried up.

This month, corporations looking to raise cash have issued just $816 million in high-yield bonds, or IOUs with below-investment-grade ratings. That compares with $9.8 billion in the final week of June, Thomson Financial says.

The latest example came Monday when online travel agency Expedia said it was scaling back a plan to buy back its own stock with borrowed money, because "the terms available" to it in "the current debt market environment were simply unacceptable."

"There's been a sudden reappraisal of risk in the junk universe," says David Joy, chief market strategist at RiverSource Investments.

So-called easy money has fueled the buyout boom on Wall Street and motivated companies such as Expedia to borrow money to fund stock buybacks. But the tightening of credit conditions is creating angst on Wall Street because of fears that higher borrowing costs will slow down deal volume.

However, there was no shortage of deal activity Monday, with a major merger in the energy patch as well as a handful of private-equity-driven deals (story, 3B). "You still have a lot of deals going on," Rissmiller says. "It's not as easy, but there still seems to be activity."

One reason dealmaking has not dried up is the fact that the cost of borrowing using "junk-rated" securities is still relatively cheap compared with the cost of Treasury bonds, Joy says. While the spread between junk bonds and a 10-year Treasury note — which shows how much lenders charge for added risk — has increased by almost a percentage point since the end of May to 3.43 percentage points, it's still well below the long-term spread of 5 percentage points, he says.

"The spread has not become wide enough to suggest the market will seize up," Joy says. Investors, he adds, are closely watching this week to see if private-equity firm Cerberus Capital Management is able to get commitments to fund its deal for carmaker Chrysler Group.

XM. Sirius plan a la carte offerings

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Form 8-K

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: July 09, 2007 (period: July 03, 2007)

Report of unscheduled material events or corporate changes.

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Item 1.01 — Entry into a Material Definitive Agreement.

On July 3, 2007, FairPoint Communications, Inc. (the "Company") entered into Amendment No. 3 to Agreement and Plan of Merger (the "Third Amendment") with Verizon Communications Inc. ("Verizon") and Northern New England Spinco Inc., a subsidiary of Verizon ("Spinco"), which amends the Agreement and Plan of Merger, dated as of January 15, 2007, by and among the Company, Verizon and Spinco, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of April 20, 2007, and Amendment No. 2 to Agreement and Plan of Merger, dated as of June 28, 2007, in each case, by and among the Company, Verizon and Spinco (the "Merger Agreement"), pursuant to which Spinco will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation. A copy of the Third Amendment is filed as Exhibit 2.1 hereto.

Among other things, the Third Amendment acknowledges Verizon's submission of a stipulation (the "Stipulation") to the Maine Public Utilities Commission in order to obtain a stay of certain regulatory proceedings relating to Maine's Alternative Form of Regulation. The amendment provides that, if the stipulation is approved by the Maine Public Utilities Commission, Verizon will make supplemental capital additions of up to $12,000,000 by January 30, 2008 in order to expand Verizon's existing DSL network in the State of Maine. The target working capital amount under the Distribution Agreement, dated as of January 15, 2007, by and among Verizon and Spinco, as amended, will, subject to a minimum aggregate spending requirement by Verizon, be reduced by the amount, not to exceed $12,000,000, that Verizon actually spends in expanding its DSL network in the State of Maine in excess of the $1,900,000 previously anticipated to be spent for such purpose. If the Maine Public Utilities Commission fails to enter an order approving the Stipulation (either on the terms submitted or in a form with modifications mutually agreed to by Verizon and the Company), the Third Amendment will be null and void.

On July 6, 2007, the Company entered into Amendment No. 1 to Master Services Agreement (the "Capgemini Amendment") with Capgemini U.S. LLC ("Capgemini") which amends the Master Services Agreement, dated as of January 15, 2007, by and between the Company and Capgemini (the "Master Services Agreement"). Pursuant to the Capgemini Amendment, the Company grants to Capgemini, subject to the confidentiality provisions of the Master Services Agreement, a perpetual, worldwide, paid-up license to the materials created by Capgemini and deliverable to the Company pursuant to any work order under the Master Services Agreement. In exchange for the Company granting this license, Capgemini has agreed to provide the Company with a $4 million discount on certain future services to be performed by Capgemini under the Master Services Agreement.

Item 8.01 — Other Events.

The Company has filed a registration statement, including a proxy statement, and other materials with the Securities and Exchange Commission ("SEC") in connection with the Merger. The Company urges investors to read these documents when they become available because they will contain important information. Investors will be able to obtain free copies of the registration statement and proxy statement, as well as other filed documents containing information about the Company and the Merger, at www.sec.gov, the SEC's website, or www.fairpoint.com/investor,

Exhibit 2.2

FIRST AMENDMENT

TO

MASTER SERVICES AGREEMENT BETWEEN

FAIRPOINT COMMUNICATIONS, INC.

AND

CAPGEMINI U.S. LLC

Dated January 15, 2007

(the "Agreement")

This First Amendment to the Agreement is made by and between FairPoint Communications, Inc. ("Client"), having offices at 521 East Morehead Street, Suite 250, Charlotte, NC 28202, and Capgemini U.S. LLC ("Capgemini"), having offices at 750 Seventh Avenue, New York, NY 10019.

WHEREAS, pursuant to the Agreement, Capgemini has agreed to provide certain Services to Client; and

WHEREAS, the parties now desire to amend the Agreement as provided below;

NOW, THEREFORE, Client and Capgemini hereby agree as follows:

1. Section 6 of the Agreement is amended by adding the following to the end of the section:

   Client hereby grants to Capgemini a perpetual, worldwide, paid-up license to use, copy, modify and sublicense, in the course of Capgemini's business, to any Deliverables, subject to the provisions of Section 5 hereof (Confidentiality) with respect to any Confidential Information of Client contained therein and, provided that (i) any sublicensee of Capgemini shall not have the right to further sublicense the rights granted herein and (ii) neither Capgemini nor its sublicensees shall use, copy, modify or sublicense the Deliverables, in whole or in part, either to or for the benefit of, any Person that is competing with Client for the acquisition in any manner of communication assets or capital stock of communications companies or is competing with Client in the offering of communication services in Client's service area now or in the future ("License Restrictions"), including, without limitation, Time Warner and Comcast in Maine, New Hampshire and/or Vermont. As used herein, "Person" shall mean any natural person, partnership, trust, estate, association, limited liability company, corporation, custodian, nominee, governmental instrumentality or agency, body politic or any other entity in its own or any representative capacity. Capgemini shall obtain the written agreement

of any proposed sublicensee to the License Restrictions prior to such sublicensee using, copying, or modifying the Deliverables.

2. Section 4 of the Agreement is amended by adding the following as subsection (c):

   Capgemini will provide Client a Four Million Dollar ($4,000,000) discount ("Discount") on Services to be performed by Capgemini for Client with respect to customer relationship management and billing platform implementation, which Services are substantially defined in the draft of Work Order 2 which is attached hereto as Attachment C. In order to provide the Discount, Capgemini agrees to perform the customer relationship management and billing implementation Services as are substantially defined in Attachment C for Thirteen Million Dollars ($13,000,000).

3. All defined terms in the Agreement shall have the same meanings when used in this Amendment.

4. Upon the execution by the respective duly authorized representatives of Client and of Capgemini, Paragraph 1 of this Amendment shall be effective as of the 15th day of January, 2007. The changes effected by Paragraph 1 of this Amendment shall apply to all Work Orders under the Agreement, including those entered into prior to the effective date of this Amendment. Paragraph 2 of this Amendment shall be effective as of the date of this Amendment and is applicable only to Work Order 2.

5. Except as specifically provided herein, all other terms and conditions of the Agreement shall be unaffected by this Amendment and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment.

CAPGEMINI U.S. LLC		**FAIRPOINT COMMUNICATIONS, INC.**	
By	/s/ Dee Burger	By	/s/ Peter G. Nixon
Name:	Dee Burger	Name:	Peter G. Nixon
Title:	Vice President	Title:	Chief Operating Officer
Date:	7/6/07	Date:	July 6, 2007

EXPLANATORY NOTE

The following schedule or attachment was omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby agrees to furnish a copy of any omitted schedule or attachment to the Commission upon request.

Attachment C — draft of Work Order 2 (containing specifications for customer relationship management and billing platform implementation services)

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FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Walter E. Leach, Jr.
Title: Executive Vice President, Corporate Development

REQUEST: Office of Consumer Advocate
Group I, Set 1

DATED: April 5, 2007

ITEM: OCA 1-31 Please provide copies of any and all documents identifying synergies expected to result from the proposed transaction.

a. Identify any synergies affecting the FairPoint operations in New Hampshire.

b. State whether any synergy savings will be shared with FairPoint customers in New Hampshire, and if so, how much.

REPLY: In 2005, Verizon allocated approximately $241 million in costs, excluding depreciation, to the Northern New England LEC properties. In 2006, this figure increased to $262 million, and FairPoint forecasts the allocation amount to be approximately $222 million in 2007. These allocations will cease upon closing of the transaction and will be replaced in part by the incremental direct costs that FairPoint expects to incur to run the properties. Synergies are essentially the difference between the allocated costs that go away upon close and the incremental direct cost that FairPoint must incur post-close. Using 2007 as the comparison, we anticipate eliminating approximately $100 million of the $222 million in allocated costs in areas such as Software Depreciation, Programming and Rents that are purely allocations to these properties from centralized workgroups and corporate facilities outside of the Verizon Northern New England footprint. Partially offsetting these savings are increased costs in areas such as Engineering & Operations and Finance & Accounting where we anticipate, among other things, additional personnel needs to replace the centralized functions that will no longer continue. These cost increases are expected to total approximately $45 million. The net of the eliminated allocations and increased direct costs is expected to be approximately $60 to $75 million on a run-rate basis following the

successful integration. Please also see FairPoint's response to Staff 1-118.

a. At this time, synergies have not been identified by state.

b. Synergies that reduce regulated operating expenses reduce the regulated revenue requirement.

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FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael L. Harrington
Title: Vice President, Network Engineering Services

REQUEST: Office of the Consumer Advocate
Follow-Up Data Requests Group II

DATED: June 11, 2207

ITEM: OCA FDR II-34

In response to OCA 2-46-b, FairPoint responded: "Mr. Harrington did not testify as to the quality of the local service provided by Verizon. In general, Mr. Harrington believes that Verizon's current network allows for the provision of quality service." Please explain and define "allows for." Is it FairPoint's position that there is not a need for network improvement or staffing changes? In FairPoint's view, what is preventing Verizon from meeting the PUC-established service quality standards?

REPLY:

The terminology "allows for" is intended to mean that the network fundamentals are present for the provision of quality service. FairPoint does not take the position that there is no need for network improvement or staffing changes, nor does FairPoint take the position that change in either is required. Please refer to FairPoint's response to OCA FDR II-17.

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DB-P-28

breakingviews.com | Financial Insight

Read the 'Risk Factors'

Far From Empty Boilerplate, IPO Prospectuses Lay Out Debutant Firms' Red Flags

Companies are naturally averse to exposing their warts and blemishes to shareholders. Ironically, they do this most effectively when they first go public. By law, prospectuses for initial public offerings of stock must contain a section entitled "Risk Factors."

These lay out, often in skull-numbing detail, all of the things that could go wrong for a firm making its debut. Not surprisingly, as the U.S. has become more litigious, these litanies of potential disaster have grown over the years. As a result, investors may be tempted to treat them as meaningless boilerplate. That would be foolish.

Blackstone Group's pending offering is a case in point. The private-equity firm's prospectus has 62 separate risk factors listed over 34 pages. Some of these sound distinctly alarming, such as: "Our partnership agreement contains provisions that reduce or eliminate fiduciary duties of our general partner...and make it difficult to successfully challenge a conflict of interest by our general partner."

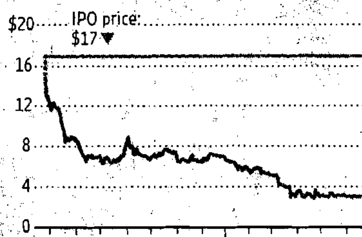
But investors who parsed through this legalese would have come to risk factor 50. It stated that if Blackstone were treated as a corporation under U.S. tax law, profit to holders of its securities would be substantially reduced. Lo and behold, the leaders of the Senate Finance Committee just proposed doing exactly that. If the bill is passed

Getty Images

The Pets.com sock puppet

Blind to the Risks

Attentive investors might have saved themselves grief on such flameouts as Pets.com (left) and Vonage (charted)



Source: WSJ Market Data Group

ternet telephony firm raised $531 million by selling stock, including a targeted offering aggressively sold to its own customers. This wasn't considered dangerous—but these investors launched a flurry of costly lawsuits when the stock faltered. However, had they bothered to read through Vonage's risk factors they might have avoided incurring any losses.

Vonage's third risk factor stated that telecom prices were falling quickly. No. 20 mentioned that Vonage's founder, Jeffrey Citron, was barred from the securities industry for life. And No. 14 dwelled on patent litigation, including a dispute with **Verizon Communications**. The giant telecom firm is currently seeking to prevent Vonage from signing up any new customers—which could effectively kill it. Vonage stock is down 82% since its IPO last May.

Some prospectuses' risk-factor sections aren't even dull. Take **Jazz Pharmaceuticals.** The Newport Beach, Calif., biotech warned that earthquakes could prove a problem because the company is located near a fault line. It also stated that its primary business could suffer from negative publicity—it sells a derivative of GHB, better known as the "date-rape drug," as a treatment for narcolepsy. Finally, the prospectus cautioned that the company's accountants warned in 2006 that they had substantial doubts that it could continue as a "going concern." The stock has fallen 7% since its debut March 31.

And then there are the cases where dry language confirms the obvious. Pets.com, an online retailer of pet supplies, was the iconic flameout of the dot-com era. Within a year of going public, the company ran out of cash. The risk factors had duly noted that Web competition from the likes of Pet Net, Petopia and PetPlanet could make it difficult to establish the Pets.com brand.

The company overcame that quite handily through ubiquitous commercials featuring a sock-puppet dog. Alas, this was expensive. It spent more than $4 on advertising for every $1 of sales. This heavy advertising only aggravated a more important risk factor—cash burn.

Reading through the fine print of pro-

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Form 425

FAIRPOINT COMMUNICATIONS INC - FRP

Filed: June 21, 2007 (period:)

Filing of certain prospectuses and communications in connection with business combination transactions

Annex 1

Here's The Deal

We'll be a financially sound and leading New England Company

By

John Crowley, CFO
FairPoint Communications, Inc.

The discussion around FairPoint's plans to merge with Verizon's telephone operations in Vermont, Maine and New Hampshire has sparked some opposition, but many positive comments are coming from those who recognize the benefits.

Like any good company, we respect each viewpoint, and encourage constructive dialog. Now, it is time to focus on the facts about our broadband expansion plan and our intention to hire 600 new positions throughout the region. We know the transaction will be good for customers, employees, shareholders, and for the communities we serve. The result will be a financially sound company with strong cash flow, focused on providing great customer service and advanced high-speed communication services.

Financially Sound

FairPoint is and will be "financially sound" even though some have questioned this. The evidence shows FairPoint clearly has the financial resources to execute the merger with the northern New England operations of Verizon. We are a publicly traded company, with our stock listed on the New York Stock Exchange. Our company currently has an enterprise value of approximately $1.25 billion, demonstrating significant financial resources and access to capital even before the transaction. Furthermore, we have a proven track record, having successfully acquired and integrated 31 local exchange companies spread across 18 states in just 14 years.

We have agreed that Verizon and its stockholders will receive approximately $2.71 billion for their northern New England operations. A little over a billion dollars of that will

come from the issuance of additional FairPoint stock to Verizon's stockholders. The remainder will come from borrowings. Lehman Brothers, Morgan Stanley, Bank of America and other leading financial institutions have already agreed to provide the majority of the debt financing that FairPoint will need to complete the transaction.

Once the merger is complete, FairPoint will be the 8th largest wireline telecommunications company in the U.S. We will be big enough to thrive in today's dynamic communications marketplace, without sacrificing the local focus that has been and will be FairPoint's trademark.

After closing, FairPoint expects to have approximately $1.5 billion in revenues, making it one of the largest companies of any type in northern New England. For a local perspective, our revenues will be roughly the same as L.L. Bean's global sales. Our goal is to be a strong presence in New England

A few critics have speculated about FairPoint's ability to "handle" the transaction-related debt and still fund its other obligations, such as our commitment to increase broadband availability. In reality, this transaction will result in a reasonable corporate debt to equity ratio and, for comparison purposes, has a more conservative financial structure than most home purchases. Again, over $1 billion of the purchase price will be equity, which equates to a "down-payment" of roughly 37 percent—far greater than most people put down on their homes.

Cash Flow is the Key

Regardless of the debt and equity composition of any purchase, the key factor is whether the combined company after the merger has enough cash flow to cover its obligations. This is where opponents miss the point. We expect the combined company to generate cash flow greater than the amount necessary to cover planned network investment, operating expenses, all debt service and dividends to stockholders. There is even potential for additional cash flow growth depending on new services and efficiencies. All this adds up to a simple fact: we believe FairPoint will be able to make its "mortgage" payments and fund needed improvements, with enough money to spare to cover the unexpected.

As a public company, FairPoint takes seriously its legal obligations to have a sound basis for all statements we make regarding the financial characteristics of our company and the